



A Message to Our Stakeholders

The fiscal year ended March 31, 2018 was the final year in our medium-term management plan, Competitive Kurita 2017 (CK-17). For the Kurita Group, it was a year for reconfirming the direction of our reforms and recognizing the tasks that we must undertake.

While business conditions recovered around the world, supporting a firm overall economy, the Kurita Group harvested the fruits of several years' initiatives, mainly in the overseas business, achieving a steady improvement in performance.

Finally, however, we did not achieve our earnings targets set out in the CK-17 plan. We have yet to establish a rock-solid earnings base, and it is clear that several issues will need to be addressed if we are to move up to a new growth stage. In particular, we must reform our business model and the awareness of our employees.

To resolve these issues, we have reconfirmed the Kurita Group's purpose as a company within society prior to starting our new medium-term management plan, Maximize Value Proposition 2022 (MVP-22). We have formulated a new corporate vision and a CSR policy that clarifies the Group's ideal form of growing through its relationship with society. Themes of the plan include focusing on the CSV* business as a growth opportunity, and we have made this the core of a five-year medium-term management plan. The newly formulated MVP-22 plan presents the concept of "Seeing" from three perspectives that represent mindsets and skillsets that all Group employees should acquire. Guided by the plan, we will accelerate our efforts towards reform.

As we work to reform Kurita towards realizing the MVP-22 plan, we look forward to the continued understanding and support of the Company's shareholders and other stakeholders.

* CSV: Creating Shared Value; achieving both financially beneficial activities and solutions to social problems

President and Representative Director

門田道也

Interview with the President

Start of the New Medium-Term Management Plan Maximize Value Proposition 2022 (MVP-22)

Review of the Previous Medium-Term Management Plan, CK-17

In the fiscal year ended March 31, 2018, the Kurita Group achieved year-on-year growth in sales and profits. Orders grew significantly due to new consolidations in the Water Treatment Chemicals business and orders for large projects in the Water Treatment Facilities business. Net sales also increased sharply due to growth in sales in the Water Treatment Chemicals business and steady progress in construction and growth in maintenance services in the Water Treatment Facilities business. Operating income increased with higher sales and an improved cost of sales ratio in the Water Treatment Facilities business, despite an increase in selling, general, and administrative expenses.

Our financial results for the fiscal year ended March 31, 2018 may be strong compared with the previous fiscal year, but the result was not entirely satisfactory for the final fiscal year of the previous medium-term management plan, CK-17. Looking at the four priority measures set out in the CK-17 plan, first regarding “Cultivate new markets,” we managed to expand our overseas business and to invest in startup companies, but these efforts did not expand our profits. We have identified improving profitability as a challenge going forward. With regard to “Optimize production systems and utilize the Group’s network,” we began to utilize production bases obtained through M&A overseas and newly constructed development bases, and we saw profitability improve with increasing productivity in China and South Korea. In our efforts to “Create competitive products and services,” we marketed products

with the potential to form the core of a new business model, such as DReeM Polymer™ and the Reclaimed Water System. However, we have yet to create a business model that realizes customer-oriented solutions. In terms of “Improve capital efficiency,” we have raised capital efficiency by directing funds into growth investments and shareholder returns; however our ROE is lower than the average for Japanese companies.

Although, the previous medium-term management plan has left us with many challenges to address, we also made some noteworthy achievements. The first is that the Kurita Group achieved a full-scale shift towards globalization. Looking back over these past three years, the Group’s overseas business base has been balanced out, correcting a previous disposition towards Southeast Asia and East Asia by increasing its operations in Europe and North America through M&A. In addition, we have accumulated expertise on global expansion by experiencing the PMI*1 process for acquired companies.

A second point of achievement is our business expansion in China and South Korea. Although we have had bases in these countries for some time, our EPC*2 projects in the Water Treatment Facilities business were led by Japan. Now we have set up a foundation for conducting the Water Treatment Facility business whereby the local Group company establishes the supply chain, including engineering capabilities, procurement capabilities, and plant construction capabilities. I believe this represents significant progress.

*1 PMI: Post Merger Integration

*2 EPC: Engineering, Procurement and Construction

Achievements and Challenges

Priority Measures	Achievements	Challenges
1 Cultivate new markets	<ul style="list-style-type: none"> Expanding the business in Europe, North America and the Middle East Investments in start-ups 	<ul style="list-style-type: none"> Growth accompanied by improved profitability Accelerating the commercialization of new businesses
2 Optimize production systems and utilize the Group’s network	<ul style="list-style-type: none"> Obtaining and utilizing new production bases through M&A Improving productivity in China and South Korea 	<ul style="list-style-type: none"> Further global optimization of production bases
3 Create competitive products and services	<ul style="list-style-type: none"> Created DReeM Polymer™, S.sensing™ GW, KWSS™, Reclaimed Water System 	<ul style="list-style-type: none"> New business model and development of customer-oriented solutions still a work in progress
4 Improve capital efficiency	<ul style="list-style-type: none"> Raise capital efficiency by directing funds to investing in growth and shareholder returns 	<ul style="list-style-type: none"> Have not reached the average level for Japanese companies

► New Medium-Term Management Plan, MVP-22

Being a creator of unique value to the solution of water and the environment

In formulating the MVP-22 plan, we considered it necessary to clarify our ideal form for the medium to long term with a view to dealing with the issues that we need to resolve and firmly establishing the Kurita Group's growth going forward.

Since my appointment as president in April 2016, I have been concerned that our business model has hardly changed since it was founded as a water treatment specialist 70 years ago. Up to now, the Kurita Group's business model has mainly consisted of deals where the customer purchases water treatment chemicals at a certain price per kilogram and the water treatment facility itself. We have built up long-term relationships with customers through maintenance and other services; however, when one examines the pricing for these services, it is clear that the compensation Kurita receives is not commensurate with the value it provides. Meanwhile, I feel that our stable growth as a company has left Kurita's employees mentally unprepared to cope with a rapidly changing business environment.

I believe that reforms in this regard are essential if we are to evolve into a truly global company with even higher earning capability. That is why we have started by redefining our corporate vision in order to clarify our ideal form over the medium to long term for all Kurita employees.



Kurita will reform its business model under the new corporate vision: "A Creator of unique value to the solution of water and environment," contributing to the realization of a sustainable society." We will deepen our understanding of customers' manufacturing processes and utilities and create value that customers haven't been aware of— value that only the Kurita Group can provide. In doing so, we aim to be more than a solution provider by creating value on a higher level, an irreplaceable "Creator of unique value" for our customers.

Basic Policy and Priority Measures

Basic Policy

Maximize close relationships with customers by redefining preconceived ideas and dramatically raising the quality and speed of our work.

Priority Measures

- Development of CSV Business
- Rebuilding of plant production system
- Strengthening the foundation and promotion of research and development
- Enhancement of total solutions
- Creation of new business and the promotion of innovation
- Establishment of the Group governance system

Management Targets

Place emphasis on profitability and capital efficiency

Net sales
Organic growth rate

3% or more

Operating income
margin

15%

Return on equity
(ROE)

10% or more

Adoption of management using
return on invested capital (ROIC)

▼
Aim for **improved capital efficiency** in each business segment

CSR as the Foundation of the Medium-Term Management Plan

Prior to formulating our new corporate vision, in February 2018 we announced our CSR policy. Up to now, the Kurita Group has contributed to society by providing solutions for its customers as a B2B enterprise. However, to continue playing an essential role in society as a company going forward, I believe we need to keep thinking about what kind of social value we will create. In our CSR policy, we have identified “safety,” “fairness,” and “respect for human rights” as three basic themes for fulfilling our responsibility for the future. In addition to these, we have established four growth opportunity themes focused on the social purpose of the Kurita Group’s business of water treat-

ment: “solving water resource issues,” “realizing sustainable energy use,” “reducing waste,” and “advancing industrial production technologies.”

In line with these growth opportunity themes, I would like to arrange the relevant products and services as the “CSV Business” and decide on the direction of its development, while also making visible the value that we provide to customers. The Kurita Group’s CSV Business has a strong affinity with the sustainable development goals (SDGs), and we will aim to make the growth of this business synonymous with the creation of shared value with society. We plan to continue reporting on the progress of the CSV Business to detail our achievements under this initiative going forward.

CSR Policy

■ Definition of CSR

The Kurita Group’s responsibility for its impacts on society

■ Objectives

1. Creating and maximizing shared value for the Kurita Group and society
2. Identifying, preventing and mitigating possible adverse impacts by the Kurita Group

■ CSR policy

Provide solutions to issues related to water and the environment, and fulfill responsibility for the future

Basic themes	Initiatives toward 2030	The sustainable development goals (SDGs)
1 Provide highly safe services and products	Maintain social trust by developing and providing services and products reflecting consideration for safety, health, and the environment.	 
2 Conduct fair business activities	Maintain fair and transparent trade based on free competition. Maintain sound relationships with politics and administration.	
3 Respect human rights	Support and respect international norms related to human rights and promote human rights initiatives by following the Guiding Principles on Business and Human Rights established by the United Nations.	   
Growth opportunity themes	Initiatives toward 2030	The sustainable development goals (SDGs)
4 Solve issues related to water resources	Supply water at the optimum quality and quantity by securing as much water as necessary for the life of all people and the development of industry by applying technologies for saving, purifying, and reusing water.	     
5 Realize sustainable energy use	Optimize energy use in living and in industries, and introduce technologies for creating energy throughout society.	    
6 Reduce waste	Introduce technologies for using waste as resources and technologies for controlling the amount of waste and aim to achieve zero waste.	  
7 Advance industrial production technologies	Make full use of big data on water to contribute to innovations in production efficiency and product quality in industries.	 

“Seeing” from Three Perspectives to Realize the MVP-22 plan

For our targets under the MVP-22 plan, rather than aiming to extend our current status and build numbers in each department, we have presented an ideal form for the Kurita Group five years from now. The plan period has been changed from the traditional three-year to a five-year horizon to allow time for properly engaging with strategies to achieve ambitious targets and realize the new corporate vision. If we can reform our global business processes and realize value creation, we believe we can build a rock-solid earnings base.

Our numerical targets for the MVP-22 plan place emphasis on profitability and capital efficiency. In the final fiscal year of the MVP-22 plan, we aim to achieve an average net sales growth rate of 3% or more per annum, an operating income margin of 15%, and a return on equity (ROE) of 10% or more. Assuming progress on business portfolio revisions with the intended shift to the service contract business model, net sales growth excluding M&A should level out and the operating income margin should improve at the

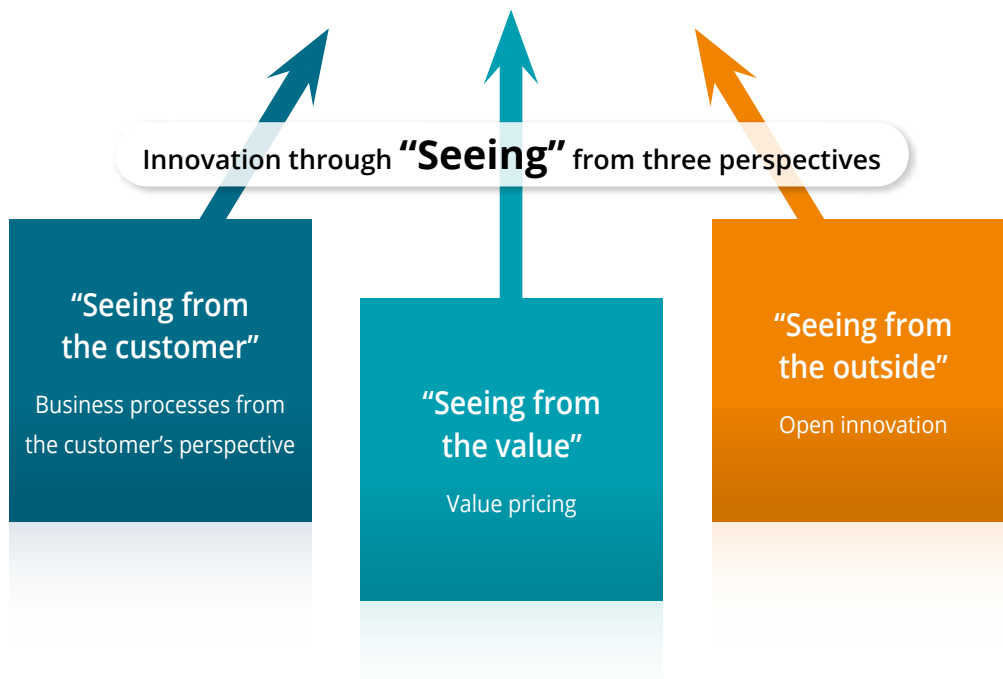


same time. Moreover, to improve capital efficiency by reducing our asset holdings, we will adopt management using return on invested capital (ROIC) in each business segment and meet our ROE targets.

We believe the key to the achievement of the MVP-22 plan lies with “Seeing” from three perspectives: “Seeing from the customer’s perspective,” “Seeing from the value perspective,” and “Seeing from the outside perspective”.

The Ideal Form, Five Years from Now

Global value creator with a rock-solid earnings base



1 “Seeing from the customer’s perspective”

“Seeing from the customer’s perspective” means always thinking from the customer’s perspective first in order to construct optimal business processes for the customer.

Up to now, the Kurita Group has been fortunate with its business and customers, and has achieved steady growth by conducting water treatment in line with customer needs. Our style of business has been to provide products and services demanded by customers.

My goal now is to change our approach to business by gaining a deep knowledge of our customers’ production processes and utility facilities as a water treatment professional so that we can anticipate issues and give our customers proposals that exceed their expectations. Since it will be difficult to respond to customers like this with our conventional vertical organization structure with separate businesses, in April 2017 we shifted to a business organization based on target markets. Specifically, in Japan we integrated our water treatment chemicals and maintenance sales organizations, while overseas we eliminated the separation between the water treatment chemicals and water treatment facilities sales organizations. This laterally integrated organization structure has created a single sales contact point for customers and centralized our information, while enabling us to bring together the strengths of each business. Rather than selling products and services piecemeal, we will expand the value that we provide by realizing comprehensive solutions based on close relationships with customers and accurate profiling.

2 “Seeing from the value perspective”

“Seeing from the value perspective” refers to reforming our business model to provide high value in terms of social as well as financial aspects and receiving commensurate compensation.

This will require Kurita not only to consider customers individual front-line needs, but also to hold the perspective of customers’ management. For example, customers

always strive to procure better products from suppliers at a lower price. By comparison, when “seeing from the value perspective” we will make proposals that focus on the effects in terms of reducing energy and water use, as well as waste emissions, and proposals that are aligned to the aims of the customer’s management, taking into account the company’s overall efficiency and social value. My goal is to incorporate value provision over and above the value of individual products and services into the transformation of Kurita’s business model.

Realizing compensation commensurate with the high value provided to customers will require that we change the form of our transactions. Going forward, the Kurita Group aims to transition to a service contract-type business model, rather than one-off sales of products and services. For example, in one form of the service contract model, the Company provides comprehensive services including direct operation of the customer’s facilities, enabling the customer to receive even greater profit than before, which it shares with the Company.

Provision of value through service contracts can be applied to various industrial customers who are already using the Kurita Group’s high-added-value products and services. The Group has many years of experience and expertise in both chemical and physical treatment. Our original strength lies in our ability to provide comprehensive solutions that incorporate maintenance services in addition to water treatment chemicals and water treatment facilities. The service contact business model will highlight these strengths, and we will proceed to develop and expand this model under the MVP-22 plan.

3 “Seeing from the outside perspective”

“Seeing from the outside perspective” means breaking out of the closed approach and actively utilizing external management resources in fields where the company cannot succeed with its own resources alone in response to a rapidly changing external environment. Germany’s Industry 4.0 movement is a prominent example of a

global manufacturing trend towards automating production using advanced technologies such as AI, the IoT, and robotics. No company is able to respond to this situation with its own resources alone.

As a water professional, the Kurita Group has always kept its development of water treatment technologies in-house as much as possible. However, amid rapid changes in technology and the business environment, we need to make use of open innovation for expertise that we don't have internally if we are to provide high-quality products and services efficiently.

In our most recent developments, in May 2018 we acquired the shares of Fracta, Inc., a venture company in the United States that provides a software service for predicting deterioration of water mains by applying artificial intelligence (AI) and machine learning (ML). Through this investment, we have acquired advanced AI and ML technologies and expertise. By applying these to the Kurita Group's water treatment technologies and services,

we will create and expand a new digital business utilizing the IoT and AI in the fields of water and the environment.

Investments and Use of Capital Going Forward

To build a rock-solid earnings base, our task going forward is extremely simple. We will focus on aggressively investing in growth fields and improving the profitability of our existing businesses.

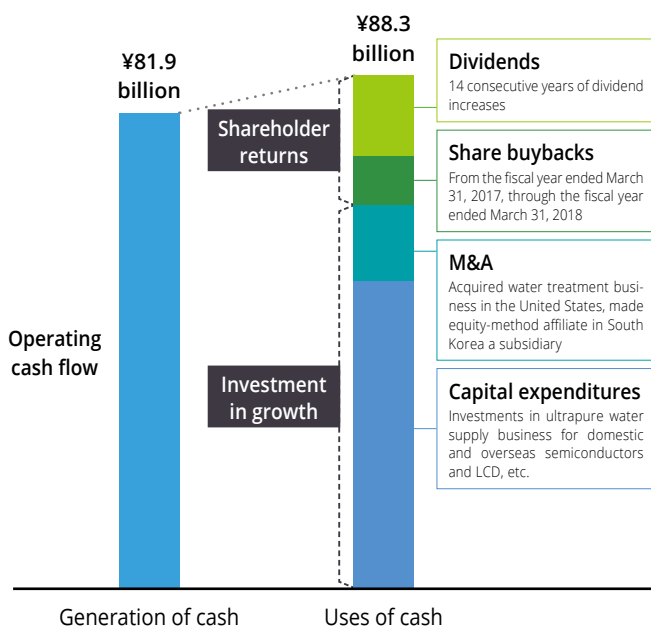
Over the next five years we plan to invest in our growth fields with unprecedented speed and scale. For our investment destinations for the five years under the MVP-22 plan we envisage making investments in the ultrapure water supply business, in M&As for building our new business foundations, and for creating CSV Businesses.

Regarding the funds for these investments, while our investments and shareholder returns exceeded operating cash flow in the three years of the CK-17 plan, we will now strive to create cash flow in addition to operating cash flow through the streamlining of our balance sheet by reducing

Allocation of Funds

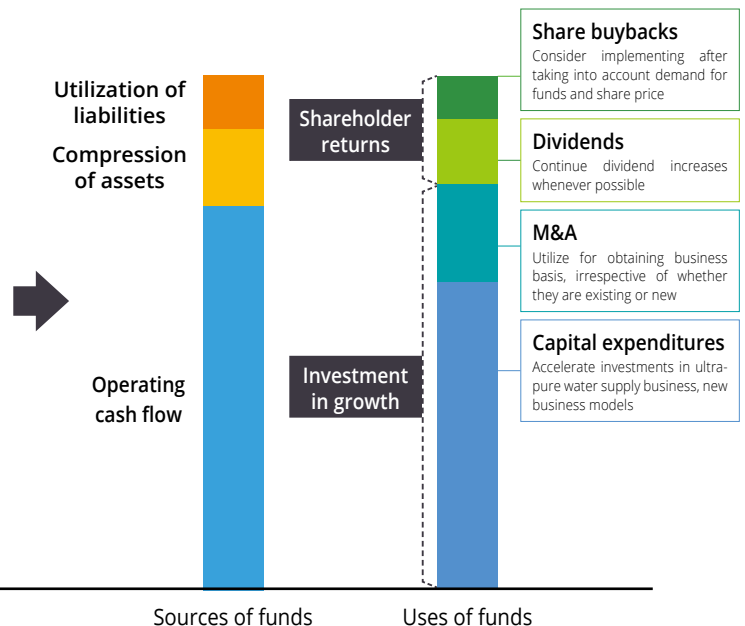
Results of Allocation of Funds

(Fiscal years ended March 31, 2016 - 2018)



Acceleration of Investment and Utilization of Capital*

(Fiscal years ended March 31, 2019 - 2023)



* This graph presents our envisaged sources and uses of funds under the MVP-22 plan.

our holdings of investment securities and sales receivables. We will also look at funding at investments using debt.

For shareholder returns, we will strive to continue increasing our dividends as far as possible, aiming for a dividend payout ratio of between 30% and 50%. We will also look at purchasing our own stock after considering our funding requirements and stock price.

Enhancing Corporate Governance as the Foundation of Management

The Kurita Group's overseas sales ratio has passed 30% after recent M&As in Europe and North America and the establishment of a global network. As we change rapidly from our formerly Japan-focused business structure, establishing corporate governance as the foundation of global management is becoming an urgent priority. Under the MVP-22 plan, we have included establishment of the Group governance system as a priority measure, and we will continue to build a system with a global standard by promoting our corporate vision and the Code of Conduct internally and establishing an internal control framework.

In efforts to reform corporate governance in the fiscal year ended March 31, 2018, we addressed issues indicated in the Board of Directors evaluation, for example by reviewing our corporate vision for long-term improvement of corporate value over the long-term, setting specific targets regarding involvement with the environment and society, enhancing our system to review investment projects, and clarifying themes and messages to be communicated to shareholders. We addressed these by formulating a new corporate vision and CSR policy, establishing the Investment Committee, and selling our shareholdings in other listed companies. For the fiscal year ending March 31, 2019, the issue of selecting successors for management roles such as directors has been raised. We will respond by establishing a training system and personnel evaluation measures for management personnel, and related initiatives, and focusing on development of human resources who will form the core of the Kurita Group's management.



In Closing

This is the third year of my appointment as president. I will work even faster this year than in the past two years to strengthen the Group's earning base and increase its growth potential. And I plan to return the fruits of these efforts to our stakeholders. I invite our stakeholders to continue to expect great things of the Kurita Group as it continues its reforms, and ask for your continued guidance.

July 2018

President and Representative Director

Michiya Kadota