

Review of Operations and Strategies by Segment

Water Treatment Chemicals



Driven by growth in existing and new markets, we are accelerating the establishment of a global platform built on four pivotal regions.

To enable us to provide customers with the best solutions, we strengthened the foundations of the business as we worked toward further growth. Specifically, this included organizational reforms, aggressive development of our global operational infrastructure, and international M&As.

Koichi Iioka
Executive Senior Managing Director and Representative Director
General Manager of Global Business Division and in charge of the chemicals business

Overview of the Fiscal Year Ended March 31, 2017

In Japan, orders and sales both increased, driven by a gradual recovery in capacity utilization at customers' plants, and the promotion of solution-focused proposals that leveraged new products and services. Specifically, boiler chemicals returned to growth, and there was growth in cooling water treatment chemicals and process chemicals for the steel industry. In overseas operations, although sales increased on a local-currency basis, owing to appreciation of the yen, sales of overseas operating subsidiaries shrank when translated into yen, and overall orders and sales declined.

Operating income increased due to the elimination of a one-time expense that had been booked in the fiscal year ended March 31, 2016. This elimination accompanied the revision of costs initially allocated for the acquisition of a business in Europe.

Overseas sales have now become a major factor affecting operating results of the Water Treatment Chemicals segment. We believe that this situation reflects the increasing global presence of the Kurita Group. In April 2017, Kurita received a Distinction Award at the Global Water Summit—a worldwide gathering of companies involved in the water treatment field. This award recognizes the global business development carried out by the Kurita Group up to the fiscal year ended March 31, 2017.

Market Environment

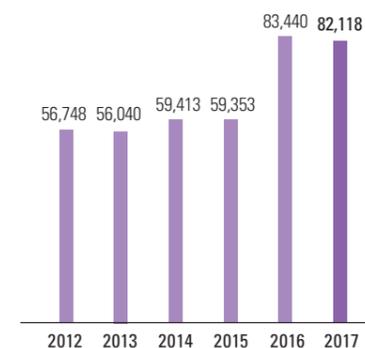
We see plant and equipment investment in the Japanese manufacturing sector as continuing its gradual upward trend. In overseas markets, we anticipate a continuation of robust investment in China, centering on liquid crystal displays (LCDs) and semiconductors. In Europe and the United States, we intend to focus on business expansion in regions where the Kurita Group's market share is still low. At present, in an environment where the effective use of water resources is becoming a key issue worldwide, needs are increasing in the area of wastewater reclamation and reuse technologies—a sphere in which the Kurita Group excels. There are growth opportunities across a diverse range of regions. Against this backdrop, we are working to strengthen our product development structure for water treatment chemicals related to seawater desalination and wastewater reclamation and reuse. To achieve this goal, in April 2017 we established an R&D center in Singapore.

Growth Strategy

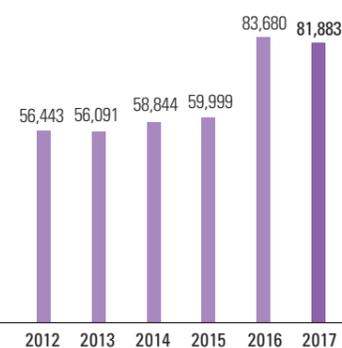
Pursuing best solutions

Kurita naturally seeks to contribute to the enhancement of productivity and stable operations at its customers' plants. To stay one step ahead, we aim to become an essential partner for our customers as they seek to generate business innovation.

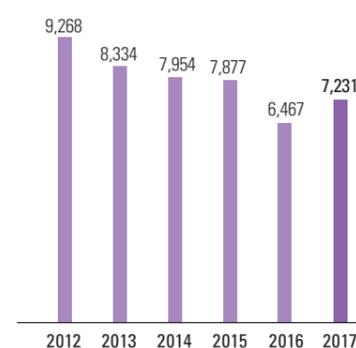
Orders (Millions of yen)
For the years ended March 31



Sales (Millions of yen)
For the years ended March 31



Operating Income (Millions of yen)
For the years ended March 31



To realize this objective, we implemented organizational reforms to ensure that we are able to offer the best solutions for our customers. These reforms primarily focused on integrating the previously separate organizational units responsible for solutions based on water treatment chemicals and solutions based on water treatment facilities. Underpinned by these measures, we anticipate sales increases of approximately 2–3% in Japan, China, and South Korea in the fiscal year ending March 31, 2018, based on market share expansion by existing businesses in each region. In Europe, we are working to achieve business expansion at Kurita Europe GmbH (KEG), whose operations also include the Middle East region. In the United States, we are pursuing growth through M&As and strategic alliances.

Promoting a global structure based on four pivotal regions

The Kurita Group is promoting the development of a business platform for the Water Treatment Chemicals segment underpinned by the four pivotal regions of Japan, Asia, Europe, and the Americas. At the same time, we are seeking to generate synergies across these four regions. By bolstering local human resources and organizations, we are accelerating the move toward sales based on highly competitive technologies cultivated in Japan and optimized to meet the needs and standards of each local market.

In the fiscal year ended March 31, 2017, we established local subsidiaries in the UAE and Vietnam to enhance our ability to respond to the needs of customers in the Middle East and Southeast Asia. In January 2017, we acquired Fremont Industries, LLC, a company based in the U.S. state of Minnesota that manufactures and markets water treatment chemicals. This acquisition brings to the Kurita Group an array of valuable management resources that we can leverage as we aim to move to the next stage of growth. These include a sales network catering to customers in the Midwest region of the United States, a workforce with a

wealth of experience, and manufacturing facilities. We see this acquisition as an important foothold on the way to fulfilling our goal of becoming a leading player in the U.S. water treatment chemicals market. We are promoting a strategy that envisages further M&As targeting companies with strong ties to local regions and companies that possess differentiated technologies and products.

Expanding sales of highly competitive products

We are pursuing expanded sales of such mainstay products as DReeM Polymer™ used in boiler water treatment chemicals, which possesses dual properties for scale dispersion and removal, as scale buildup is a problem that occurs in boilers that inhibits heat exchange, and of water treatment service that eliminates Legionella bacteria from cooling water systems and prevents Legionella bacteria propagation. In addition, we are also working to increase sales of such products as reverse osmosis (RO) membrane treatment chemicals. The value of DReeM Polymer™ has been appraised highly within the chemicals industry. For example, DReeM Polymer™ received an environmental technology award from the Japan Chemical Industry Association (JCIA) for its originality and remarkable effectiveness in reducing environmental burden. We intend to continue leveraging these and other significant competitive advantages that we have nurtured.

We are also striving to further upgrade the functions offered by S.sensing™, our water treatment management service, and begin a full-fledged rollout of the service globally. S.sensing™ combines IT and sensing technologies as a means of contributing to the stable operation of customers' facilities. We executed an early launch of the S.sensing™ service in China and Southeast Asia, and are now looking to expand service provision to customers in 30 countries, including in Europe and the Americas, in the near future. This represents a potential combined market of approximately 10,000 plants.

S.sensing™: Next-Generation Water Treatment Management Service that Supports Productivity Improvements

Kurita leverages IT and sensing technologies as it continues to pursue water treatment services not offered by other companies. One of the leading examples of such services is S.sensing™, which was launched in 2013. S.sensing™ is a system that monitors water quality changes in real-time as well as provides optimal chemical dosing control in real-time. Sensing instruments are installed within facilities at customers' plants that use water treatment chemicals or process chemicals. The system combines measurement, analysis, and control technologies. The value of S.sensing™ lies in its ability to utilize data acquired to solve problems based on clarification of the relationship between the operating status and performance of a customer's facilities and water quality. We are constantly working to strengthen the system's functions. As an example of the successful application of this system, in 2016 at a corrugated cardboard factory we discovered a correlation between operational data accumulated by the customer

and data gathered by the S.sensing™ system. This led to reductions in the defective product ratio and manufacturing costs. S.sensing™ can provide services across a very broad sphere of a customer's operations, including not only cooling water but also such areas as wastewater and paper manufacturing processes. The Kurita Group will leverage the strengths of S.sensing™ as it strives to establish competitive advantage in the global market.

Overview of S.sensing™

