Summary of the Q&A Session at the
Financial Results Conference Call for the First Quarter of the
Fiscal Year Ending March 31, 2022

Date and Time: August 2 (Mon.) 10:00 - 10:50

Notice: This summary is a reference designed for the convenience of those who could not attend the financial results conference call stated above. Please note that this is not a word-for-word transcript of all remarks made at that session, but is a summary prepared by Kurita Water Industries Ltd.

Q. SG&A expenses increased on a year-on-year basis. Please explain the background.

A. The higher 1Q SG&A reflects a rebound in expenses on the back of the recovery from the pandemic conditions, the impact of new consolidations, as well as the reclassification of some manufacturing expenses to SG&A. We had anticipated all of these elements; this is in line with our assumptions.

Q. Trends in order intake were strong. Please discuss customer trends by industry and project profitability.

A. There was an increase in electronics industry orders in East Asia: we received large scale semiconductor-related orders from Chinese and Korean customers with whom we have strong relationships. There is also strong appetite from domestic semiconductor and electronic components customers for both capex and refurbishment work. As the orders were mainly projects for existing customers with whom we have strong relationships, we are not stretching in terms of profitability. The increase in orders will lead to higher sales going forward, which is positive for earnings, in our view.

Q. The margin for the Water Treatment Chemicals segment appears to be lower than your expectations. Please comment on progress in improving margins by region.

A. Raw materials prices rose in 1Q. In the regions where we were able to respond swiftly, progress on margin improvements was in line with our expectations. However, for regions where we were slow to respond, progress was limited. In addition, margins were also affected by the new consolidation of Middle Eastern subsidiaries. The magnitude of sales of some products with suboptimal CoGS ratios was larger than we had expected, impacting margins.

Regionally, in East Asia, we saw a recovery in Korea and solid progress in China, backed by strong activity levels in manufacturing. However, for Japan, the recovery in production activity has not been as strong as we had expected; the domestic business is also being affected by rising raw materials prices. In ASEAN, initiatives to raise prices and new remote service capabilities have contributed to improvements in profitability. In Europe, we had already made progress on improving the CoGS ratio in the previous fiscal year. We have also been able to respond to rising raw materials prices with price hikes from the beginning of the fiscal year and changes to our sales structure. Progress has been good.

While the U.S. economy has been recovering, logistics costs and raw materials prices increased before our customers were able to raise capacity utilization. As such, progress is lagging slightly.

Q. Please describe profit margin trends for the Water Treatment Facilities segment, broken down into the domestic electronics industry and general industry, and overseas.
A. For the electronics industry, both domestic and overseas customers have strong appetites for facilities upgrades and refurbishments, which is creating an opportunity to transition from conventional EPC sales to contract-type business including services. For general industry, capex appetite from customers in oil refining, steel-making, pulp & paper and other industries is rising. We expect to see a recovery, primarily in maintenance service. For the overseas business, although we incurred additional costs in the U.S. in the previous fiscal year, the situation is now normalizing.

Q. Despite the strength in the electronics industry business, my impression is that the Water Treatment Facilities segment margin is not that high. Were there special negative factors that impacted the general industry business?
A. In general industry, we did temporarily incur unexpected additional costs, which depressed the overall margin for the Water Treatment Facilities segment. We do not expect these additional costs to recur in 2Q and beyond.

Q. The electronics industry Tool Cleaning business reported a strong performance. Is this strength sustainable in 2Q and beyond?
A. New investments by existing customers have led to an increase in the volume of tools to be cleaned. This is behind the strong performance. Also, when U.S. customers export facilities to Japan, in some instances the tool cleaning is done in Japan. We expect this strength to be maintained going forward.

Q. Please comment on the competitive environment for the Tool Cleaning business.
A. This is a business where margins are generally stable because customers tend to work with vendors with whom they have strong and established relationships.

Q. You mentioned that you are making progress in transitioning from EPC sales to service contract-type business. Please comment on the status of progress by region.
A. When customers are expanding capacity, they are increasingly open to considering KWSS (pure water supply service), Ultrapure Water Supply Service or specialized operations and maintenance services, even those customers that had typically chosen EPC in the past. By region, we continue to propose such services to electronics industry customers in East Asian countries such as Japan, China, Korea and Taiwan.

Q. Can you discuss the specifics of the additional costs incurred in 1Q and why you do not expect a recurrence in 2Q or beyond?
A. We incurred additional costs of ¥0.4 billion on a general industry project related to biogas power generation. By nature, it is not possible to fully eliminate the possibility of additional costs in EPC sales. However, biogas power generation is currently a focus area for Kurita. We are undertaking a rigorous review of the issue to ensure it will not recur.

Q. The forecasts for 2Q imply a YoY decline in profits: can you comment on whether you consider your forecasts to be reasonable?

A. In May, when we disclosed our full-year forecasts, we indicated that the 1H plan for the Water Treatment Facilities segment was conservative. Given the increase in orders in 1Q, our forecast has become even more conservative. We chose to leave the 1H forecast unchanged because of the continued pandemic situation. Also, in trying to assess progress in the Water Treatment Chemicals segment, given that 2Q is peak demand season, we felt it was necessary to see how 2Q played out before making any decisions.

Q. We have seen the emergence of negative factors, such as the additional costs incurred in the Water Treatment Facilities segment and rising raw materials prices in the Water Treatment Chemicals. Against this backdrop, what is your assessment of the progress made in 1Q?

A. Our overall assessment is positive given that we were able to grow profits YoY despite the negative factors. The additional costs are a temporary factor, and while rising raw materials prices will persist, we believe we can control the impact through measures such as price hikes.

Q. Please comment on Kurita AquaChemie's current market share and your target going forward. Also, please describe the competitive environment.

A. The mainstay products are water treatment chemicals for use in petrochemical plants, oil refineries and desalination plants. Our competitors are the global water treatment chemical companies. We estimate the current market share to be around 4-5%. We aim to raise the market share to around 10% in 3-4 years' time.