

Corporate Governance

Basic Concept

The Kurita Group will make efforts to promote sustainable growth and enhance its corporate value in the medium and long term, deferring to the rights and position of various stakeholders such as customers, business partners, employees, shareholders, and local communities while striving to meet their expectations. To this end, the Kurita Group will establish corporate governance, with the aim of realizing transparent, fair, prompt, and decisive decision-making measures and highly effective management supervision.

Corporate Governance Structure

As of June 28, 2018, the Board of Directors comprises 12 directors (including 2 external directors), 2 more than before the last election of directors. The reason for this increase is that the Company intends to strengthen the management of overseas business operations, which have expanded following the acquisitions in recent years of Water Treatment Chemicals businesses in Europe and North America and strengthening the management foundation for expanding the service contract businesses that will contribute to the improved profitability of domestic business operations. The Board of Directors determines the orientation of corporate strategies that will enable the Group to achieve continued growth and makes decisions on important operational execution in line with this orientation. To fulfill the supervisory function over the directors and management in general, the Board of Directors consists of personnel with a high degree of expertise in various business fields, corporate planning, finance and accounting, legal affairs, and technologies, and others, and is organized in a way that complements the necessary knowledge and experience for overall decision making. The term of office of directors is set at one year to enable flexible revision of the management structure in response to changes in the management environment.

As a framework to supplement the Board of Directors' decision-making, the Company has established and operates an approval system based on the Executive Committee and the Internal Decision Approval and Review Rules. The Executive Committee consists of the president, directors with a rank of managing director or above, the general manager of the Corporate Planning Division, and the directors and executive officers appointed by the president. The committee makes decisions and conducts a review of matters resolved at the Board of Directors meetings to facilitate the decision making process at the Board of Directors meetings when necessary. The Internal Decision Approval and Review Rules can be modified or abolished only by resolution of the Board of Directors. The Company has also employed the executive officer system since June 2005 for the purpose of strengthening business execution capabilities and has appointed eight executive officers as of June 28, 2018.

The Company has adopted the Audit & Supervisory Board system. In addition, the Internal Auditing Department has

been established as an organization that reports directly to the president for the purpose of enhancing internal audit functions. The Company has appointed Grant Thornton Taiyo LLC as its accounting auditor in accordance with the laws and regulations to ensure the implementation and improvement of accounting audits.

Overview of Corporate Governance Structure (As of June 28, 2018)

Organization form	Company with an audit & supervisory board
Number of directors	12
Number of external directors (within the total above)	2
Term of office of directors	1 year
Incentive payments to directors	Remuneration and bonuses linked to business results
Disclosure of individual remuneration of directors	Disclosure is restricted to persons with ¥100 million or more.
Voluntary Advisory Committees	Nomination & Remuneration Advisory Council
Number of members of the Audit & Supervisory Board	3
Number of external members of the Audit & Supervisory Board (within the total above)	2
Number of independent officers	4
Accounting auditor	Grant Thornton Taiyo LLC
Adoption of executive officer system	Yes

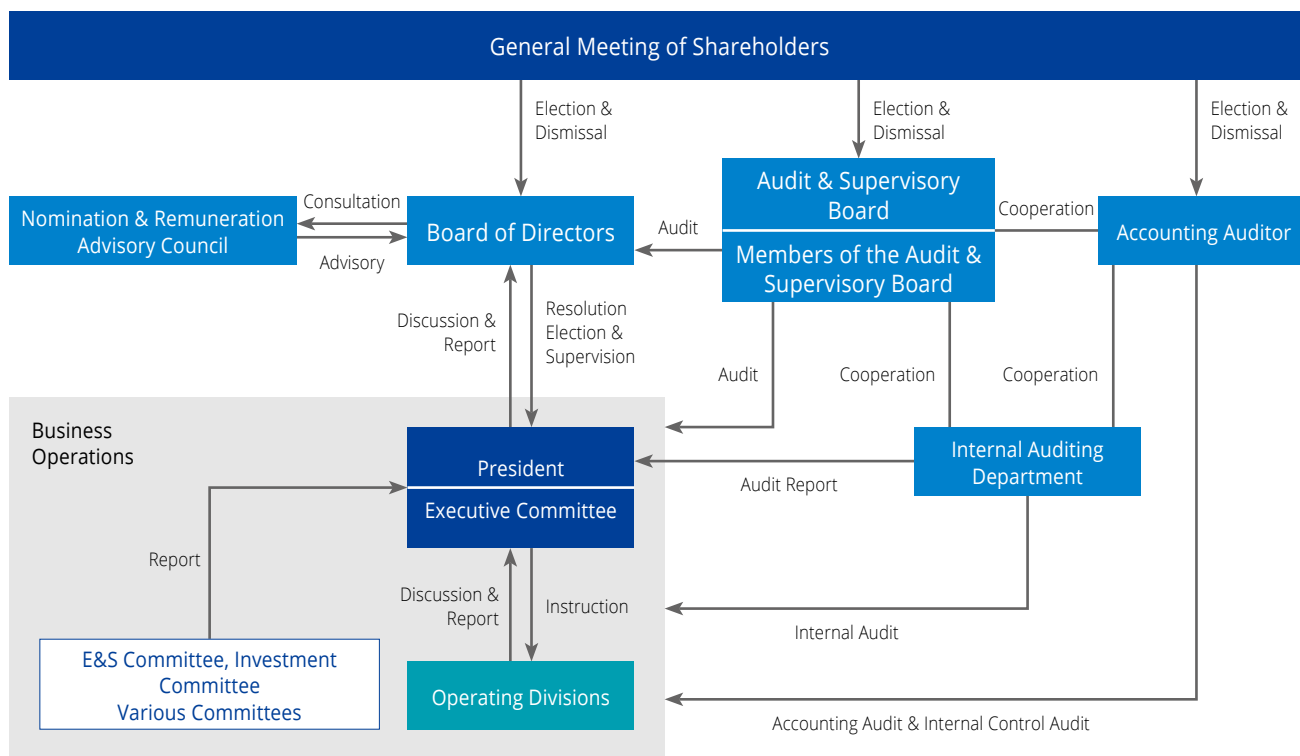
Continuous Reform of the Board of Directors

Each of Kurita's directors and members of the Audit & Supervisory Board completed an analysis and evaluation of the effectiveness of the Board of Directors and discussed measures for further strengthening corporate governance.

In the effectiveness evaluation of the Board of Directors for the period from January to December 2016, the following three issues were identified.

- In relation to business strategies for a long-term improvement of corporate value as well as involvement with the environment and society that would lead to long-term growth, it is necessary to discuss these issues more deeply throughout the entire Kurita Group.

Corporate Governance Structure (As of June 28, 2018)



- b. In order to increase the level of discussions at Board meetings, it is necessary to enhance a prior examination on matters to be discussed at the meetings so as to further improve the accuracy of considerations.
- c. It is necessary for the Board of Directors to share a consistent theme and message with regard to dialogue with shareholders.

The Company responded to these issues by taking the following measures during the fiscal year ended March 31, 2018.

- a. The Company clarified the direction for the Group's medium- to long-term growth going forward based on changes in the management environment. For example, the Company defined the corporate vision and reviewed the significance of the corporate philosophy. It also renewed the Kurita Group Philosophy System starting with the corporate philosophy. In addition, the Company formulated the CSR policy, which is positioned at the core of the management strategy and sets key domains for CSR with targets for the year 2030. Furthermore, the period covered by the next medium-term management plan was changed from three years as before to five years, and the Company worked to formulate challenging targets based on its medium- to long-term vision and a plan comprising ambitious measures to achieve them.

- b. The Investment Committee was established as a pre-screening body made up of in-house experts to review investment projects ahead of resolutions by the Board of Directors and the Executive Committee. This strengthening of the screening system enabled the Board of Directors and the Executive Committee to concentrate their discussion on the strategic significance of the projects.

- c. The activity policy for IR and SR activities was determined by the Board of Directors and direct dialogue with shareholders and investors and information disclosure to shareholders and investors were conducted in line with the activity policy. In addition, the Company strengthened the operation of systems enabling members of the Board of Directors to confirm the specific results of dialogues undertaken in IR and SR activities.

In other initiatives, the Company appointed a female external director in June 2017, aiming to ensure diversity in the Board of Directors. Furthermore, study sessions were held as management training on themes such as CSV management and crisis management and compliance. External directors were also provided with site visits and study sessions to help them to deepen their understanding of the Company's businesses. Furthermore, in an effort to enhance dialogue with shareholders, the section on corporate governance initiatives in the convocation notice was enhanced.

Corporate Governance

Evaluation of the Board of Directors

(January to December 2017)

According to the evaluation results for January to December 2017, the average self-evaluation of all Directors and members of the Audit & Supervisory Board was generally good in all six areas, and it was determined that the effectiveness of the Board of Directors is ensured. In particular, the areas of “contributions of individual directors and members of the Audit & Supervisory Board” and “operation of the Board of Directors” were highly evaluated with less variance of evaluation among inside directors, external directors and members of the Audit & Supervisory Board. On the other hand, certain items related to the “roles and responsibilities of the Board of Directors” were evaluated relatively lower than other items, and especially given a low evaluation by the external directors. Based on this result, the following issues and measures were decided.

Evaluation method	This evaluation was conducted via a written survey, with each of the respondents identified. The aggregate results were discussed at Board meetings and helped members to better identify problems as well as decide future measures.
Evaluation items	The following six themes were evaluated Six areas: (1) Roles and responsibilities of the Board of Directors, (2) Collaboration with external directors and external members of the Audit & Supervisory Board, (3) Composition of the Board of Directors, (4) Operation of the Board of Directors, (5) Contributions of individual directors and members of the Audit & Supervisory Board and (6) Dialogue with shareholders.
Evaluation period	From January to December 2017

Issue

More in-depth discussion regarding the selection of successors to directors is necessary.

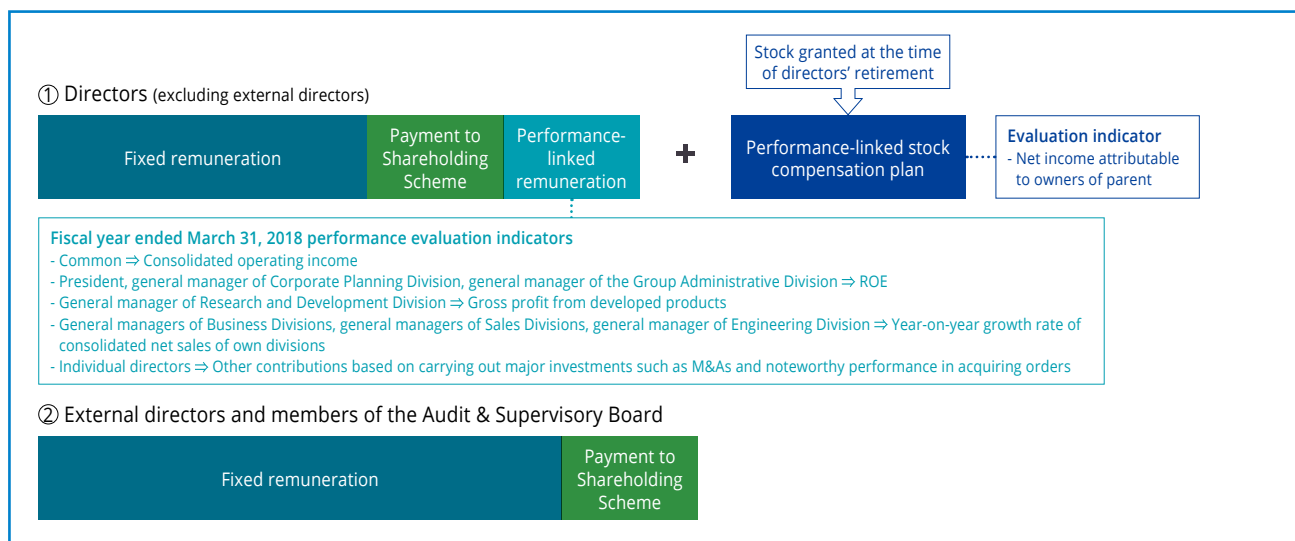
Measures

- Various measures relevant to the development and evaluation of successors to directors will be established in a systematic manner.
- Information regarding the election, retirement, and evaluation of successors to directors will be provided to the Nomination and Remuneration Advisory Council in advance, and the contents of deliberation at the Board of Directors meetings based on the report by the Council will be improved.

Remuneration System for Directors and Members of the Audit & Supervisory Board

The Company's remuneration system for directors excluding external directors is composed of fixed remuneration as base remuneration, and incentive remuneration reflecting business results. The fixed remuneration system is adopted for external directors and members of the Audit & Supervisory Board, who perform oversight functions. An amount of the fixed remuneration is decided for each job title in case of directors and for each working style in case of members of the Audit & Supervisory Board. Part of the remuneration is paid to the directors' and members of Audit & Supervisory Board Shareholding Scheme and allocated for purchasing the Company's shares. The incentive remuneration consists of short-term incentive remuneration according to a degree of achievement in an annual business plan and evaluation of duties for which a person is responsible, and long-term incentive remuneration according to business performance and job title during the term of office. From June 2016, the Company increased the proportion of remuneration accounted for by performance-linked remuneration for directors, excluding external directors, and introduced a performance-linked stock compensation program that grants stock at the time of their retirement as a long-term incentive. The purpose of this system is to increase motivation to contribute to a continuous growth of the Kurita Group and an improvement in corporate value, by sharing profits and risks caused by stock price fluctuation with the shareholders.

The Remuneration System for Officers



Remuneration for Officers

Total amount of remuneration, etc. for each officer classification, total amount by type of remuneration, etc., and number of eligible officers
(Fiscal year ended March 31, 2018)

Officer classification	Total amount of remuneration, etc., (millions of yen)	Total amount of remuneration by type (millions of yen)				Number of eligible payees for base remuneration
		Base remuneration	Short-term incentive remuneration	Long-term incentive remuneration	Retirement benefits	
Directors (excluding external directors)	695	262	230	202	—	9
Members of the Audit & Supervisory Board (excluding external members)	34	34	—	—	—	1
External officers	75	75	—	—	—	6

Note: From the fiscal year ended March 31, 2018, the Company will record the estimates of money to be paid for short-term incentive remuneration and long-term incentive remuneration as provisions as of March 31, 2018. The amounts of remuneration paid to directors stated above include ¥84 million of provision for short-term incentive remuneration for the fiscal year ended March 31, 2017 and ¥97 million of provision for long-term incentive remuneration for the fiscal year ended March 31, 2017.

Total Amounts of Consolidated Remuneration, Etc., for Each Officer of the Company (Fiscal year ended March 31, 2018)

Name	Total Amount of Consolidated Remuneration (Millions of yen)	Officer classification	Amounts of remuneration, etc. by type (Millions of yen)			
			Base remuneration	Short-term incentive remuneration	Long-term incentive remuneration	Retirement benefits
Michiya Kadota	172	Director	64	48	59	—
Koichi Iioka	102	Director	46	31	24	—

Note: Information on total amounts of consolidated remuneration, etc., is provided only for persons receiving a total amount of ¥100 million or more. The total amount of remuneration for the above directors are the planned payment amounts of short-term incentive remuneration and long-term incentive remuneration, recorded as a provision at the end of the fiscal year ended March 31, 2018.

Nomination & Remuneration Advisory Council

The Company has in place a Nomination & Remuneration Advisory Council, a voluntary committee to increase transparency in the decision-making process regarding remuneration for directors and nomination of directors and members of the Audit & Supervisory Board. The Council, which mainly comprises external directors and external members of the Audit & Supervisory Board, is consulted

about candidates for officers and their remuneration, and submits a report on appropriateness thereof to the Board of Directors. In the fiscal year ended March 31, 2018, the Council advised the Board of Directors to abolish the honorary advisor. Through the application of such processes, the effectiveness of improvements in transparency will be verified.

Profile of Nomination & Remuneration Advisory Council (Fiscal year ended March 31, 2018)

	Constituent members	Results	
Nomination	Candidates for directors Candidates for representative directors Candidates for executive directors	<ul style="list-style-type: none"> ■ Two external directors ■ President ■ One full-time external member of the Audit & Supervisory Board 	<ul style="list-style-type: none"> ■ Determining the appropriateness of all candidates for director ■ Abolishing honorary advisor
	Candidates for members of the Audit & Supervisory Board	<ul style="list-style-type: none"> ■ One full-time external member of the Audit & Supervisory Board ■ One full-time internal member of the Audit & Supervisory Board ■ President ■ General manager of the Corporate Planning Division ■ General manager of the Group Administrative Division 	<ul style="list-style-type: none"> ■ Determining the appropriateness of candidates for members of the Audit & Supervisory Board
Remuneration	<ul style="list-style-type: none"> ■ Two external directors ■ President ■ One full-time external member of the Audit & Supervisory Board 	<ul style="list-style-type: none"> ■ Performance evaluation of directors 	

Activities of External Directors, Reasons for Appointment, and Change in Criteria for Judging Independence

The roles that the Company expects its external directors to perform are to increase rationality and transparency in decision-making by the Board of Directors by checking management from viewpoints which internal people do not have, with insight cultivated through managerial experiences and knowledge in special fields.

The Company appointed Mr. Tsuguto Moriwaki as external director in June 2015, followed by Ms. Ryoko Sugiyama, an expert on the environment and waste, in June 2017. Since assuming office, both of them have provided a wide range of recommendations on reinforcing functions of the Board of Directors. In drafting the medium-term management plan, they proposed the establishment of a junior board, in which young employees make proposals for the Kurita Group's future strategies; and the Board of Directors' has adopted this idea.

Corporate Governance

Furthermore, in the fiscal year ended March 31, 2018, the criteria for judging independence were made stricter. The criteria that stipulated “A current major business partner of the Company or a major business partner at some time during the past year, or a person who executes the operations of the major business partner.” Previously, the term “major business partner” was defined as a partner for whom sales from the Company made up “10% or more” of the partner’s net sales, but this has been revised to “2%

or more of consolidated net sales.” With regard to the judgment criteria, “A consultant, an accountant, or a legal professional who currently receives or has received at some point during the past year a lot of money or property other than remuneration for officers from the Company,” since the expression “a lot of money or property” was unclear, the Company has now defined this as ¥10 million or more per year.

Status of External Directors and External Members of the Audit & Supervisory Board (As of June 28, 2018)

Post	Name	Number of meetings of the Board of Directors and the Audit & Supervisory Board attended (Fiscal year ended March 31, 2018)	Reasons for electing him / her as a director or a member of the Audit & Supervisory Board
Directors	Tsuguto Moriwaki	Board of Directors’ meetings: 12/12	Mr. Tsuguto Moriwaki is an individual who possesses a great deal of knowledge about manufacturing and corporate reform. The Company judged that he could take advantage of his knowledge and experience, having held important positions such as representative director in other companies, to deliver opinions from an outside perspective and increase the rationality and transparency of the Company’s management.
	Ryoko Sugiyama	Board of Directors’ meetings: 8/9	Ms. Ryoko Sugiyama is an expert on the environment and waste and has held important positions such as an external director of listed companies. The Company judged that she was capable of checking the Company’s management from an outside perspective, different from those within the Company, and increasing its rationality and transparency.
Members of the Audit & Supervisory Board	Kenjiro Kobayashi	Board of Directors’ meetings: 12/12 Audit & Supervisory Board meetings: 12/12	Mr. Kenjiro Kobayashi is an individual who has played an active role in different areas of the Kurita Group’s businesses and has high expertise and a wealth of international experience in the areas of finance, corporate planning, new business development, and M&As, etc. As he is capable of reflecting his expertise and experience on the audit of the Company.
	Shigekazu Torikai	Board of Directors’ meetings: 9/9 Audit & Supervisory Board meetings: 9/9	Mr. Shigekazu Torikai has special knowledge as well as considerable experience and deep insight into corporate legal affairs as an attorney. The Company judged that he can be expected to utilize his specialist knowledge, experience, and insight in conducting high-quality audits of the Company from an outside perspective.

Adoption of the Audit & Supervisory Board System

The Company is a company with an Audit & Supervisory Board. As of June 28, 2018, the Audit & Supervisory Board comprises three members, of which two are external members. Individual members of the Audit & Supervisory Board monitor the status of execution of duties by directors and the status of performance of oversight duties by the Board of Directors. They also conduct asset status surveys of the entire Kurita Group including subsidiaries and audit the development and operation of internal control systems implemented by the directors, as well as confirming the independence of the accounting auditor and the status of execution of its duties. The individual members of the Audit & Supervisory Board attend important meetings including meetings of the Board of Directors, the Executive Committee, and the E&S Committee, and audit execution of duties by directors.

Appropriate Cooperation among the Internal Auditing Department, the Audit & Supervisory Board, and the Accounting Auditor

The Company has an Internal Auditing Department that is independent from operational execution functions and reports directly to the president. The Internal Auditing Department conducts internal audits of Kurita Water Industries Ltd. and its Group companies, identifies issues and problems in operational execution, and reports to the president on improvement measures.

The Audit & Supervisory Board nominates candidate accounting auditors proposed to the General Meeting of Shareholders, and makes decisions on proposed resolutions regarding appointment, dismissal, and refusal of reappointment of the accounting auditor. In addition, members of the Audit & Supervisory Board, the Internal Auditing Department, and the accounting auditor share information with one another on audit plans and concerns and work to engage in close collaboration.

Establishment of the Investment Committee

The Investment Committee was established in April 2017. In the fiscal year ended March 31, 2018, it was chaired by the Assistant general manager of the Group Administrative Division, who is the chief officer responsible for financial management and composed of people responsible for the main departments within the Administrative Division. The role of the Investment Committee is to pre-screen investment and financing projects to be discussed by the Board of Directors or the Executive Committee and report the pre-screening result and major discussion points to the directors and members of the Audit & Supervisory Board. The Committee was engaged in pre-screening of 21 projects in the fiscal year ended March 31, 2018. Organizing the major discussion points through the pre-screening by the Investment Committee helped to enhance the quality of discussion by the Board of Directors and Executive Committee.

Roles and Results of the Investment Committee (The fiscal year ended March 31, 2018)

Roles	<ul style="list-style-type: none"> Pre-screening of investment and loan projects to be discussed by the Board of Directors or the Executive Committee Report the pre-screening result and major discussion points to the directors and members of the Audit & Supervisory Board 													
Constituent members	<p>Chairperson: Assistant general manager of Group Administrative Division (chief officer responsible for financial management)</p> <p>Members: General manager of the Corporate Planning Department, general manager of the Accounting Department, general manager of the General Affairs Department, and general manager of Group Project Integration Department (Finance, Taxation, Preparation for IFRS Adoption)</p>													
Results in the fiscal year ended March 31, 2018	<table border="0"> <tr> <td>Number of projects pre-screened</td> <td>Equity investment and M&A projects:</td> <td>8</td> <td rowspan="4">} Total: 21</td> </tr> <tr> <td></td> <td>Capital investment projects:</td> <td>8</td> </tr> <tr> <td></td> <td>Financing and fund procurement projects:</td> <td>4</td> </tr> <tr> <td></td> <td>Company establishments:</td> <td>1</td> </tr> </table>	Number of projects pre-screened	Equity investment and M&A projects:	8	} Total: 21		Capital investment projects:	8		Financing and fund procurement projects:	4		Company establishments:	1
Number of projects pre-screened	Equity investment and M&A projects:	8	} Total: 21											
	Capital investment projects:	8												
	Financing and fund procurement projects:	4												
	Company establishments:	1												
Results	Improved quality of discussion at Board of Directors and Executive Committee meetings													

Disciplinary Rules for Investment

When making an investment, the Kurita Group evaluates profitability of the investment and makes a decision on the investment, setting a hurdle rate in consideration of individual risks for each investment project in addition to the cost of shareholders' equity, in accordance with the policy of striving to maintain return on equity (ROE) at levels above the cost of shareholders' equity.

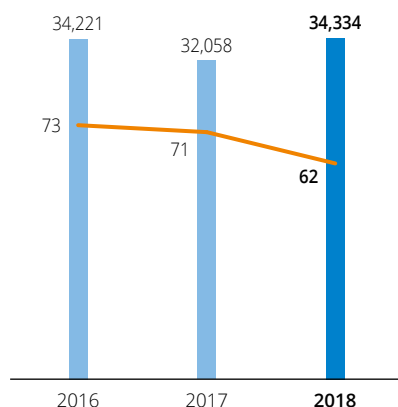
Shareholdings in Other Listed Companies

The Company holds shares of other listed companies for strengthening business relationships. We verify the economic rationality for respective stocks we have held and the risks of holding those shares, as well as relationships with companies whose shares the Company holds, periodically and at other times as necessary and review the appropriateness of holdings. In the fiscal year ended March 31, 2018, we sold the shares of nine companies through resolutions at Board meetings.

Investment Shares Held for Purposes Other than Pure Investment

Fiscal years ended on March 31

■ Total value on the balance sheet (millions of yen)
— Number of stocks



Comments from External Directors

Director Moriwaki

The Company's Board of Directors has been working to enhance its discussion of medium- and long-term strategies by delegating authority for certain discussion items to the Executive Committee. To make the discussion at the Board of Directors meetings more substantive



and vigorous, I would like to see the Company continue making further reforms, such as revising the composition and roles of the Investment Committee and other committees and councils.

The Company also needs to sort out the system for training and assessment with regard to nurturing and selecting the successor for the president. The same applies to the selection of candidates for future directors. The Company is a Company with an Audit & Supervisory Board, and through this it has already established the Nomination & Remuneration Advisory Council. I would like the Company to continue to enhance the role of the council, making reference to other cases where such councils have been set up.

Director Sugiyama

The Company currently has two external directors and I believe it would be preferable to add one more in order to strengthen our function.



During the fiscal year ended March 31, 2018, I attended the Nomination & Remuneration Advisory Council for the first time and I felt that it was difficult to clarify the criteria for candidate selection. I felt it necessary to establish a fair and transparent program for nurturing and selecting the successor for the president.

Furthermore, now that the CSR policy has been placed centrally within the new medium-term management plan, I would like to see the Company widen its horizons in allocation of management resources, looking beyond ultrapure water and other advanced water treatment businesses to include fields related to social infrastructure and daily living.