

Summary of the Q&A Session  
Financial Results Conference Call for 1Q of the Fiscal Year Ending March 31, 2023

Date and Time: August 1 (Mon.) 11:00 - 11:55

**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. Please provide more detail on the higher-than-expected cost increases for the Water Treatment Chemicals business in 1Q of the FY ending March 2023. Please also comment on the outlook for costs from 2Q onward, given you have chosen to maintain your full-year profit guidance to reflect a cautious view of expenses. In addition, please also discuss planned measures to respond to higher costs, such as raising selling prices.

A. Near term, in response to surging raw materials prices, we have generally been raising selling prices, implementing cost reduction measures and shifting to focus on high margin businesses, but costs are rising at a faster-than-expected pace. It is challenging to quantitatively manage the impact of higher costs and selling prices in minute detail, but if current trends continue, we expect there will be a negative impact on the CoGS ratio on a full-year basis as well.

In the domestic business, we had already raised selling prices, but for items where procurement costs have increased substantially, we initiated a further round of price negotiations in April. In Asia, we had been able to limit the impact of cost increases to a minimum but the impact of city-wide lockdowns in China during 1Q impeded negotiations for higher selling prices. In Europe, we continue to be able to offset higher costs through higher selling prices and cost reduction efforts. In the U.S., while negotiations to raise selling prices are proceeding in line with plan, further increases in costs have resulted in a timing gap.

Q. Please provide a progress update on improvements in conditions at the U.S. Water Treatment Chemicals business. Are the improvements proceeding in line with plan?

A. At Kurita America, the operating environment is improving, on a recovery in demand for chemicals as well as progress in new business development.

In the mainstay market of chemicals for retail facilities, air conditioning usage had declined on the impact of the pandemic and lower temperatures in 1Q of the last fiscal year, but this fiscal year, we are seeing a recovery. In addition, we concentrated resources on the food industry business, which is relatively immune to external factors. Sales to this market increased 20% YoY. We are also seeing firm trends in chemicals for the bioethanol market, driven by surging energy prices.

The impact of higher selling prices has been larger than we initially expected. However, this has been outstripped by near term rises in raw materials prices and logistics expenses, so there continue to be challenges in improving the CoGS ratio. In addition to existing surcharges, we have stepped up our response measures. This includes imposing additional surcharges linked to delivery volumes, on top of higher selling prices, and for those customers where we have not been able to increase selling prices, charging the actual logistics expenses incurred for deliveries.

On the supply chain, we have been able to improve the timeliness of our product deliveries. Previously, the percentage of deliveries where we achieved stated delivery times to customers was below 80%; it is now over the 95% target. We have intentionally built up inventory ahead of the high demand summer season and have been able to resolve disruption. We have also completed the product consolidation process and are now in the phase of enhancing business structure through improvements in production efficiency and streamlining the operational process for handling orders.

Q. If current conditions at Kurita America are maintained, can we expect the business to be in the black from 2Q or 2H onward?

A. If current trends remain intact, then we think it should be possible.

Q. Please explain the breakdown of the 14 billion yen upward revision to the 1H order intake guidance.

A. The change to our forex assumptions had an impact of roughly 5 billion yen. We also expect a roughly 9 billion yen impact reflecting progress in winning overseas Water Treatment Facilities projects and at the Water Treatment Chemicals business. In the overseas Water Treatment Facilities business, in addition to new order wins, there was some frontloading of orders initially expected in 2H. On the Water Treatment Chemicals business, we have revised up by approximately 1 billion yen, including the impact of higher selling prices.

Q. Is the progress on raising selling prices in line with your expectations?

A. Progress is in line with expectations but a timing gap has emerged because the rise in costs has been larger.

Q. Is the reason for the deterioration in the Water Treatment Facilities profit margin simply because the proportion of service business revenues within the business declined? Or, is it a reflection of a change in mix within water treatment facilities or services, or changes in regional mix?

A. The overall profit margin was depressed by the decline in the proportion of service business revenues within the Water Treatment Facilities segment.

Q. Please provide an update on demand trends at the Water Treatment Facilities business for the overseas electronics industry.

A. In China, the regional lockdowns on the back of the spread of the Omicron variant restricted sales activity and also delayed construction progress on existing projects. However, construction has since resumed; we believe we can make up for the delays on

a full-year basis. The investment appetite of the semiconductor industry in China remains strong.

Semiconductor investments remain at high levels in South Korea as well. For Taiwan, investment trends remain strong, primarily at the chip makers. However, in all of these regions we are experiencing issues related to the global shortage of components, longer delivery lead times and rising prices. We are responding by considering alternative components and locking in component inventory, as well as negotiations with our customers.

Q. Is Kurita responsible for bearing increased materials and component costs?

A. If higher costs can be reflected in the estimates as of the time of the order, then Kurita does not have to bear the additional costs. However, where that is not possible, there is a risk that the CoGS ratio could deteriorate.

Q. With regard to the revised full-year forecasts, how have the various factors contributing to variance in business profit changed?

A. Relative to our initial full-year forecast, we expect business profits to improve 5 billion yen as a result of higher sales, but to deteriorate by 3 billion yen on lower profit margins and 2 billion yen on increased SG&A.

Q. Do you have specific figures that show how much you were able to offset the deterioration in 1Q CoGS for the Water Treatment Chemicals business as a result of passing on higher raw materials and logistics costs? In your initial plan, I believe you had expected the positive impact of higher selling prices to outweigh the negative impact, but has your outlook changed?

A. It is difficult to quantify the impact of both in detail but the impact of the deterioration in the CoGS ratio in 1Q for the Water Treatment Chemicals business was approximately 0.9 billion yen.

Q. Capex for the Water Treatment Facilities business is expected to remain at high levels for this fiscal year but what is the outlook for capex in the next fiscal year?

A. If we look at capex for the Ultrapure Water Supply business, I believe that it is likely to fall versus this fiscal year, but it will depend upon order trends going forward.

Q. How much of an impact do you think rising materials and components costs will have on the Water Treatment Facilities business for the FY ending March 2023?

A. Although we view this as a risk to the overall business, our response differs by individual customer so it is difficult to accurately estimate the overall impact. Previously, we had been able to smoothly pass along higher costs, but my impression is that the situation is becoming more challenging near term.

Q. Kurita is focusing on providing total solutions. Please discuss your success in winning business and the impact of rising costs.

A. Non-consolidated service contract-type business sales for 1Q of the FY ending March 2023 was roughly 1.1 billion yen, up from the 0.8 billion yen in 1Q of the last fiscal year.

In terms of projects, many are remote monitoring and control services using S.sensing or the pure water supply service (KWSS). Non-consolidated solutions model sales was approximately 0.5 billion yen, up from the 0.35 billion yen in 1Q of the last fiscal year. These businesses are not being significantly impacted by rising costs.

Q. You have revised your full-year forecast for the current fiscal year, raising your order guidance. What are you expecting for next fiscal year in terms of trends in orders and sales? How do you think your cost structure will change?

A. At this time, it is difficult to comment on guidance for next fiscal year. However, if we assume that there will be a slight slowdown in semiconductor market growth in 2023, then it is probably tough to expect an environment of significant growth for the electronics industry business. On costs, it is challenging to read trends going forward, but with regard to rising raw materials, we aim to catch up by continuing to raise selling prices and reducing costs by transitioning to alternative components or other measures.

Q. In trying to track costs going forward, which raw material trends should we follow?

A. For the Water Treatment Chemicals business, the key raw materials are polymers, which are naphtha-based, phosphorus and nitrogen-based materials, so tracking price trends for these items is useful. Near term, I believe naphtha prices are rising.

Q. On the impact of rising raw materials, how much future visibility do you have? For instance, if you look at crude oil, prices bounce around. It's possible that you could see a reversal of the rising trend going forward, but how far forward are prices locked in?

A. Raw materials prices are generally not locked in for many months into the future. My understanding is that market conditions are reflected into prices relatively quickly. The Kurita Group aims to respond to rising raw materials prices by raising selling prices in a timely manner.

Q. How large was the forex impact on 1Q business profits? With the growth in overseas sales, I believe that forex has an increasingly large impact on your earnings. Going forward, I would like to see the forex impact disclosed as part of the analysis of change in business profits.

A. In 1Q, there was a positive impact of approximately 0.2 billion yen on business profits. We will consider how to disclose this going forward.

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