

Enter 

# The Kurita 21st Century Vision

We sketched out Kurita's future vision.

Within this 21st Century Vision, we have encapsulated the dream of how we want Kurita to be, the principles we continue to cherish, and our determination to realize this vision.

## Corporate Philosophy

Study the properties of water, master them, and we will create an environment in which nature and man are in harmony

## Corporate Vision

Becoming an advanced water and environmental management company

- 1 We will implement our Corporate Philosophy and contribute to society by striving to add new value and functions to water and by meeting global challenges such as the conservation of the natural environment and effective use of resources.
- 2 We will further progress our "water management" achieved through our state-of-the-art products, technologies and services, thereby achieving "advanced management" to ensure that water of appropriate quality and quantity is available whenever and wherever it is needed.
- 3 We will further advance our service business in the water field to help customers meet their challenges, such as more safety, higher productivity and lower environmental impact, thereby retaining the continued trust of our customers and realizing our own growth.

## Management Guidelines

- 1 World's Top-Class Water and Environment Business
- 2 Creation of New Business
- 3 Technology-Driven Company
- 4 Full Use of the Group's Comprehensive Strength
- 5 Enhanced Development of Human Resources
- 6 Accomplishment of Social Responsibility

## Code of Ethical Conduct

All directors and employees of the Kurita Group are required to conduct their business activities based on our shared five values (fairness, transparency, integrity, safety and compatibility) to ensure that the Group is able to realize sustainable growth and to maintain and enhance its good reputation to deepen the trust of society.

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### Disclaimer

This report contains forward-looking statements from Kurita Water Industries Ltd. and its consolidated subsidiaries pertaining to plans, forecasts, strategies, and results. These forward-looking statements are based on currently available information, and actual results may vary significantly from the forward-looking statements contained in this report due to a range of variable factors.

# Kurita's Business Model

Kurita's key resources are: its unique business mix for a company in the water and environmental management field; a technology-driven company with advanced research and development capabilities; and its business network spanning all of Japan and across the globe. By providing customers from a broad range of industries with all-round water management solutions while focusing on such issues as enhancing productivity, reducing environmental burden and energy saving, Kurita endeavors to create value.

## Our Strengths

### A unique Business Mix among Companies Worldwide



### A Business Network Spanning Japan and the World



### Research and Development Capabilities (Technology-Driven Company)

Industry-leading intellectual property portfolio



Core technology focus areas

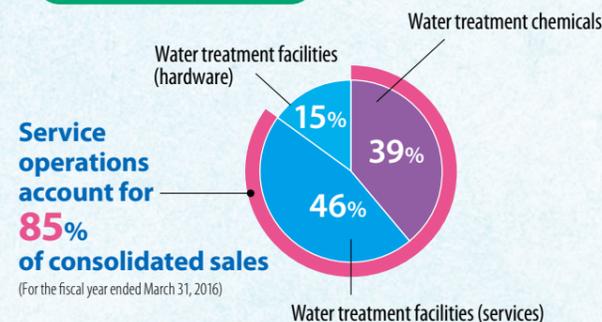


## Business Model Underpinned by the Company's Management

### Respect for Relationship with Stakeholders

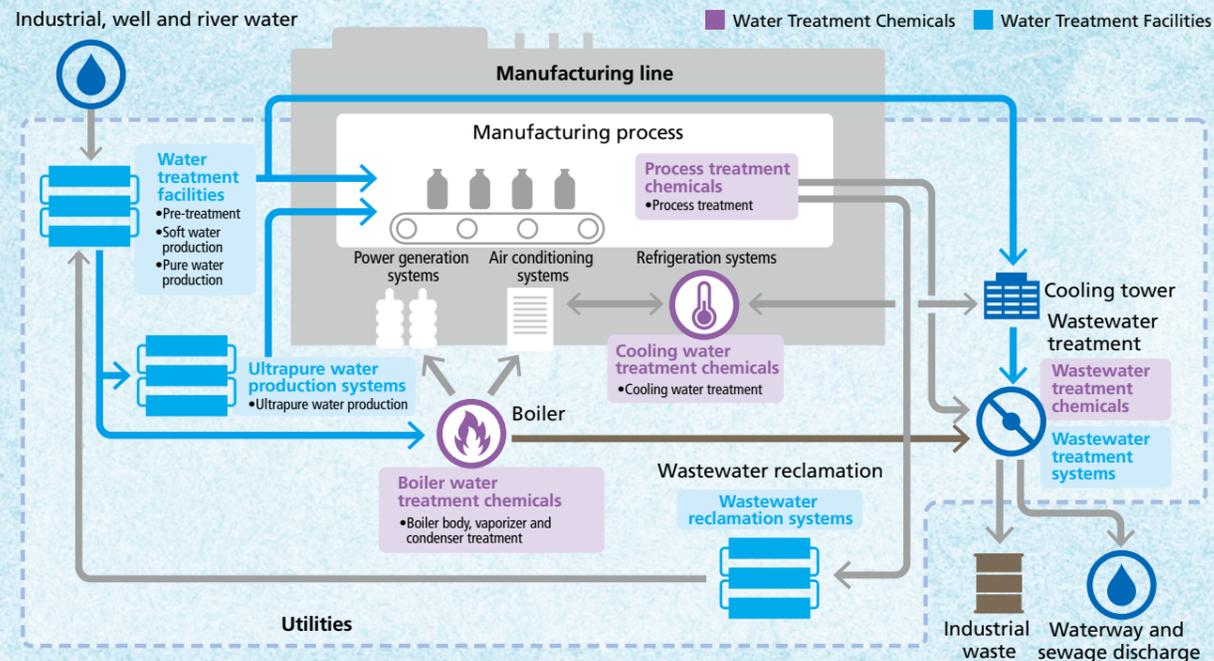
- Management that Respects Shareholders (P.25)
- Emphasis on Safety and Quality (P.28)
- Sound Relationship with Suppliers (P.29)

### Stable Earnings

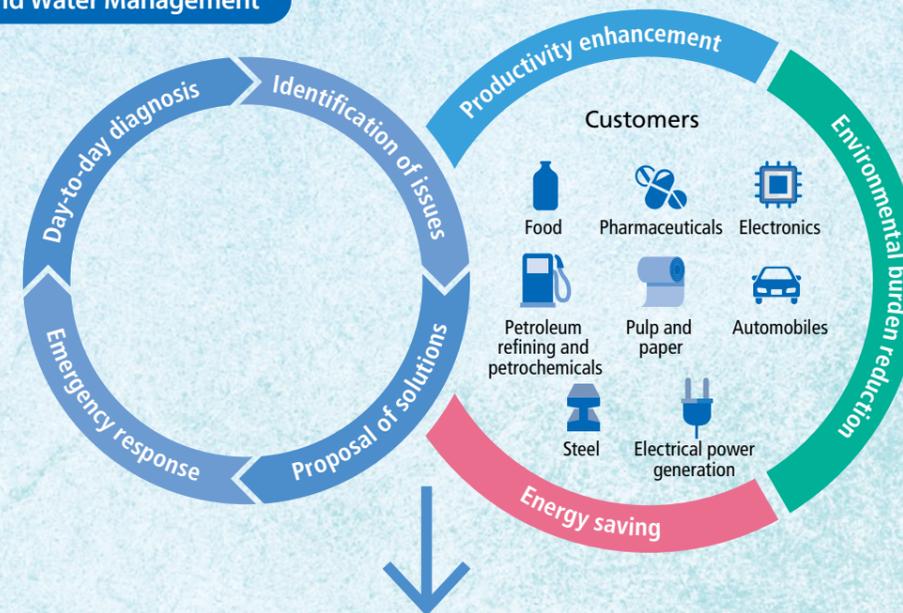


## Kurita's Business

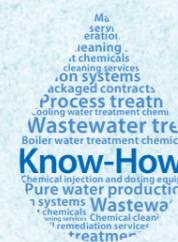
### From Factory Entrance to Exit



## All-Round Water Management



## Accumulated know-how



Strong, long-term relationships with customers from a broad array of industries, and in-depth knowledge of customer facilities



## Management Indicators

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
For the years ended March 31

### Financial

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016
										Millions of yen	Thousands of U.S. dollars <sup>1</sup>
Orders	¥192,529	¥208,689	¥195,065	¥175,162	¥181,951	¥197,256	¥186,741	¥173,463	¥181,282	¥ 221,273	\$ 1,958,168
Net sales	197,146	204,875	199,706	178,520	181,234	193,792	180,143	178,137	189,398	214,372	1,897,097
Cost of sales	137,819	138,549	135,874	117,221	118,573	127,905	121,047	122,870	130,509	143,964	1,274,017
Selling, general and administrative expenses	35,050	35,857	35,896	34,941	35,528	36,503	38,106	40,380	39,454	50,574	447,557
Operating income	24,276	30,468	27,935	26,358	27,131	29,382	20,989	14,886	19,435	19,833	175,513
Operating income margin (%)	12.3	14.9	14.0	14.8	15.0	15.2	11.7	8.4	10.3	9.3	
Net income attributable to owners of parent <sup>2</sup>	14,207	18,297	16,299	17,288	17,138	16,548	11,476	9,352	10,434	12,577	111,300
Return on sales (%) <sup>3</sup>	7.2	8.9	8.2	9.7	9.5	8.5	6.4	5.2	5.5	5.9	
Total assets	235,137	231,498	245,406	251,620	253,298	271,141	263,580	274,925	294,492	298,107	2,638,115
Total assets turnover (Times) <sup>4</sup>	0.88	0.88	0.84	0.72	0.72	0.74	0.67	0.66	0.67	0.72	
Equity <sup>5</sup>	156,772	169,402	177,291	192,588	198,042	208,891	207,871	217,691	222,330	227,896	2,016,778
Equity ratio (%) <sup>6</sup>	66.7	73.2	72.2	76.5	78.2	77.0	78.9	79.2	75.5	76.4	
Return on assets (ROA) (%) <sup>7</sup>	6.3	7.8	6.8	7.0	6.8	6.3	4.3	3.5	3.7	4.2	
Return on equity (ROE) (%) <sup>8</sup>	9.4	11.2	9.4	9.3	8.8	8.1	5.5	4.4	4.7	5.6	
Capital expenditures	19,563	24,097	56,322	8,083	5,965	8,105	6,688	5,709	12,864	19,623	173,654
Depreciation and amortization	6,512	9,425	11,716	15,523	16,066	16,035	15,054	14,774	14,863	15,749	139,371
R&D expenses	4,421	4,551	4,363	3,990	4,225	4,232	4,362	4,534	4,397	5,269	46,628
										Yen	U.S. dollars <sup>1</sup>
Net income per share <sup>9</sup>	¥ 110.4	¥ 142.2	¥ 126.7	¥ 134.4	¥ 134.0	¥ 130.7	¥ 92.4	¥ 78.5	¥ 87.8	¥ 108.2	\$ 0.95
Equity per share <sup>10</sup>	1,218.4	1,316.7	1,378.0	1,497.0	1,563.6	1,649.2	1,744.4	1,826.8	1,907.8	1,961.3	17.35
Dividends per share	28.0	32.0	34.0	36.0	38.0	40.0	42.0	44.0	46.0	48.0	0.42
Dividend payout ratio (%)	25.4	22.5	26.8	26.8	28.4	30.6	45.4	56.1	52.4	44.3	

Notes: 1. The U.S. dollar amounts are given solely for convenience at the rate of ¥113 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2016.

2. Accompanying the revision of Accounting Standards for Business Combinations, etc., the names of items presented have been changed.

The revised standards have been applied from the fiscal year ended March 31, 2016.

3. Return on sales=Net income attributable to owners of parent÷Net sales

4. Total assets turnover=Net sales÷Total assets (Average)

5. "Equity" represents Net assets less non-controlling interests (hereinafter, the same)

6. Equity ratio=Equity÷Total assets×100

7. Return on assets= Net income attributable to owners of parent÷Total assets (Average)×100

8. Return on equity= Net income attributable to owners of parent÷Equity (Average)×100

9. Calculation of net income per share is based on average number of shares outstanding (excluding treasury stock)

10. Calculation of equity per share is based on the number of shares at year-end (excluding treasury stock)

### Non-Financial

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total CO <sub>2</sub> emissions (t-CO <sub>2</sub> )*	22,398	22,505	22,541	23,563	23,941	158,121	162,748	181,149	188,543	188,709
Total waste output (t)*	25,954	26,895	27,133	26,186	24,739	47,181	41,561	47,859	54,679	33,756
Number of employees	3,992	4,249	4,404	4,445	4,490	4,555	4,640	4,635	5,222	5,481

\* Kurita Water Industries Ltd.'s domestic offices and domestic consolidated subsidiaries



### To All Our Stakeholders

I was appointed as president and representative director on April 1, 2016, as part of a major reorganization of the Company's management, which was carried out with a view to ensure that the Kurita Group can successfully compete amid the major economic and social transformations of today. Having taken the helm from former President Toshiyuki Nakai, I intend to do everything I can to completely fulfill my obligations as president.

My most basic objective is to help realize the Kurita Group's corporate philosophy: "Study the properties of water, master them, and we will create an environment in which nature and man are in harmony." With the growth of the global population and ongoing economic development, water and the environment have become vital issues that must be continually dealt with in order to make societies around the world sustainable. As a group of companies possessing the technologies and expertise needed for providing optimal solutions to water- and environment-related problems, the Kurita Group's mission is to help make societies more sustainable by solving problems that faced by communities and industries worldwide. That is the essence of our corporate philosophy, and by having management work to realize it, we hope to contribute to communities around the world and earn the trust of all stakeholders.

As we pursue these endeavors, I look forward to the understanding and support of the Company's shareholders and other stakeholders.

July 2016

門田道也

President and Representative Director  
Michiya Kadota

## Interview with the President

**Q** In the fiscal year ended March 31, 2016, consolidated sales and income increased for the second consecutive year. Could you provide some context for these results?

The Kurita Group achieved those results amid a mixed operating environment in the fiscal year under review. In Japan, capital expenditures picked up in some industries, but production stagnated in the manufacturing sector. At the same time, demand for water treatment grew in East and Southeast Asia. Against that backdrop, the Kurita Group launched a new three-year [medium-term management plan, Competitive Kurita 2017, or CK-17](#) for short, and focused on expanding business internationally, boosting sales and improving profitability. Our goal is to become a formidable corporate group capable of successfully competing in the international arena.

In the fiscal year ended March 31, 2016, consolidated orders amounted to ¥221.3 billion, an increase of 22.1%, and net sales reached ¥214.4 billion, up 13.2% year on year. These increases were mainly due to robust orders for water treatment facilities from electronics manufacturers in China, South Korea, and Taiwan. The Company's acquisition of a business in Europe and its inclusion into the scope of consolidation was another contributing factor. Meanwhile, consolidated operating income totaled ¥19.8 billion, increasing just 2.0% year on year due to certain expenses, including a one-time increase in expenses associated with a revision of costs initially allocated for the acquisition in Europe, and an increase in retirement benefit expenses resulting from a change in the discount rate used for calculating retirement benefit obligations. On the other hand, ordinary income rose 7.9%, to ¥20.4 billion, mainly owing to a decrease in non-operating expenses. Net income attributable to owners of parent jumped 20.5%, to ¥12.6 billion, while net income per share was ¥108.2, up 23.3% compared to the previous fiscal year.

**Q** What were the main results and measures taken during the first year of the Competitive Kurita 2017 plan?

Under the plan, we pursued three priority measures: to create competitive products and services, cultivate new markets, and optimize production systems while leveraging the Group's network. Our priority measures were designed to overcome the main challenges currently faced by the Group, namely to maximize its collective capabilities, expand its businesses internationally, and improve profitability. These challenges must be overcome if the Kurita Group is to achieve sustainable growth.

We carried out numerous initiatives in the fiscal year under review, the first year of the three-year plan. Starting with the creation of competitive products and services, we improved the functionality of Kurita's water

**M** Please refer to [pages 10–11](#) for more information about the measures and goals of the medium-term management plan.

**Information about Unique Multifunctional Polymer** is available in the [press release dated May 23, 2014, in the "Press Releases" section of the Company's website](#).

#### Ultrapure water supply business

Kurita's business model involves installing its own water treatment facilities inside its customers' factories, managing the operations and maintenance of the facilities, and charging fees to the customers according to the volume of ultrapure water supplied.



treatment chemicals to add more value to these products, broadened the range of applications of our [Unique Multifunctional Polymer](#) lineup, and aggressively launched new products to the market. We also developed and began selling a dry methane fermentation system based on the dry anaerobic composting (DRANCO) process. The system applies methane fermentation to waste matter and collects the resultant biogas for use as an energy source.

To cultivate new markets, the Group expanded its business scale in Europe, and tapped into new markets there and also in China by acquiring businesses. In South Korea, we commenced [ultrapure water supply projects](#), which had been primarily carried out in Japan in the past.

We also worked to optimize production systems while leveraging the Group's network. The Company established the business acquired in Europe as Kurita Europe APW GmbH, and consolidated it as a new member of the Kurita Group. With other subsidiaries in the Group, we began a reciprocal supply of highly competitive products, with coordinated actions in China producing solid results in the market for cooling tower blowdown water reclamation systems.

**Q** What measures are being implemented in the second year of the Competitive Kurita 2017 plan?

In the second year, we are continuing to implement the three priority measures of the plan in order to overcome the challenges remaining after the first year, during which we successfully expanded the Group's water treatment chemicals business in Europe and improved the profitability of the water treatment facilities business.

As part of our measures to create competitive products and services, we intend to capitalize on the productivity of the business acquired in

Europe, which has excellent R&D capabilities and low-cost operations, and to improve the functions of our water treatment chemicals so that we can continuously raise competitiveness. We are integrating sensing technologies and IT with water treatment chemicals and facilities, as well as applying advanced analysis methods so that we can offer customers optimal solutions for improving productivity and lowering environmental burden. In these ways, we are working to differentiate the Kurita Group from its competitors.

To make inroads in new markets, we are seeking opportunities for business growth—including mergers and acquisitions (M&As) to expand our water treatment chemicals business in North America. That is part of our goal of extending [this business beyond Japan to three regions of the world: Asia, Europe, and the Americas](#). Meanwhile, in our ultrapure water supply business we are looking to gain a foothold in markets in East Asia.

Finally, we have been taking a number of steps toward optimizing production systems while leveraging the Group's network. In Europe, Kurita Europe APW GmbH (KEAG) and Kurita Europe GmbH (KEG) merged, creating the new KEG in April 2016, and in China, we are reorganizing the sales and marketing organizations of Group companies and centralizing management. Leveraging the strengthened Group's network, we are drawing on the synergies generated through the acquisition in Europe and extending them globally. [In our water treatment facilities business, we are working to increase the efficiency of production systems by optimally assigning management resources](#), and, at the same time, applying strict cost management in an effort to improve profitability.

## Q What do you believe needs to be done in the future to respond to intensifying global competition?

Together with the expansion of our businesses internationally, we must enhance [corporate governance](#) so that our organization can compete globally, and develop global human resources among our management ranks.

During the fiscal year under review, the Company established a [corporate governance policy and carried out sweeping reforms of its governance practices](#). These included a review of the roles and authority of the Board of Directors and various management committees, the adoption of a performance-linked stock compensation plan for directors, and improvements to the transparency of the executive nomination process. The purpose of these reforms was to increase the speed and efficacy of management decision-making, and to raise corporate value over the medium and long terms. In the fiscal year under way, we are continuing to review our corporate governance with the goal of further enhancing our management systems.

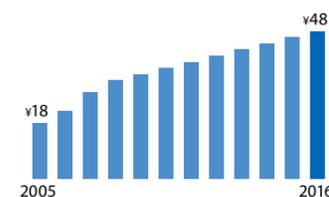
☒ Please refer to [pages 12–13](#) for information about management strategies related to the water treatment chemicals business.

☒ Please refer to [pages 14–15](#) for information about management strategies related to the water treatment facilities business.

🔗 Information about policies related to corporate governance is available on the Company's website in the ["Corporate Governance Policies"](#) section, under ["About Us, Corporate Governance"](#).

☒ Please refer to [pages 18–21](#) for information about the broad reforms of governance practices.

Twelve consecutive years of increased dividends per share since the fiscal year ended March 31, 2005



To develop global human resources, during the fiscal year under review we organized skills training and employee exchange programs involving our Head Office in Japan and subsidiaries around the world, and launched a development program for key personnel of Group companies worldwide. Looking ahead, we intend to accelerate our global human resources development in an effort to enhance the Group's ability to compete internationally.

## Q Please explain the Company's policy for paying dividends and improving capital efficiency.

The Company's policy is to continuously increase dividends to the maximum extent possible, while aiming for a dividend payout ratio between 30% to 50% calculated on a five-year basis. Accordingly, even if the payout ratio exceeds 50% because the level of net income has fallen temporarily, as long as it does not surpass 50% on average over the previous five years, we intend to continue increasing dividends. For the fiscal year under review, the Company paid an annual dividend of ¥48 per share, comprised of an interim and year-end dividend of ¥24, respectively. That amount was an increase of ¥2 per share over the previous fiscal year, and marked the [12th consecutive year of increased dividend payments since the fiscal year ended March 31, 2005](#).

With regard to capital efficiency, obviously we are working to keep the return on equity (ROE) above the cost of shareholders' equity. We aim to use internal reserves entrusted by shareholders for investing in promising businesses and conducting M&As. Our policy is to keep the growth of shareholders' equity in check, and flexibly acquire the Company's own shares when there is surplus of cash on hand.



## Medium-to-Long-Term Strategy: Issues and Objectives

In April 2015, the Kurita Group launched its Competitive Kurita 2017 (CK-17) medium-term management plan. CK-17 focuses on competitiveness, and specifically two types of growth—organic growth underpinned by Kurita's traditional business spheres, and strategic growth driven by new business fields. Under the plan's scenario, members of the Kurita Group are encouraged to use their individual initiative to take on challenges in the operations in which they are engaged, thereby becoming "competitive people." By creating "competitive systems" and "competitive products," the Kurita Group will evolve into a strong, globally competitive company.



Performance target	(Billions of yen / %)		
	FY2015/3 (Actual)	FY2018/3 (Plan)	Average annual growth rate
Net sales	189.4	235.0	+7.5%
Operating income	19.4	24.5	+ 8.0%
Operating income margin	10.3%	10.4%	—
Overseas sales	39.1	81.3	+ 27.6%
Overseas sales ratio	20.6%	34.6%	—

### 1 Create competitive products and services

#### FY2016/3 Review (Actual)

In the water treatment chemicals business, the Group focused efforts on enhancing the level of added value through improvements to the functionality of its water treatment chemical products—most notably by expanding the application of Kurita's multifunctional polymer material for boiler water treatment.

To strengthen Kurita's capabilities for making tailor-made proposals to customers based on data analysis and sophisticated use of customer information, we began providing full-scale information services for the water treatment chemical business at the Kurita Customer Relationship Center (KCR Center). This extends the operational coverage of the KCR Center, which has to date provided information and call center services mainly catering to the water treatment facilities business.

#### FY2017/3 Action (Measures)

Utilizing the R&D strengths and low-cost polymer production capabilities of the business acquired in Europe, the Group will continue working to bolster its competitiveness through enhancements to the functionality of its chemical products.

In addition, by integrating water treatment chemicals and facilities with sensing and IT, the Group will strive to achieve differentiation from other companies by providing proposals that help customers to improve their productivity and reduce burden on the environment.



Leveraging R&D capabilities in Europe

### 2 Cultivate new markets

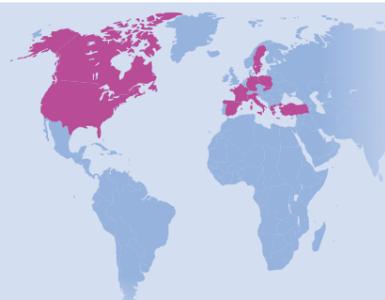
#### FY2016/3 Review (Actual)

Through business acquisitions, the Group engaged in the development of new markets in Europe and China. The Group was able to expand its core business areas to include Europe.

In the ultrapure water supply business, which the Group has developed centering on Japan, the Group began supplying ultrapure water to a customer in South Korea—a first for this business.

#### FY2017/3 Action (Measures)

In the water treatment chemicals business in North America, the Group is exploring opportunities, including M&As to expand its operations. Furthermore, in Japan and abroad, the Group will aim to cultivate new markets in the ultrapure water supply business.



Exploring business opportunities in North America

### 3 Optimize production systems and leverage the Group's network

#### FY2016/3 Review (Actual)

The Group launched cross-selling activities for Kurita Water Industries Ltd. and Kurita Europe APW GmbH (KEAG) products, through which it is leveraging the marketing networks of both companies. In addition, through intra-Group collaboration, in China the Group implemented measures to meet demand for blowdown water reclamation.

#### FY2017/3 Action (Measures)

In April 2016, KEAG and Kurita Europe GmbH (KEG) merged, creating the new KEG. On both the production and marketing fronts, the Group will strive to expand synergies globally with KEG.

In the water treatment facilities business, through optimal allocation of management resources, the Group will aim to overhaul its revenue and cost structure, thereby improving the profitability of its facilities business.



The Group focused on optimizing production systems

### 4 Improve capital efficiency

#### FY2016/3 Review (Actual)

The Group implemented capital investments totaling ¥18.8 billion, including ¥15.8 billion in assets for the ultrapure water supply business. The dividend payout ratio in FY03/16 was 44.3%

#### FY2017/3 Action (Measures)

Cash generated by the Group's businesses is being prioritized for use in the ultrapure water supply business and other businesses with superior potential. Furthermore, while considering M&A opportunities and share buybacks, the Company will work to limit increases in surplus cash and net assets. Based on such efforts, the Company will aim to achieve return on equity (ROE) that exceeds the cost of shareholders' equity on an ongoing basis.

Dividends	Targeted dividend payout ratio between 30% to 50% calculated on a five-year basis
Share buybacks	Prioritize investment in businesses, and consider share buybacks
M&A	Explore M&A and alliance opportunities in North America
Capital expenditures	Investment in the ultrapure water supply business, etc.
Use of cash	

## Review and Strategies by Segment

### Water Treatment Chemicals



## Building a Foothold to Becoming a World-Leading Group

By expanding Kurita's European business through a strategic acquisition, the Kurita Group has taken a significant step forward on the path to establishing a global platform built on four pivotal regions—Japan, Asia, Europe and the Americas.

From technology development to marketing strategy, the Group is pursuing synergies across a broad array of functions.

Executive Senior Managing Director and Representative Director  
General Manager of Chemicals Division

Koichi Iioka

#### Situation in the Fiscal Year Ended March 31, 2016

Sales by the Water Treatment Chemicals segment rose to ¥83.7 billion in the fiscal year ended March 31, 2016, compared with ¥60.0 billion recorded in the previous fiscal year. The main reasons for this large increase of ¥23.7 billion were progress in developing new markets in China and Southeast Asia as well as the new inclusion of Kurita Europe APW GmbH (KEAG)\* and its subsidiaries in the scope of consolidation.

Operating income generated by the Water Treatment Chemicals segment amounted to approximately ¥6.5 billion in the fiscal year ended March 31, 2016, a decrease of 17.9% compared with the previous fiscal year. The main reasons for this decrease were an increase in one-off expenses accompanying a review of the initial allocation amount of the acquisition price for the acquired business and the amortization of goodwill and technology-related assets accompanying the new inclusion of KEAG and its subsidiaries in the scope of consolidation.

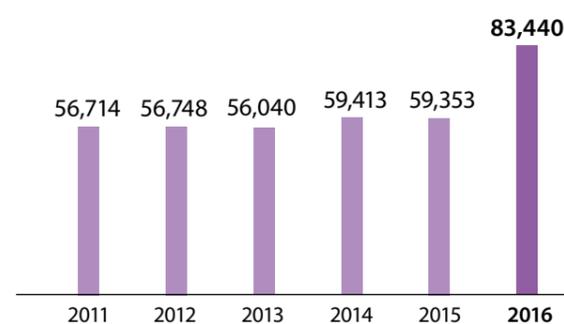
Another notable achievement in the results for the fiscal

year ended March 31, 2016, was the emergence of signs of a recovery in the Water Treatment Chemicals segment's domestic business. Progress in winning orders from new customers is helping to drive this recovery. By pursuing a continuation of this trend, we aim to reach the targets set under the CK-17 medium-term management plan.

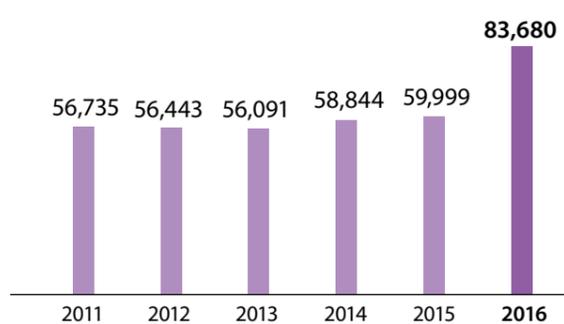
#### Market Environment

Production activity among domestic manufacturers—the Water Treatment Chemicals segment's core customer base—appears to be generally flat. We anticipate that this will lead to a further intensification of competition among market participants in the Japanese domestic market. In overseas markets, we expect China and other emerging economies in Asia to see a slackening of economic growth. Faced with these expectations of a difficult operating environment, we are determined to achieve growth by steadily leveraging the Group's capabilities, which have been bolstered by M&A.

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



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



#### Growth Strategy

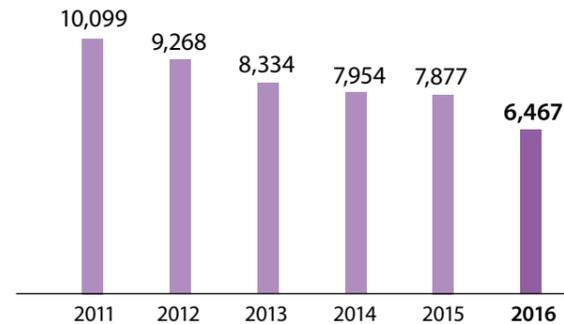
##### Proposing solutions that utilize IT

The outlook for Kurita's operating environment is opaque, both in Japan and in overseas markets. As we face a myriad of factors that may affect operating performance—including trends in the Chinese economy, foreign exchange rates and petroleum prices—to demonstrate our competitiveness and maintain growth, it is important that we adhere thoroughly to Kurita's stated philosophy of being a technology-driven company. To reinforce Kurita's foundations as a technology-driven company, we are working to strengthen our performance across a broad range of quality measures. Product quality is, of course, a priority area, but we are also focusing on the quality of our marketing activities, technical services and other areas. Leveraging the quality advances we achieve to build the Kurita brand, we are also pursuing the use of IT as one of the keys to bolster our profile in the global marketplace. In Japan, not only are we already using network technology to monitor such data and parameters as water quality and the volume of chemicals fed into a customer's system, but we are also analyzing the effectiveness of water treatment to automatically control the dosage. This is an example of our proprietary sensing technology, which realizes optimal water treatment. In the fiscal year ending March 31, 2017, we intend to expand the use of such technology globally, and focus on providing high-quality solution proposals that utilize IT.

##### Pursuing synergies with KEG

The strength of the Kurita Group's product lineup has been significantly bolstered by the birth of the new KEG Group based on Kurita's recent business acquisition. KEG possesses products that meet Europe's very demanding environmental regulations, as well as process chemicals for the pulp and paper industry, which Kurita has not handled much in the past. There is good potential for the Kurita Group to expand the marketing of such products not only in Europe but also in Japan and other Asian markets. From a cost competitiveness perspective too, we expect the KEG product portfolio to have substantial impact. Although Kurita has traditionally developed its own polymers in-house—polymers are a key base material for many products—manufacturing has been carried out by partner

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



companies. KEG has its own reactors for polymerization, and maintains a polymer-manufacturing system. This means that the Kurita Group is now able to pursue a business model based on in-house design and in-house manufacture. The Group can now choose base materials that correspond to customer cost requirements. We see the maximization of these kinds of synergies as a key task.

##### Developing promising products

In the fiscal year ended March 31, 2016, the Kurita Group launched three promising new products. The first of these products is a proprietary, polymer-based water treatment chemical for use in boilers. This product has been well-received due to its dual functions of dispersing and removing scale, which inhibits heat exchange in boilers. In the fiscal year ended March 31, 2016, we were able to expand sales of this product to approximately 600 customers. The second promising product launched is a revolutionary one that is effective in removing Legionella bacteria and preventing the bacteria from breeding. The third product is a chemical used in wastewater treatment. By combining it with Kurita's sensing technology, environmental burden may be reduced on a facility-wide basis. The product is provided as a chemical treatment program that contributes to overall cost reduction. Furthermore, Kurita has launched a portal website for customers, through which we are able to share analysis information with customers on water treatment. From July 2016, this website will also be available to overseas customers. For each of the abovementioned products, Kurita has already received key patents. The proprietary polymer used in boilers is proving particularly competitive since it boasts effects and results that are highly differentiated from competing products.

##### Promoting a global structure based on four key regions

Until now, Kurita has concentrated its R&D facilities—the source of the Group's products—in Japan. However, since the fiscal year ended March 31, 2016, Kurita has had an R&D facility in Europe through KEAG (currently KEG). The Kurita Group also has engineers stationed in Singapore. In the future, rather than working from the Japan market only as our R&D starting point we are aiming to build a structure that draws on the global market. We believe that it will become increasingly important to work closely with overseas customers when working on R&D. If we look at the global market as four key regions—comprising Japan, Asia, Europe and the Americas—at present the North American market is a relatively undeveloped region for Kurita. As we pursue the Group's CK-17 medium-term management plan, we are aiming to acquire and develop a business base in North America through M&As, including business alliances, stock acquisitions and business acquisitions.

As we work to become a leading global Group in the water treatment chemicals field, we are strengthening human resource training and development functions in each country of operation, particularly for our marketing and technical workforces. This will be a particularly important part of our efforts to expand globally.

## Review and Strategies by Segment

### Water Treatment Facilities

# Competing Successfully through Comprehensive Customer Proposals

Overseas, the Kurita Group won major project orders by leveraging its track record. Meanwhile, in Japan the Group focused efforts on projects with multiple components, which generate higher profit margins. Kurita is committed to pursuing a customer-centric service structure, and raising the level of value added by its business.

Managing Director  
General Manager of Facilities Division  
**Toshitaka Kodama**

#### Situation in the Fiscal Year Ended March 31, 2016

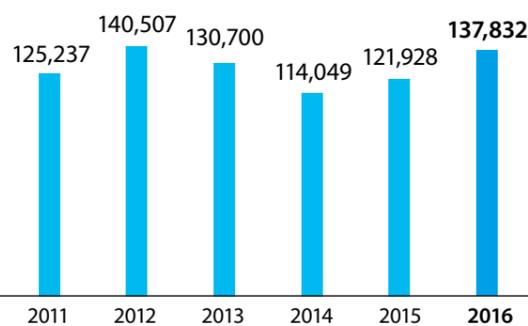
Overseas, large-scale orders in China, South Korea and Taiwan from liquid crystal display (LCD) and semiconductor manufacturers increased. In China particularly, the Group's advanced water treatment technology, which has a track record spanning many years in the market—and is backed by an extensive maintenance structure—is highly regarded. In projects for large-scale LCD factories, Kurita has gained a high market share. In the domestic market, there were increased orders for facilities that use dry methane fermentation technology—which recovers resources from waste—and increased orders from the food processing and electric power sectors. Sales of water treatment facilities, maintenance and services rose. This was particularly driven by sales to electronic component factories that produce smartphone-related products—a market segment that remained robust. With regard to operating income, the cost-of-sales ratio improved. Factors underpinning this trend included an increase in proposal-based projects—which have relatively high profit margins—efforts to reduce the cost of sales ratio

through cooperation between sales, design and engineering functions, and the conclusion of certain unprofitable overseas projects. As a result, in the fiscal year ended March 31, 2016, orders in the Water Treatment Facilities segment amounted to ¥137.8 billion, up 13.0% compared with the previous fiscal year. Sales by the segment increased 1.0%, to ¥130.7 billion, and segment operating income rose 15.6%, to ¥13.4 billion.

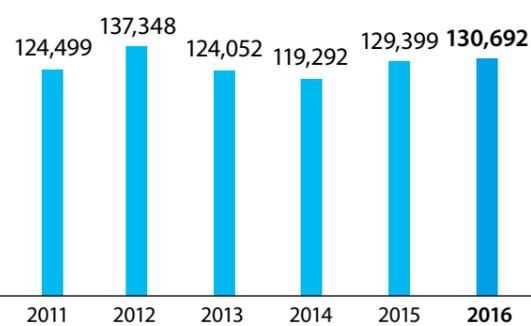
#### Market Environment

As of May 2016, in the domestic market, the electronics industry—which was robust during the fiscal year ended March 2016—is seeing a leveling out of demand for smartphones. Consequently, electronic component factories that supply smartphone-related parts are seeing a slight fall in capacity utilization. In other industries, orders from industries whose demand is domestic-driven—such as food processing and pharmaceuticals—are generally steady. In the industrial complex market, comprising such industries as steelmaking and petrochemicals—there is emerging demand for facility renewals, upgrades and repairs,

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



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



with the objective of enhancing efficiency. Such projects often involve multiple plants in a single project.

In overseas markets, in the fiscal year ending March 31, 2017, we anticipate a continuation of the favorable conditions seen during the previous fiscal year in the semiconductor and electronics industries in China, South Korea and Taiwan. However, the performance of these markets is expected to be somewhat less robust than the fiscal year ended March 31, 2016. In China, we anticipate an increase in capital investment in priority industries designated under national policies.

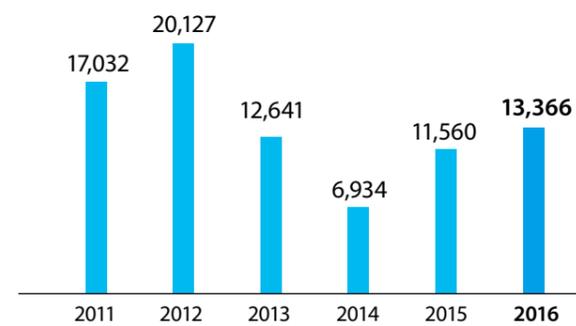
#### Growth Strategy

##### Pursuing four key policies

As we strive to generate future growth, the CK-17 medium-term management plan specifies four key policies. The first policy focuses on capabilities in the field—at the customer's site—and strengthening the competitiveness of Kurita's facilities services. Specifically, we will work closely with customers at their factories and production sites to gain a thorough understanding of their operations, and then provide integrated proposals that leverage IT. We will aim to meet a broad scope of customer needs, not limited to Kurita's traditional areas of feed-in water and wastewater treatment, but extending to such needs as energy savings reduction of environmental burden and cost reduction. We will work to provide high-value-added proposals that leverage Kurita's unique strengths, including such aspects as optimizing the overall water balance of a plant, and reducing total cost.

The second policy focuses on creating new businesses. As illustrated by our dry methane fermentation technology, we are striving to create new businesses by placing the spotlight on next-generation markets and converting these themes into tangible opportunities. The third policy focuses on the prevention of additional costs arising from quality defects. For the Kurita Group, as a provider of facilities, our ability to build and deliver something that performs to a superior quality standard after completion is a core issue. It has a major impact on both reliability and cost. The fourth policy focuses on developing a Group-wide production structure. We are aggressively promoting the autonomy and role expansion of our overseas operating companies, as we seek a form that will enhance the Group's cost competitiveness.

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



#### Agile service structure

Kurita's services are provided by teams comprising not only sales, design, maintenance service and engineering specialists but also members responsible for such areas as quality management and the formulation of design guidelines.

At present, we are bundling into one package a range of services spanning from sales to engineering and maintenance service, as we develop a one-stop system to meet customer needs. By consistently sharing customer information among functions, we aim to create a system that provides a sound guarantee of service quality. From an organizational management perspective, it could be argued that separating each function into its own discrete unit—for example, design or engineering—would raise production efficiency. However, such a structure is only suitable to periods of stability. For the Group's present situation—a period in which we are transforming ourselves into a truly global company—I believe that it is imperative that we strive to solve customer problems while working in highly responsive small teams.

For example, in the case of a food processing factory, products change on a relatively short time span. If the product changes, the base ingredients also change—along with the constituents of the wastewater. However, water treatment facilities cannot be easily replaced. We want to effectively demonstrate Kurita's know-how in responding precisely and flexibly to such changes through a one-stop service structure.

#### A partner with our customers

The domestic market is facing the onset of a shrinking population along with a trend toward decreasing capital investment by customers related to our business. If economic conditions in our main overseas markets—China, South Korea and Taiwan—were to deteriorate, there is the likelihood that the Kurita Group would suffer adverse effects. In this environment, I believe that we must work constantly to maintain the competitive advantages of our technology and proposals. To achieve this, we have adopted "changing our selling methods" as a key theme of the Water Treatment Facilities business. For example, if a customer is considering the introduction of water treatment facilities at several domestic plants, rather than delivering made-to-order facilities built from scratch on an individual basis to each plant, we would be oriented toward providing all the plants with modular, standardized facilities. This would contribute to a reduction in total cost to the customer. Alternatively, rather than simply delivering facilities, we may win an order by providing a comprehensive proposal. This may typically involve installing water quality measurement equipment at a customer's factory, and then using the data obtained to formulate a proposal that would reduce losses in water quality across the entire factory.

We aim to raise our contributions to the businesses of our customers, and enhance our capabilities as a trusted business partner.

## Technology-Driven Kurita Group Underpinned by Strong R&D

The Kurita Group strives to be a technology-driven company. In the water and environmental management field, the Group responds to a wide range of needs within industry and society as a whole. These include needs related to reducing environmental burden, resource recycling, and enhancing productivity. Kurita is working to develop products, technologies and new businesses, which will contribute to the realization of a sustainable society.

### Measures under the Competitive Kurita 2017 (CK-17) Medium-Term Management Plan

Under the CK-17 medium-term management plan, the Kurita Group aims to develop world-leading technology in such core business fields as ultrapure water production, boiler and cooling water treatment, and wastewater reclamation. In eight core technology fields that form the foundations of the Group's products, Kurita will carry out research in such areas as new analysis technologies as well as new materials and novel mechanisms, which will underpin innovative products. Hence, the Group is working to further cultivate its core technologies and generate innovation in those fields. Furthermore, by expanding development synergies with the Group's recently acquired business in Europe, Kurita is working to strengthen its product lineup in overseas markets.

#### Core Technology Focus Areas

Analysis

Corrosion prevention and dispersion

Coagulation and flocculation

Sterilization and bacteriostasis

Biological engineering

Adsorption and deionization

Membrane separation and filtration

Surface treatment



The Kurita Global Technology Center carries out a comprehensive range of activities, from research aimed at further cultivating the Group's core technologies to new product development and technical support.

### Results during the fiscal year ended March 31, 2016

In the fiscal year ended March 31, 2016, one of the Group's key product development cases was the integration of polymer synthesis technology held by the business Kurita acquired in Europe. This led to the development of a corrosion prevention and scale prevention agent, which boasts high cost competitiveness matching the cooling-water quality needs of the industrial-complex market in the Asia region. The Group also developed a dry methane fermentation system, which separates material suitable for fermentation from general waste, ferments this material, and recovers methane gas as an energy resource. Furthermore, the Group developed an integrated water treatment management system, which combines chemicals and facilities related to water treatment with IT and sensing technology. The Group also developed a water treatment improvement tool, which makes it easy to carry out simulations of the water and energy savings achieved through the introduction of water treatment chemicals and facilities, and enables the Group to present the results to customers.

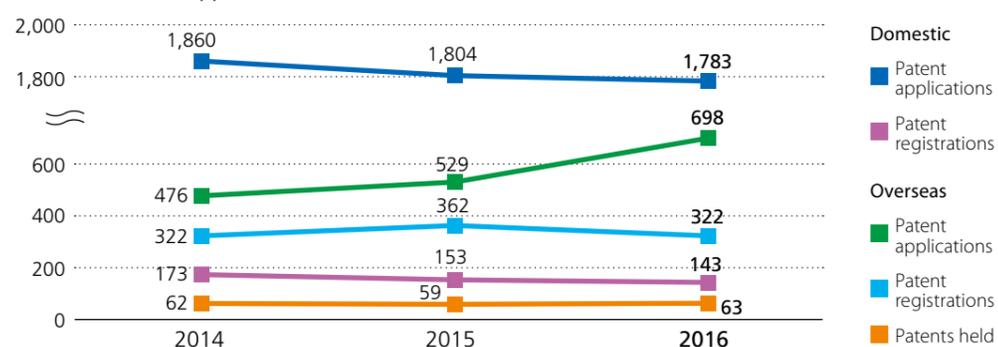


The Group is working to strengthen its product lineup by leveraging the development capabilities of Kurita Europe GmbH.

### Utilization of intellectual property

The Kurita Group aims to strengthen the competitiveness of its core products and technologies by utilizing its portfolio of intellectual property in Japan and abroad. Accompanying expansion of the Group's overseas business, Kurita is striving to build a patent strategy that has a close fit with the Group's overseas business strategy. This process is being underpinned by measures to strengthen the Group's technology information management system, including at overseas Group companies. The Group is also working to reduce the risk of technology leaks. In the fiscal year ended March 31, 2016, the number of patents held by the Group increased substantially due to the transfer of registered patents held by the business Kurita acquired in Europe.

Number of Patent Applications and Patents Held For the years ended March 31



## Accomplishment of Social Responsibility

The Kurita Group 21st Century Vision, which is based on our corporate philosophy and comprises the Corporate Vision, Management Guidelines, and Code of Ethical Conduct, encapsulates the dream of how we want the Kurita Group to be. We set the "accomplishment of social responsibility" as one of the six Management Guidelines in the 21st Century Vision. The Kurita Group will comply with laws and regulations in accordance with social ethics, and in all our business activities, and we will continue to build transparent and fair relationships with shareholders and investors, employees, customers, suppliers and local communities.

Furthermore, the Corporate Governance Policies adopted in October 2015 declare the importance of the rights and positions of various stakeholders. The policies are based on an awareness that collaboration with diverse stakeholders is essential when striving to carry out the corporate philosophy and seeking sustainable growth as the Kurita Group resolves issues relating to the sustainability of society and industry.



## Building Transparent and Fair Relationships with Stakeholders



### Management that Respects Shareholders

**Shareholders and Investors P.25**

- We strive to provide timely disclosure of necessary and sufficient information from the perspective of shareholders and investors.
- We aim to maintain shareholder support through realization of capital efficiency-focused management and appropriate shareholder returns.



### Emphasis on Safety and Quality

**Customers P.28**

- We strive to provide our customers with excellent products, technologies and services that can meet their safety and quality expectations.



### Sound Relationship with Suppliers

**Business Partners P.29**

- We strive to maintain transparent and fair business transactions based on free competition. In our dealings with our suppliers, we aim to strengthen relationships of mutual trust with an emphasis on the autonomy, profits, and the assets of both companies.



### Building New Relationships with Employees

**Employees P.26-27**

- We treat employees mainly according to their duties, capabilities and achievements, with the aim of promoting employees' enthusiasm for work in the era of globalization.
- We strive to provide a diverse range of employment styles for employees to choose from. We aim to create an enthusiastic work environment that allows employees to select a working style that enables them to draw upon their abilities and suits their qualifications and stage in life.



### Activities as a Good Corporate Citizen

**Natural Environment and Local Communities P.30-32**

- We develop products, technologies and services that contribute to meeting global challenges such as the conservation of the natural environment and the effective use of resources; we propose and provide customers with solutions that improve the environment; and we implement initiatives and disclose outcomes for reducing the environmental impact within Kurita. We aim to achieve acknowledgement and recognition for these initiatives from involved parties and to earn enduring social trust.
- In addition to contributing to society through business, we aim to be highly valued by society by actively using the insight and expertise built up through business to give back to society.
- Kurita conducts business in a manner that respects biodiversity and sustainability.

# Corporate Governance

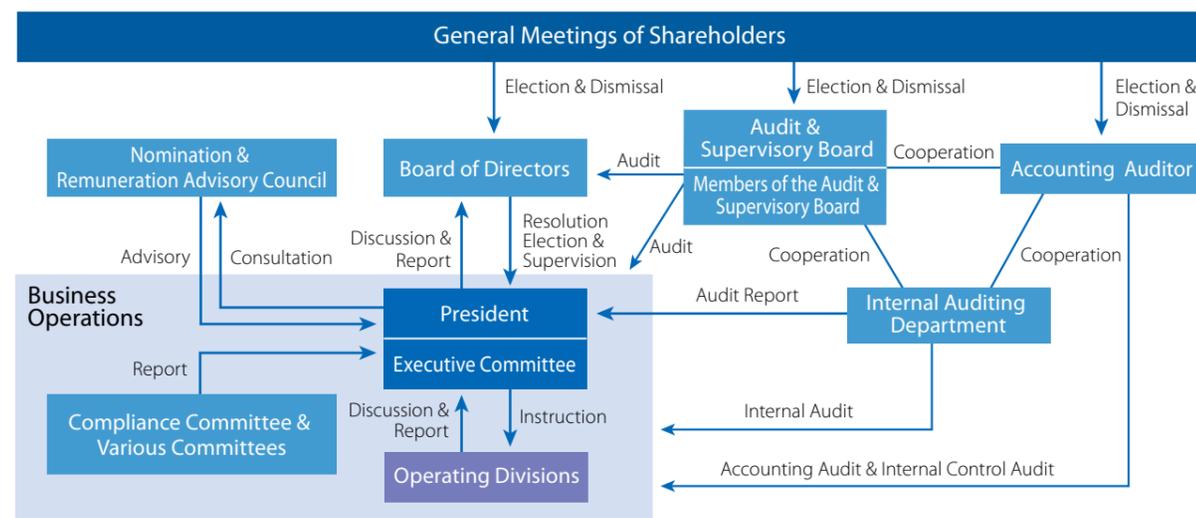
## Initiatives of Enhancing Corporate Governance and Improvements

Based on its corporate philosophy, the Kurita Group works to establish corporate governance with the aims of carrying out transparent, fair, prompt, and decisive decision-making and highly effective management supervision in order to achieve sustainable growth and raise corporate value. In the fiscal year ended March 31, 2016, we announced establishment of the Corporate Governance Policies and implemented a variety of governance reforms.

### Reinforcing Oversight Functions of the Board of Directors

Kurita Water Industries Ltd. positions the Board of Directors as the body that determines the Kurita Group's strategic direction for sustainable growth, makes decisions on important matters relating to operational execution in light of that direction, and oversees operational execution. In the fiscal year ended March 31, 2016, the Board reviewed the scope of determinations and decision making as well as the scope of delegation to executives so that the Board can focus its deliberations on important matters and more effectively performs its functions. As a result, the Board will determine matters relating to management measures and policies, strategies, targets, and priority measures for management plans major financing and business transfers, and other important matters relating to the execution of business, while decisions concerning operational execution other than those important matters will be delegated to an Executive Committee made up of executives. This review has led to adjustment of matters to be discussed by the Board and more active deliberations, but this measure is still under way, and additional delegation of authority from the Board to personnel who carry out business operations is planned to reinforce the functioning of the Board even further.

### Corporate Governance Structure



### Composition of the Board of Directors

The Board of Directors comprises three or more members, of which two or more are external directors, ensuring the independence and objectivity of the Board. The Board currently has 11 directors, of which two are external directors. To carry out highly effective oversight functions regarding the execution of business, the Board has members from each business segment as well as specialized personnel from corporate planning, finance and accounting, legal affairs, technology, and other fields, creating a structure that augments the knowledge and experience needed by the Board as a whole to make decisions.

Directors hold office for one year. This is intended to make the Company more responsive to changes in the market environment, foster a greater sense of managerial urgency among directors, and facilitate flexible and timely changes to the management structure as needed. Also, full-time directors are not permitted to serve as directors or members of the

### Matters Relating to Directors and the Board of Directors (June 29, 2016)

Number of directors specified under the Articles of Incorporation	3 or more No maximum number specified
Term of appointment of directors under the Articles of Incorporation	1 year
Chair of the Board of Directors	President
Number of directors	11
Number of external directors (within the total above)	2
Number of independent officers specified within external directors	2
Number of Board of Directors' meetings held (fiscal year ended March 31, 2016)	11

Audit & Supervisory Board of other listed companies. Part-time external directors are not permitted to serve as directors or members of the Audit & Supervisory Board of more than three listed companies including Kurita.

### Adoption of Audit & Supervisory Board System

Kurita Water Industries Ltd. employs the Audit & Supervisory Board system. The Audit & Supervisory Board currently comprises three members, of which two are external members. Members of the Audit & Supervisory Board hold office for four years, and the restrictions on concurrent service as the same as those for directors. Number of members of the Audit & Supervisory Board specified is three or more. At least one member of the Audit & Supervisory Board shall have sufficient insights and knowledge about finance and accounting.

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. Members of the Audit & Supervisory Board attend important meetings including Board of Directors' and Executive Committee meetings and express opinions from independent perspectives.

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

Kurita Water Industries Ltd. 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 Group companies, identifies issues and problems in operational execution, and provides recommendations to the president on improvement measures.

The Company has appointed Grant Thornton Taiyo LLC as its accounting auditor. The Audit & Supervisory Board

### Matters Relating to Members of the Audit & Supervisory Board and the Audit & Supervisory Board (June 29, 2016)

Number of members of the Audit & Supervisory Board specified under the Articles of Incorporation	3 or more No maximum number specified
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 specified within external members of the Audit & Supervisory Board	2
Number of Audit & Supervisory Board meetings held (fiscal year ended March 31, 2016)	11

nominates candidate accounting auditors, makes decisions on proposed resolutions regarding appointment, dismissal, and refusal of reappointment of the accounting auditor, and the Board of Directors submits those proposed resolutions to the General Meeting of Shareholders based on the decisions of the Audit & Supervisory Board.

The Company creates opportunities for discussions by the president, General Managers of Business Divisions, General Manager of the Administrative Division, General Manager of the Corporate Planning Division, and external directors with the accounting auditor and facilitates appropriate cooperation. 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 even closer collaboration.

### Increase in the Number of External Directors

Kurita Water Industries Ltd. increased the number of external directors from one to two at the General Meeting of Shareholders held in June 2015. The Board of Directors valued the increased dynamism of its deliberations following the appointment of Seiji Nakamura in June 2013 and decided to increase the number of external directors further in order to ensure the independence and objectivity of the Board.

### Criteria for Determining the Independence of Independent External Directors

Criteria for judging the independence of independent external directors The criteria for judging the independence of independent external directors in selecting candidates shall be that the candidates for independent external directors and their close relatives<sup>1</sup> must not fall under any of the following items.

1. A person who currently executes the operations of the Company or its subsidiary or has executed such operations in the past 10 years
2. A person whose major business partner is currently the Company<sup>2</sup> or was the Company at some time during the past year, or an individual who executes the operations of this party
3. A current major business partner of the Company<sup>3</sup> or a major business partner at some time during the past year, or a person who executes the operations of the major business partner
4. 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
5. A current major shareholder of the Company<sup>4</sup> or a person who executes the operations of a major shareholder
6. A person who executes the operations of an organization in which an external officer also currently assumes office (the person only)
7. A person who executes the operations of an organization to which the Company currently makes a donation (the person only)

#### Notes

1. The term "close relatives" means relatives within the second degree of kinship.
2. The term "person whose major business partner is the Company" means a person whose sales in transactions with the Company make up 10% or more of that person's net sales.
3. The term "major business partner of the Company" means a business partner with whom the Company's sales in transactions make up 2% or more of the consolidated net sales of the Company, or a business partner from which borrowings make up 1% or more of the consolidated total assets of the Company.
4. The term "major shareholder of the Company" means a shareholder who has voting rights that account for 10% or more of the voting rights of the Company.

Consequently, Tsuguto Moriwaki was also appointed as an external director.

The roles that the Company expects its external directors to perform are to utilize their reliable knowledge and management sensibilities developed through managerial experience and express opinions from a long-term perspective. At the same time, we also expect external directors to express their candid opinions from independent perspectives regarding nomination of director candidates, director remuneration, and other important decisions made by the Board of Directors.

The Company will continue looking into increasing the number of external directors with the aim of further reinforcing the functioning of the Board of Directors.

#### Creation of Nomination and Remuneration Advisory Council

Kurita Water Industries Ltd. established a Nomination and Remuneration Advisory Council in October 2015. The Council comprises the president, the two external directors, and the one full-time external Member of the Audit & Supervisory Board. When the president presents candidates for director, representative director, or executive director to the Board of Directors, the president consults in advance with the Council and obtains advice concerning the appropriateness of the candidates.

With regard to the procedures for determining the remuneration of directors and members of the Audit & Supervisory Board, when the president makes proposals to the Board of Directors concerning the remuneration systems and levels for directors and members of the Audit & Supervisory Board as well as performance evaluations of directors, the president consults in advance with the Council and obtains advice concerning the appropriateness of those proposals.

The establishment of these new procedures is an attempt to review the scope of matters entrusted to the president and enhance the transparency of the decision-making process. Going forward, we will investigate further changes to systems as necessary while focusing on the effectiveness of improvements to transparency through the application of these procedures.

#### Review of the Officer Remuneration System

In the fiscal year ended March 31, 2016, the officer remuneration system of Kurita Water Industries Ltd. consisted of base remuneration in the form of a standard annual salary as well as performance-linked remuneration. A certain proportion of the standard annual salary is paid to the Directors' and Members' of Audit & Supervisory Board Shareholding Scheme and allocated for purchasing the Company's shares, but the proportion of performance-linked remuneration is low.

With regard to the officer remuneration system, when

the Company adopted the Corporate Governance Policies in October 2015, the need to lower the proportion of fixed remuneration and increase incentives through performance-linked remuneration was confirmed, and the system was modified at the February 2016 Board of Directors' meeting to increase the proportion of remuneration accounted for by performance-linked remuneration for directors with executive functions. At the time of this change, performance-linked remuneration for external directors and members of the Audit & Supervisory Board, who perform oversight functions, was eliminated and other changes were made to make the officer remuneration system more appropriate. In addition, detailed provisions were established regarding the structure of officer remuneration, evaluation criteria, and calculation methods and transparency was enhanced in the determination of officer remuneration. Furthermore, the Board of Directors decided in April 2016 to introduce a performance-linked stock compensation program that grants stock to officers at the time of their retirement as a long-term incentive.

These programs were launched following approval by the General Meeting of Shareholders in June 2016.

#### Clarification of Policies regarding Capital Efficiency

The Kurita Group has engaged in discussions regarding capital efficiency and shareholder returns within its dialogues with shareholders and investors over many years. In light of this background, the Kurita Group Corporate Governance Policies established in October 2015 clarify the Group's policies regarding capital measures.

Those measures provide for striving to maintain return on equity (ROE) at levels above the cost of shareholders' equity and continuing to increase dividends while keeping the dividend payout ratio for the most recent five years within the 30% to 50% range. We view maintaining ROE above the cost of shareholders' equity as our minimum duty as a stock company and will make efforts to raise ROE even further by utilizing internal reserves for promising business investments while providing appropriate returns to shareholders.

#### Strategic Cross Holdings of Stock

Kurita Water Industries Ltd. holds stock of listed companies as strategic cross holdings in order to strengthen business relationships. To minimize the risks of holding listed stock, we verify relationships with the companies whose stock the Company holds as well as the risks of holding those stocks periodically and at other times as necessary, and the Board of Directors continuously reviews the appropriateness of holdings.

When exercising voting rights of such stock, we make determinations whether to vote in favor of or against each resolution from the perspective of whether it will contribute to increasing the stockholder value of the Company.

## Board Evaluation

All Kurita directors and members of the Audit & Supervisory Board performed analysis and evaluation of the effectiveness of the Board of Directors, and the Board of Directors adopted a resolution on the assessment results. The assessment results from the Board meeting held on March 30, 2016 are as set forth below.

#### Analysis and Evaluation Method

The evaluation was performed by conducting a written survey (with respondents identified), and following tabulation, the results were discussed by the Board of Directors. Through the survey and deliberations, the Board identified problems and set issues and measures for the future.

The assessment items are in six areas: (i) roles and responsibilities of the Board of Directors, (ii) collaboration with external directors and external members of the Audit & Supervisory Board, (iii) composition of the Board of Directors, (iv) operation of the Board of Directors, (v) contributions of individual directors and members of the Audit & Supervisory Board, and (vi) dialogue with shareholders. The period covered by the evaluation is in principle the one year from January to December of the preceding year, but this time, the period was the three months from October to December 2015, the period following adoption of the Corporate Governance Policies.

This was a first attempt at analysis and evaluation of the Board of Directors, and going forward the Board will review the implementation methods and investigate more effective methods.

#### Evaluation Results

The average self-evaluation of the directors and members of the Audit & Supervisory Board was generally good in all six areas, and a determination was made that the Board of Directors is functioning effectively. With regard to the "strategic deliberations within the Board" and "constructive deliberations that seek to carry out business plans" evaluation items, however, there were substantial disparities among the self-evaluations of individual directors and members of the Audit & Supervisory Board. The external directors also indicated that "setting longer-term goals and deliberation on strategic proposals" and "deliberations for more specifically carrying out policies" are inadequate.

This evaluation of the effectiveness of the Board of Directors was conducted for the first time after adoption of the Kurita Group Corporate Governance Policies in October 2015. The oversight program concerning the plan for a successor to the president and the mechanisms regarding the director remuneration program are still being developed, and verification and confirmation of the results is still inadequate, so as a result, evaluations of these items were relatively low.

#### Issues and Measures

Among the mechanisms that are still under development, a Nomination and Remuneration Advisory Council was established in October 2015. The Council comprises the president, the two external directors, and the one full-time external Member of the Audit & Supervisory Board. It was established as a mechanism for reporting on the suitability of candidates for director, representative director, and executive director. With regard to officer remuneration, when the Corporate Governance Policies were adopted in October 2015, there was an awareness that it is necessary to decrease the percentage of fixed remuneration and increase incentives created by performance-linked remuneration. In response, reforms to remuneration systems were launched in June 2016.

Issues to be addressed in the future include improvement regarding "setting longer-term goals and deliberation on strategic proposals" and "deliberations for more specifically carrying out policies," and we believe that it will be necessary to implement further reinforcement so that the Board of Directors can focus deliberations on priority issues. To achieve this, we plan to reinforce operations execution systems and transfer authority from the Board of Directors to personnel who carry out business operations.

## Risk Management

The Kurita Group defines a risk as any event that makes uncertain the sustainable growth and increase in corporate value of the Group. We identify risks that need to be addressed and take measures to avoid and mitigate risks in order to minimize losses and damage caused by risks.

The General Manager of the Corporate Planning Division is the responsible officer with regard to monitoring risks and implementing risk management within the Kurita Group. The General Manager regularly conducts risk analysis and evaluation, conducts ongoing monitoring, and takes steps to prevent risks from occurring. If a risk that could have a serious impact on management occurs, the General Manager formulates systems with the officials responsible for responding to the risk, obtains approval from the president, and immediately issues orders. The officials responsible for responding to the risk promptly take action and report to the president and the General Manager of the Corporate Planning Division regarding the status of the effects of the risk, remediation and measures to prevent reoccurrence.

Among serious risks, those related to compliance are the

responsibility of the representative director as Compliance Committee head, while those related to health, safety and disasters are the responsibility of the Headquarters Health and Safety Committee head, with this committee. The General Manager of the Corporate Planning Division reports periodically to the Board of Directors on the status of risk management implementation and reports as necessary to the Board of Directors and the Audit & Supervisory Board on the occurrence and effects of serious risks. Monitoring of the execution status and improvement status of risk management is conducted by the Internal Auditing Department.

The general manager of each business division is responsible for responding to risks directly associated with day-to-day business operations. Also, responding to risks relating to quality, the environment, information security, export controls, and so on are handled by the respective responsible divisions.

In conjunction with the increase in risks resulting from the expansion of overseas business, the Kurita Group is currently working to reinforce its risk management, including at overseas companies added to the Group through acquisitions.

## Internal Control Systems

In May 2006, the Board of Directors of the Kurita Group adopted a resolution on and formulated the Fundamental Policy Regarding the Establishment of Internal Control Systems in accordance with the requirements of Japan's Companies Act. Since then, the Board has continuously developed and operated such internal control systems. The Fundamental Policy Regarding the Establishment of Internal Control Systems is revised as necessary by Board of Directors' resolution.

The Kurita Group Internal Control Systems are broadly divided into systems for ensuring the appropriateness of operations and systems for ensuring the effective implementation of audits by the Audit & Supervisory Board, and these systems are established and appropriately operated. With regard to the former, Kurita has established systems to: (i) ensure that the execution of duties by directors and employees complies with laws, regulations, and the Articles of Incorporation, (ii) preserve and manage information relating to the execution of duties by directors, (iii) establish rules and systems relating to management of the risk of loss, (iv) ensure the efficient execution of duties by directors, and (v) ensure the appropriate performance of business by the corporate group comprising the Company and Group companies. Concerning the latter, Kurita has established systems concerning (i) matters relating to employees who support the execution of duties by members of the Audit & Supervisory Board, and

(ii) reporting by directors and employees of the Company and Group companies to the Audit & Supervisory Board.

To ensure that financial reporting is carried out appropriately, the Kurita Group established divisions at each company that have responsibility for creating, operating and improving the internal controls relating to financial reporting. The Company's Finance and Accounting Department in the Administrative Division oversees these divisions. Furthermore, the Company created an Internal Control Reporting System in accordance with the Japanese Financial Instruments and Exchange Act. This system is monitored by the Internal Auditing Department under the oversight of the president, and the department provides recommendations and support for improvements. In addition, the Finance and Accounting Department in the Administrative Division shares responsibility for monitoring, as well as recommendations and support for improvements from the perspective of effective and efficient evaluation of the "financial reporting process control of consolidated subsidiaries from a company-wide perspective." As of March 31, 2016, the Kurita Group's internal controls in relation to financial reporting have been determined to be effective, and after auditing by the accounting auditor, an internal control report to that effect has been submitted to the Kanto Local Finance Bureau of the Ministry of Finance Japan.

[Information about the Fundamental Policy Regarding the Establishment of Internal Control Systems for the Kurita Group is available on the Company's website in the "Basic Policies for Constructing an Internal Control System" under "About Us, Corporate Governance."](#)

## Compliance

The Kurita Group treats compliance activities as more than just abiding by laws. In an effort to achieve the five values of fairness, transparency, integrity, safety and compatibility described in our Code of Ethical Conduct established in 2000, we have established the Basic Principles and Compliance Guidelines to Practice Ethical Conduct to fully enforce the observation of compliance with laws, regulations and social ethics in our daily business activities.

### Framework for Promotion

The Company has established the Compliance Committee, which is chaired by the representative director, and the Group Compliance Committee, which is also chaired by abovementioned representative director and whose members are the representatives of domestic Group companies. In these committees, the Group sets out policies and important measures for compliance activities, and conveys them to all employees through subcommittees at each headquarters division, business division, and Group company.

### Compliance Surveys

Compliance Behavior Surveys are conducted once a year on the employees of the Company and the domestic Group companies. Additionally, in 2015 Compliance Awareness Surveys were also being conducted on the employees of the overseas Group companies. The Company, through these surveys, monitors the level of compliance awareness and the implementation of compliance behavior among employees. Issues that become apparent through analysis of survey results are reflected in compliance activity plans, and utilized in initiatives to solve compliance issues.

### Initiatives to Prevent Bid-Rigging and Cartels

In 2006, the Kurita Group withdrew, in principle, from all construction projects ordered by the national government and local public entities to ensure no recurrence of violations of the Antimonopoly Act (cartels). Exceptions to this principle are limited to projects involving facilities delivered by the Company subject to ongoing maintenance and management work by Group companies, which are executed by obtaining the approval of the Board of Directors on a case-by-case basis. We also forbid participation and membership of trade associations in order to exclude all dealings with associates.

### Initiatives to Ensure Observance of the Subcontract Act

Since 2008, the Company has been conducting Surveys on Transactions with Kurita Water Industries Ltd. once a year on suppliers who fall under the category of subcontractors as provided in the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (Subcontract Act). The Company is promoting fairer transactions and building a relationship of mutual trust and cooperation by continuously improving its transactions and its methods of transactions based on the opinions and suggestions voiced by its suppliers.

### Whistle-Blower Protection Rules

The Group and its domestic Group companies have established the Public Interest Whistle-Blower Protection Rules and maintain consultation desks both within the Group and at outside organizations, in an effort to protect persons who consult or make reports and to achieve early detection of dishonest practices. Starting from April 2016, the Kurita Global Helpline, which allows employees of overseas Group companies to make reports to the consultation desk, has also commenced operation.

### Prohibition of the Provision and Acquisition of Profits

The Kurita Group, in accordance with the Code of Ethical Conduct and the Compliance Guidelines, prohibits illegal gifts or payment, and giving and receiving unjust profits either in a monetary or non-monetary form.



Scene from the Compliance Committee

## Directors and Members of the Audit & Supervisory Board

As of June 29, 2016

### Directors



Chairman and Director  
**Toshiyuki Nakai**

2016 Chairman and Director (to present)  
2011 President Representative Director  
2009 President and Representative Director, Kurita Engineering Co., Ltd.  
2005 Director  
1979 Joined Kurita Water Industries Ltd.



President and Representative Director  
**Michiya Kadota**

2016 President Representative Director (to present)  
2014 Director  
2013 Executive Officer  
1983 Joined Kurita Water Industries Ltd.



Executive Senior Managing Director and Representative Director  
**Koichi Iioka**

2016 Executive Senior Managing Director and Representative Director (to present)  
2013 Managing Director General Manager of Chemicals Division (to present)  
2011 President and Representative Director, Kuritec Service Co. Ltd.  
2007 Director  
2005 Executive Officer  
1975 Joined Kurita Water Industries Ltd.



Managing Director  
**Kiyoshi Itou**

2016 General Manager of Administrative Division (to present)  
2013 Managing Director (to present)  
2009 Director  
2007 Executive Officer  
1979 Joined Kurita Water Industries Ltd.



Managing Director  
**Takahito Namura**

2016 Managing Director (to present)  
2014 General Manager of Research and Development Division (to present)  
2011 Director  
2009 Executive Officer  
1977 Joined Kurita Water Industries Ltd.



Managing Director  
**Toshitaka Kodama**

2016 Managing Director (to present)  
General Manager of Facilities Division (to present)  
2014 Director  
2011 Executive Officer  
1977 Joined Kurita Water Industries Ltd.



Director  
**Yoshio Yamada**

2016 General Manager of Sales Group I, Chemicals Division (to present)  
2014 Director (to present)  
2011 Executive Officer  
1982 Joined Kurita Water Industries Ltd.



Director  
**Ikuo Ishimaru**

2016 Director (to present)  
General Manager of Global Quality Group, Facilities Division (to present)  
2013 Executive Officer  
1984 Joined Kurita Water Industries Ltd.



Director  
**Hirohiko Ejiri**

2016 Director (to present)  
General Manager of Corporate Planning Division (to present)  
2014 Executive Officer  
1985 Joined Kurita Water Industries Ltd.



Director\*  
**Seiji Nakamura**

2013 External Director of Kurita Water Industries Ltd. (part-time)  
(to present)  
2007 Member of the Policy Board of the Bank of Japan (to 2012)  
2003 President and Representative Director of MOL Ferry Co., Ltd.  
2000 Executive Vice President and Representative Director of Mitsui O.S.K. Lines, Ltd.  
1965 Joined Mitsui O.S.K. Lines, Ltd.



Director\*  
**Tsuguto Moriwaki**

2015 External Director (part-time) of Kurita Water Industries Ltd. (to present)  
2004 President & CEO of Shinsho Corporation  
2002 Executive Vice President & Representative Director of Kobe Steel, Ltd.  
1999 President & CEO of Kobelco Construction Machinery Co., Ltd.  
1967 Joined Kobe Steel, Ltd.

\* External Director

### Members of the Audit & Supervisory Board



Member of the Audit & Supervisory Board  
**Shiro Hayashi**

2012 Member of the Audit & Supervisory Board (to present)  
2009 General Manager of Personnel and Labor Relations Department, Administrative Division  
1977 Joined Kurita Water Industries Ltd.



Member of the Audit & Supervisory Board\*\*  
**Kenjiro Kobayashi**

2016 External Member of the Audit & Supervisory Board (to present)  
2010 Representative Director and Executive Vice President of Japan Industrial Solutions Co., Ltd.  
1977 Joined Japan Development Bank (currently Development Bank of Japan Inc.)



Member of the Audit & Supervisory Board\*\*  
**Tamio Uda**

2009 External Member of the Audit & Supervisory Board (part-time) (to present)  
1977 Established Harada Uda Law Office (currently Uda Law Office)  
1974 Admitted to the Japan Bar Association

\*\* External Member of the Audit & Supervisory Board

## Management that Respects Shareholders

The Kurita Group Management Guidelines specify management that respects shareholders. Based on this, the Kurita Group proactively listens to the opinions of shareholders and continuously establishes structures and takes measures to promote constructive dialogue with shareholders so that we can contribute to sustainable growth and raising corporate value over the medium to long term.

### System for Promoting Dialogue with Shareholders and Investors

The General Manager of the Corporate Planning Division has overall responsibility for constructive dialogue with shareholders and investors. A specialized investor and shareholder relations section was established within the Corporate Planning Division and full-time investor and shareholder relations staff have been assigned to that organization to support the General Manager.

The General Manager of the Corporate Planning Division created an IR and SR liaison group made up of personnel from the Corporate Planning Division, General Affairs Department, and Finance and Accounting Department to ascertain and collect important internal information and appropriately manage that information. The group shares and manages information and provides information necessary for dialogue. The General Manager also provides feedback to the Board of Directors concerning the opinions and concerns of shareholders learned through such dialogue periodically and at other times as necessary.

### IR Activities for Institutional Investors

Kurita holds financial results briefings for securities analysts and institutional investors at the time of second quarter and full-year financial results where the president and relevant directors explain the results and answer questions. Teleconferences are also held at the time of the first and third quarter financial results to explain the results and answer questions.



Kurita is striving to ensure the fairness of information access by leveraging its IR site.

The materials used at these briefings as well as summaries of the questions and answers are posted on an investor relations website to ensure the timely and fair disclosure of information. In addition, IR and SR staff conduct individual meetings with securities analysts and institutional investors on a regular basis except during quiet periods.

For foreign shareholders and investors, the president and General Manager of the Corporate Planning Division conduct roadshows in Europe, North America, and Asia, and the General Manager of the Corporate Planning Division participates in domestic conferences.

### IR Activities for Individual Investors

For individual investors, a shareholder briefing is held after the General Meeting of Shareholders and a briefing is conducted. To ensure that no disparities occur in the information available to institutional investors and individual investors, full-time IR and SR staff respond to telephone and email inquiries from individual investors.



Briefing session for individual investors

### Activities Relating to Shareholder Relations

Kurita full-time IR and SR staff visit major shareholders in Japan and create opportunities to discuss management policies and corporate governance. Kurita explains the direction of management and reports on the implementation and status of improvement of corporate governance, while shareholders express their opinions and requests regarding management and discuss policies on the exercise of voting rights, and opinions are exchanged. Feedback regarding the opinions and requests expressed is provided to the president and other directors, and those opinions and requests are reflected in various management policies.

## Building New Relationships with Employees

The Kurita Group believes that enabling employees to choose employment styles that support self-realization according to their stage in life and the ability to work with passion are requirements for sustainable growth, and consequently, we conduct human resource development and create systems to achieve these objectives.

### Developing Human Resources

The Kurita Group has traditionally recommended that employees tackle the challenges of extending their own capabilities at all stages of their careers. We strive to enable employees to grow into professionals so that they can create and develop Kurita's proprietary products, technologies and services as they find solutions to the issues facing customers and society.

### Self-Reporting System

Kurita Water Industries Ltd. has established a system where employees can report their preferred working style and career formation to the Company. Once a year, employees discuss the suitability of their current duties, their preferred path for the future, their family situation and more with their superiors so that the Company can understand the thinking of each individual, which is utilized in training.

### Opportunities for Personal Development

In business areas where the Company has a need, Kurita Water Industries Ltd. has a paid study sabbatical system that provides employees with opportunities to study at educational institutions and research institutions in Japan and overseas as well as a scholarship program that provides educational expenses to students who meet the requirements. We also conduct global training that includes language instruction with the aim of developing human resources who can function anywhere in the world as well as internal training such as specialized skills courses taught by internal instructors who are experts in various technical fields. Additionally, we offer more than 200 distance learning and classroom-based courses to enable employees to acquire a wide range of knowledge and skills.

### Measures to Enhance Group Human Resource Capabilities

As the Kurita Group expands into a global business, it is necessary to enhance human resource capabilities under unified Group policies. Starting in the fiscal year ending March 31, 2017, a variety of educational opportunities are being provided to the human resources that will serve at the center of business operations at overseas Group companies in the future. At domestic Group companies, measures are taken to enhance human resource capabilities such as Group-wide new employee training.

### Employment of Diverse Personnel

The Kurita Group seeks to employ diverse personnel with the right person in the right job so that each employee can fully exhibit their capabilities.

### Measures to Promote Active Female Participation

Kurita Water Industries Ltd. has traditionally had a low percentage of female employees because of the nature of its business, and the percentages of women hired as recent graduates and women in management positions are lower than the average of other companies. Despite this, the promotion of active female participation is essential for the sustainable growth of the Kurita Group. In the fiscal year ended March 31, 2016, the Company reinforced its measures intended to increase the number of women in management positions. These measures are wide-ranging and include career development support, education and training, hiring, encouraging the taking of paid vacation time, and support for maintaining a balance between work and child raising.

### Employment of Personnel with Disabilities

In Japan, the Kurita Group provides a wide range of employment opportunities for people with disabilities.

In April 2013, With Kurita Ltd. was established with the goal of securing employment opportunities for people with disabilities. As of May of the same year, With Kurita has been approved as a special subsidiary company under the Act on Employment Promotion etc. of Persons with Disabilities.

The Company also established an internal consultation desk for persons with disabilities and is working to eliminate all barriers arising from disabilities in the workplace.

As of April 1, 2016, the disabled person employment rate is 2.1%, which surpasses the statutory employment rate (2.0%).

### Second Career Support System

Kurita Water Industries Ltd. has a second career support system that offers preferential treatment to support employees who wish to try to work in a different field from their present one. The employees must satisfy certain conditions to qualify for this system.

### Securing Employment Opportunities for Senior Personnel

In conjunction with the enforcement of the amended Act on Stabilization of Employment of Elderly Persons from 2006, Kurita Water Industries Ltd. has established a system to secure employment opportunities for people who have retired having reached the mandatory retirement age. These employment opportunities are offered for up to a maximum of five years from the time of mandatory retirement (60 years old) in accordance with the 2013 amendment to the Act on Stabilization of Employment of Elderly Persons.

Between 2006 and April 1, 2016, a total of 298 retirement-age personnel secured employment opportunities. As of April 1, 2016, there are 69 retirement-age employees who have secured employment opportunities at the Company.

### Creating a Corporate Culture that Facilitates Work

The Kurita Group is taking measures to enhance systems and structures intended to support a proper work-life balance by employees and create pleasant workplaces.

### Supporting a Balance between Work and Child Raising

Kurita Water Industries Ltd. has established an environment that makes it easier for employees to balance work with raising children in accordance with the Act to Promote Measures to Support Fostering the Next Generation. In principle, employees can take childcare leave until the child reaches one year and six months of age, but the period can be extended in certain specified conditions. The program for shortened working hours for childcare was reviewed in April 2016 and changes were implemented to make it even easier for employees with multiple children to balance work with raising children. As of April 2016, during the past three years a total of 26 employees made use of the childcare leave program and 34 employees (including one male employee) made a total of 656 requests for shortened working hours to perform childcare.

### Nursing Care Leave and Shortened Working Hours for Nursing Care

At Kurita Water Industries Ltd., employees with a family member who needs nursing care and who wishes to continue to work after taking nursing care leave, may take nursing care leave for a cumulative total of up to one year (365 days) in principle. Also, employees may use the shortened working hours system for a cumulative total within 12 months per family member depending on the condition of the family member requiring care.

### Volunteer Leave System

At Kurita Water Industries Ltd., all employees are eligible to take leave for volunteer activities. Employees can take paid leave for up to two days each fiscal year for such activities.

### Work Health and Safety

In accordance with laws such as the Industrial Safety and Health Act, Kurita Group companies in Japan have established health and safety rules in order to prevent employees from being harmed by occupational disasters, as well as to maintain and improve the health of employees and to promote comfortable workplace environments. We have organized a health and safety management system comprising Health and Safety committees and Health and Safety Managers. Under this system, the domestic Group works alongside partnering companies to provide health and safety education to employees and to conduct health and safety drills. We also develop work standards and provide instruction on them, and maintain and inspect employees' safety gear and other facilities to prevent accidents. The Group also examines ways to deal with disasters, discovers their causes and drafts countermeasures.

In conjunction with amendment of the Industrial Safety and Health Act in December 2015, creation of a stress check program has become mandatory by subject companies. The Company is complying with the stress check program guidelines established by the Ministry of Health, Labour and Welfare. We will provide support for implementation even by Group companies with less than 50 employees, which are not required by the statute to implement such a system.

### Relationship with Labor Union

In addition to securing the Company's sound growth and continuation, Kurita Water Industries Ltd. and the labor union maintain a sound and fair relationship. Labor and management each do their utmost to improve the economic and social standing of union members and to maintain and improve working conditions.

### Respect for Human Rights

Kurita Group companies in Japan adopted guidelines and created a consultation desk in order to prevent various types of discrimination and harassment within the Kurita Group in Japan and strives to raise awareness of human rights issues through measures such as periodic human rights training programs.

## Emphasis on Safety and Quality

The Kurita Group believes that gaining the confidence of customers by providing products and services with the safety and exceptional quality that customers expect leads to the development of solid management foundations.

### Health and Safety Initiatives

The Kurita Group believes that safety is an essential basis of value creation when providing customers with products, technologies and services. Kurita Water Industries Ltd. established the Headquarters Health and Safety Committee under the direct authority of the president and gave the General Manager of the Administrative Division, who is a director, overall responsibility for the Committee. Workplace safety management measures include, in the water treatment chemicals business, legal responses in outsourced construction and services, and safety management initiatives such as risk assessments in day-to-day operations and on-site tests. In the water treatment facilities business, we also work to reinforce risk prevention in accordance with the workplace safety cycle, conduct training, and perform plant worksite safety patrols. Outside experts are called in to conduct some safety patrols, and we are expanding safety initiatives to overseas worksites.

### Safety Education Activities

Kurita Water Industries Ltd. conducts lectures on occupational health and safety taught by outside experts as well as courses for acquiring unique in-house qualifications. More than 100 educational opportunities are created annually and some 3,000 personnel attend courses. In the Facilities Division, departments involved in manufacturing, construction, and maintenance hold Safety Conferences in which cooperating companies also participate. These initiatives have been started at overseas worksites, leading to the development of a shared awareness regarding issues and countermeasures among the parties involved.



Safety Conference conducted abroad

### Initiatives to Improve Quality

As the Kurita Group expands its overseas business, improving quality is becoming even more important. The Kurita Group Quality Policy states that we will "speedily provide our customers with products, technologies and services that can meet their quality expectations, thereby winning their unshakable trust." We seek to enhance the quality of solutions provided to customers by working to improve both the quality provided by products and the quality provided by people from the perspective of the customer.

### Quality Assurance Systems

With regard to product quality control, Kurita Water Industries Ltd. has established a Quality Assurance Department in Chemicals Division and Facilities Division. These departments work on quality control from production to actual use of the product. In Japan, there are quality assurance systems based on the ISO 9001 international standard for quality management systems in place, and being worked on, in certain departments of Kurita Water Industries Ltd. related to electric power plant and in the domestic Group companies of Kurita Chemical Manufacturing Ltd., Kurita Engineering Co., Ltd., Kuritaz Co., Ltd., and Kuritec Service Co. Ltd.

### Initiatives to Improve Technical Skills

Kurita Water Industries Ltd. opened its T&C (Technical & Career) Support Center in April 2014 to perform technical training and human resource development relating to water treatment plants. The Center oversees technical and safety education and conducts training for the Group as a whole including not just employees of the domestic Group but also overseas employees. In addition to lectures held at the Head Office, the Center conducts practical skills training using actual systems and plays a role in the global expansion of the Kurita Group's safety and quality.



Training held at T&C Support Center for overseas employees

## Sound Relationship with Suppliers

The Kurita Group's business is supported by business partners in numerous fields including product manufacturing and sales. Because of this, we place particular importance on building sound relationships with business partners based on fairness, integrity, and transparency. We strive to reinforce trusting relationships that emphasize our respective independence, profits, and assets.

### Basic Policies for Purchasing

In connection to purchasing within the Kurita Group in Japan, we have a basic policy of open purchases and coexistence and prosperity. We choose suppliers based on a comprehensive set of criteria, including product quality, price competitiveness, certainty of on-time delivery, management stability and green purchasing (RoHS, JGPSSI Guidelines) compliance.

### Compliance with Laws, Regulations, and Social Norms

Kurita Water Industries Ltd. requires total compliance with laws and regulations by its business partners. Laws and regulations include the Antimonopoly Act, Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (Subcontract Act), Companies Act, Construction Business Act, Foreign Exchange and Foreign Trade Act, Personal Information Protection Act, Labor Standards Act, Waste Disposal Act, and others.

We require business partners to understand our compliance measures with regard to the Subcontract Act and other laws and regulations, and we confirm the suitability of transactions by conducting questionnaire surveys. We also adopted the Public Interest Whistle-Blower Protection Rules and take measures for the early detection of improper conduct. We contracted with an outside organization to provide consultation services and receive reports regarding improper conduct and so on, and these services can be used by business partners as well. In addition, we created a supplier help-line for suppliers to consult with concerning any concerns or issues.

The fundamental policy of the internal controls system of the Kurita Group in Japan states that all officers and employees take a resolute stance against and reject all connections to antisocial elements and organizations. In terms of specific policies, we have taken steps by, for example, adding a clause to our contracts about the elimination of crime syndicates.

### Consideration for Environmental Preservation

The Company's Chemicals Division checks for the presence of hazardous substances in purchased raw materials and other materials in accordance with Japanese laws and regulations.

The Company's Facilities Division established Procurement Guidelines and requires suppliers to take environmental preservation into consideration and minimize adverse impacts on society, the environment, resources, and human safety and health. Specifically, we create clear requirements to encourage the procurement of parts and raw materials with the smallest environmental impact through means such as reducing hazardous substances, manage industrial waste, comply with anti-pollution laws and regulations, and encourage improvements and innovations based on an awareness of reducing environmental impact in manufacturing and processing. We make requests to suppliers in accordance with these Guidelines pursuant to requests from customers.

### Consideration for Human Rights and Occupational Health and Safety

The Company's Facilities Division requires in the Procurement Guidelines that suppliers pay appropriate wages to workers, properly manage working hours, and ensure welfare and fringe benefits. The Guidelines also require that suppliers respect fundamental human rights, eliminate harassment and discrimination based on gender, nationality, religion, race, disability, and so on, and not engage in forced labor. Suppliers are also required to evaluate workplace safety risks, prevent harmful incidents and workplace accidents, and create and maintain safe work environments.

### Respect for Intellectual Property Rights

The Kurita Group respects the intellectual property rights of others, and conducts its business activities while avoiding infringing on them. We acquire licenses when using intellectual property owned by other parties, and we request that other parties respect the intellectual property rights of the Kurita Group. Businesses that infringe on the Kurita Group's intellectual property rights are required to cease the infringement, and are urged to acquire a license. In order to promote respect for intellectual property rights, we are implementing courses such as hierarchical intellectual property training and e-learning within the Group. This is not only a domestic activity but has also been expanding to overseas Group companies since the fiscal year ended March 31, 2015, and will continue in the future.

# Activities as a Good Corporate Citizen

## Preservation of the Global Environment

We believe that solving global-scale problems such as preservation of the natural environment and effectively using resources is in agreement with the Kurita Group corporate philosophy, deepens the significance of the Group's existence, and has a positive impact on corporate value.

### Fundamental Approach to Environmental Improvement Initiatives

The Kurita Group's basic policy for its environmental improvement initiatives is to operate in keeping with its corporate philosophy and to endeavor to resolve water and environmental issues so that the Kurita Group can

broadly contribute to society. In accordance with this policy, we carry out environmental improvement initiatives in three aspects in accordance with the three activity guidelines described below.

### Environmental Improvement Initiative Guidelines

- 1 We will contribute to the realization of a sustainable society by developing new products and technologies that are conducive to environmental improvement.
- 2 We will work with customers to improve the environment by providing products, technologies, and services that boost productivity, reduce environmental impact and offer innovative energy solutions.
- 3 In conducting daily business activities, we will reduce environmental impact through operational improvement and innovation.

### Three Aspects of Our Environmental Improvement Initiatives

#### Technological Innovation Aspect

Initiatives that contribute to the development of a sustainable society by developing new products and technologies that support environmental improvement.

#### Customers' Needs Aspect

Initiatives that contribute to the environmental improvements wanted by customers through products, technologies, and services.

#### Internal Change Aspect

Initiatives that continuously reduce environmental impact through improvement of and innovation in our business operations.

### Results of Environmental Activities in the Fiscal Year Ended March 31, 2016

#### Technological Innovation Initiatives

New key products and technologies that the Company believes to contribute to the development of a sustainable society for this fiscal year were as follows.

New Products and Technologies	Environmental Improvement Items			
	CO <sub>2</sub>	Waste	Environmentally harmful substances	Water pollutants
Water supply unit and water treatment control system for low pressure boiler	○		○	
Automatic system to control the injection of chemicals for incinerator fly ash		○	○	
RO membrane cleaning chemicals for electronics plant	○			
Highly concentrated sludge membrane system, scale dispersion agent and COD Digester for wastewater	○		○	○
Coagulation-sedimentation unit capable of treating a large volume of water and highly suspended matters				○
Tower wastewater treatment unit using the aerobic granule technology		○		○
Software and multicomponent living substance treatment simulation model to support the study of utility costs	○	○	○	○
Dry methane fermentation system for private industrial waste dispose business	○	○		

### Initiatives for Meeting Customers' Needs

In the fiscal year ended March 31, 2016, we continued our efforts to contribute to the reduction of customer environmental impact by optimizing the selection of water treatment chemicals, reducing waste water volumes by increasing water reclamation volumes, and cutting carbon dioxide emissions by replacing boilers. Refer to Kurita Group Environmental Report 2016 for detailed results.

### Internal Change Initiatives

#### Targets for the Fiscal Year Ended March 31, 2016

Items	Targets
Energy consumption	Reduce per-unit energy consumption by an average of 1% annually starting in FY03/2012
Waste volume	Reduce waste to below the previous year's level
Recycling rate	Increase the recycling rate to above the previous year's level

### Reducing Energy Consumption

With regard to energy consumption, to comply with Japan's Act on the Rational Use of Energy (Energy Conservation Act), we established targets for per-unit energy consumption and take measures to reduce energy consumption with a target of achieving absolute energy consumption below the previous fiscal year's level. In the fiscal year ended March 31, 2016, we cut electric power consumption by switching to pumps with inverters in the ultrapure water supply business, reduced electric power consumption by aeration equipment by reinforcing pH control monitoring of biological treatment waste water facilities, and took other measures. As a result, both per-unit energy and absolute energy consumption achieved the targets.

### Reduction of Waste

In the fiscal year ended March 31, 2016, we cut waste volumes by improving operation of waste water treatment control at ultrapure water supply sites and reduced sludge by decreasing waste water load and as a result, targets were achieved. The recycling rate target was also achieved as a result of thorough separation and collection of waste at a R&D site and offices.

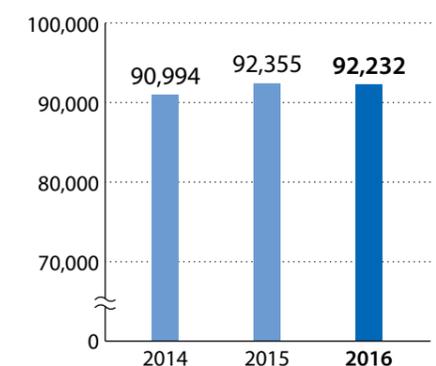
### Environmental Communications

Kurita Water Industries Ltd. uses an internal intranet to issue an eco-newsletter that informs personnel about environmental improvement initiatives and the progress of activities with the aim of raising awareness and understanding. Additionally, one month is designated Kurita Environment Month and experiences, photos, drawings, and slogans relating to environmental improvement are collected from officers, employees, and their family members in order to promote broad environmental awareness within the Group and encourage environmental improvement activities. This event, which was launched in the fiscal year ended March 31, 2015, resulted in the submission of numerous eco-ideas for environmental improvement in day-to-day life.

Note: Scope of environment-related descriptions and data reporting is Kurita Water Industries Ltd. and its offices and consolidated subsidiaries.

### Energy Consumption\* (crude oil equivalent)

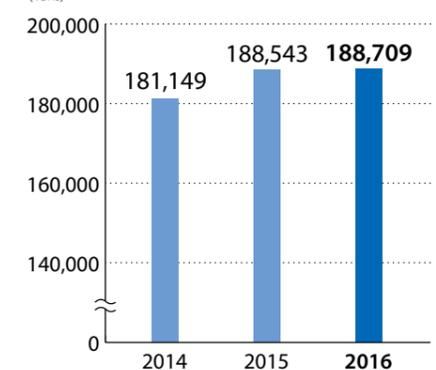
For the years ended March 31 (Kiloliters)



\* Kurita Group companies which are specified business operators and designated energy management factories of Kurita Water Industries

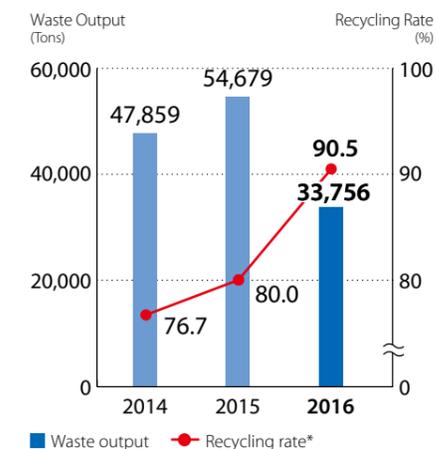
### Reference: CO<sub>2</sub> Emissions

For the years ended March 31 (Tons)



### Waste Output and Recycling Rate

For the years ended March 31



\* Recycling rate = (Valuables + Recycled materials) / (Valuables + Waste output)

## Activities as a Good Corporate Citizen

### Contribution to Local Communities

The Kurita Group strives not just to contribute to society through its business activities but also to actively return to society the insight and expertise that it gains through business and establish a favorable reputation within society.

#### Promotion of Science and Technology Relating to Water and the Environment

Kurita Water Industries Ltd. established the Kurita Water and Environment Foundation in 1997 with the aim of contributing to the promotion of science and technology relating to water and the environment. The Foundation is a public interest incorporated foundation, and domestic Group companies make contributions to the Foundation each year to provide operating funds. The Foundation uses these contributions for its operating expenses. Each year, the Foundation provides subsidies and other support for surveys and research on water and the environment.

The Foundation launched a research subsidy project in Thailand in the fiscal year ended March 31, 2014 and initiated research subsidy programs in Thailand, Vietnam, and Indonesia in collaboration with the Asian Institute of Technology (AIT) in the fiscal year ended March 31, 2016. By actively providing research subsidies in Japan and overseas, the Foundation seeks the development of an environment in which nature and man are in harmony.

The Foundation has subsidized a total of 1,158 projects, amounting to roughly ¥569 million, since its establishment through to the end of March 2016. Of those, 75 subsidies were provided overseas in the amount of about ¥26 million.



A subsidy presentation ceremony held in 2015

#### Support in Disaster Areas

The Kurita Group has a policy of providing support to disaster-stricken areas when a major natural disaster occurs in a country in which the Group has a business site. When a serious drought hits or water supplies fail due to an earthquake in Japan, the Group conducts water supply support activities using emergency water purification equipment and maintains necessary equipment and supplies at all times, enabling

the Group to respond immediately even to sudden requests.

In response to the Kumamoto Earthquake on April 14, 2016, the Kurita Group donated ¥10 million through the Japanese Red Cross Society and supplied 12,096 liters of mineral water made by our subsidiary to local governments in the disaster area as relief aid to assist those affected by the earthquake and support recovery in the affected region. We also determined the status of damage to water treatment facilities in customer plants that were damaged and worked to repair and restore those facilities as quickly as possible so that business operations could be resumed.



"Kurita Rescue," an emergency water purification system used during water supply support activities

#### Regional and Community Activities

The Kurita Group strives to be accepted as a member of the community and to develop along with the local communities in regions where the Group has business sites. Regional and community activities consist of (i) activities relating to local cleanup and preservation of the natural environment, (ii) activities relating to the promotion of health and welfare within the community, and (iii) activities relating to disaster and crime prevention within the community.

In the fiscal year ended March 31, 2016, the Company held sports events on its fields, conducted local cleanup activities in the area surrounding the Kurita Global Technology Center, and engaged in various other activities with strong local ties.



Local cleanup activities in the area surrounding the Kurita Global Technology Center

## Financial Section

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Business Overview

During the fiscal year ended March 31, 2016, there was uncertainty over the outlook for the global economy, given a slowdown in growth in China and other emerging economies in Asia and a fall in crude oil prices. However, the U.S. and European economies continued to recover, mainly thanks to improvements in employment and domestic demand, and the global economy overall grew moderately.

Although corporate profits were stable in Japan, economic recovery was slow, given weak consumer spending, sluggish growth in exports associated with slowing overseas economies and a stronger yen in the second half of the fiscal year.

Looking at the market environment surrounding Kurita Group, in Japan production in the manufacturing industry remained roughly flat, but there were signs of recovery in capital expenditure on the back of strong corporate earnings. Overseas, demand for water treatment grew in East Asia and Southeast Asia.

In this environment, the Group started to implement the three-year medium-term management plan CK-17 (Competitive Kurita 2017). In the medium-term management plan, the Group aims to evolve into a strong corporate group capable of competing successfully in the international market. In the first year of the plan, the fiscal year ended March 31, 2016, the Group focused on improving profitability by expanding overseas operations and thoroughly controlling costs.

To expand overseas operations, the Group sought to integrate Kurita Europe APW GmbH (KEAG), which has become part of the Group following the acquisition of a business in Europe, and took steps to create synergies early, supplying competitive products to each other. In Asia, we started the first ultrapure water supply business in South Korea.

As a result, both consolidated sales and orders increased.

The Group improved profitability to some degree by facilitating cooperation between the sales and production divisions and carefully controlling costs in each project. To create competitive products and services, the Group launched new services, combining its expertise in three businesses: the water treatment chemicals business, water treatment facilities business and maintenance services. The Group focused on proposing solutions to customers' challenges, including environmental impact reduction, energy saving and productivity improvement.

The Group experienced a temporary rise in expenses associated with a review of the initial allocation of the cost of the business acquisition, retirement benefit expenses increased due to a change in the discount rate stemming from the impact of negative interest rates, and the Group recorded amortization expenses on goodwill and technology-related assets associated with the new consolidation of the KEAG Group. Nevertheless, an improvement in the cost of sales ratio prompted a slight uptick in operating income, and net income attributable to owners of parent increased substantially.

## Operating Results

### a) Orders

In the Water Treatment Chemicals segment, orders in Japan were flat, but overall orders experienced major growth due to efforts to cultivate business overseas, notably in China and Southeast Asian countries, and to the new consolidation of KEAG and its subsidiaries. In the Water Treatment Facilities segment, the Group recorded favorable orders for water treatment facilities in the electronics industry in China, South Korea and Taiwan. In general industries, orders in the water treatment facilities business rose, reflecting orders for dry methane fermentation facilities for recycling waste materials and wastewater treatment facilities in the food industry.

As a result, total consolidated orders for the Kurita Group in the fiscal year ended March 31, 2016, were ¥221,273 million, an increase of 22.1% compared with the previous year.

### b) Net Sales

In the Water Treatment Chemicals segment, sales were flat in Japan, but overseas sales rose significantly, due to the cultivation of new business, particularly in China and Southeast Asian countries, as well as the new consolidation of KEAG and its subsidiaries. In the Water Treatment Facilities segment, sales to the electronics industry in Japan were down slightly. Sales of water treatment facilities to general industries also slipped, but sales of maintenance services, water treatment facilities for electric power generation, and soil remediation increased. Overseas sales fell, however, due to the completion of the posting of sales.

As a result, total net sales were up ¥24,974 million, or 13.2% year on year, to ¥214,372 million.

### c) Cost of Sales and Gross Profit

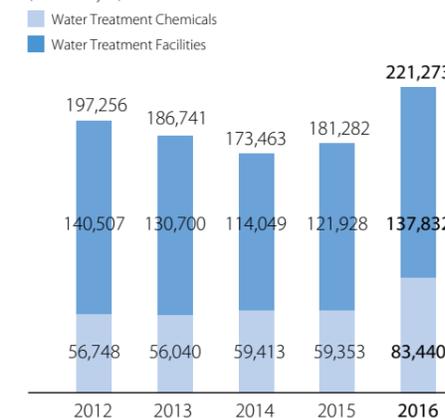
Cost of sales increased 10.3%, to ¥143,964 million, compared with ¥130,509 million in the previous fiscal year. However, as a percentage of sales, cost of sales decreased from 68.9% to 67.2%. This was mainly attributable to enhanced collaboration between the sales and production departments, and to a thorough effort to control costs for each construction project.

### d) Selling, General and Administrative (SG&A) Expenses

SG&A expenses were ¥50,574 million, up 28.2% from the previous year's ¥39,454 million. This increase of ¥11,120 million was mainly due to the consolidation of KEAG and its subsidiaries. A decline in interest rates in the second half of the fiscal year resulted in a change in the discount rate used in the calculation of retirement benefit obligations. This caused retirement benefit expenses, a component of SG&A expenses, to rise. In addition, the Group recorded a temporary rise in expenses associated with a review of the initial allocation of the cost of the business acquisition, including amortization expenses on goodwill and technology-related assets associated with the new consolidation of the KEAG Group.

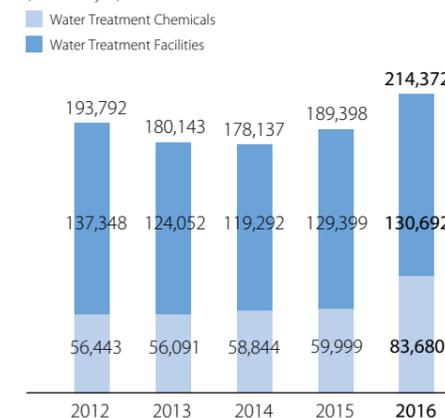
## Orders by Segment

Years ended March 31  
(Millions of yen)



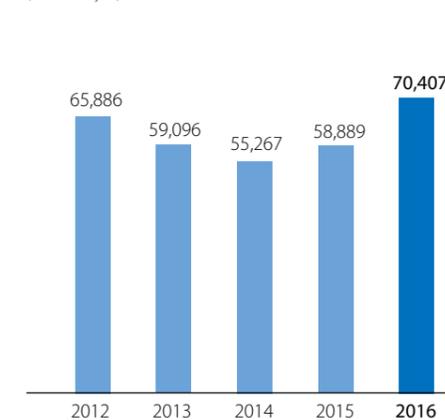
## Sales by Segment

Years ended March 31  
(Millions of yen)



## Gross Profit

Years ended March 31  
(Millions of yen)



**e) Operating Income**

Owing to the factors mentioned above, operating income was ¥19,833 million, up 2.0% compared with ¥19,435 million in the previous fiscal year. However, the operating margin fell to 9.3% from 10.3% in the previous fiscal year.

**f) Results by Business Segment**

**Water Treatment Chemicals**

**Orders and Sales**

In Japan, the Group took steps to gain new customers, and both orders and sales rose for wastewater treatment chemicals and process treatment chemicals for petroleum refining. However, overall orders and sales in Japan remained flat, chiefly reflecting a moderate recovery in capacity utilization at customers' plants.

Overseas, orders and sales increased significantly due to the addition of new customers, especially in China and Southeast Asia, and the consolidation of KEAG and its subsidiaries.

Segment orders consequently expanded 40.6%, to ¥83,440 million, and sales rose 39.5%, to ¥83,680 million.

**Operating Income**

Operating income was down 17.9%, to ¥6,467 million, due to amortization of the goodwill and technology-related assets associated with business acquisition in Europe and temporary expenses associated with a review of the initial allocation of the cost of the business acquisition.

**Water Treatment Facilities**

**Orders and Sales**

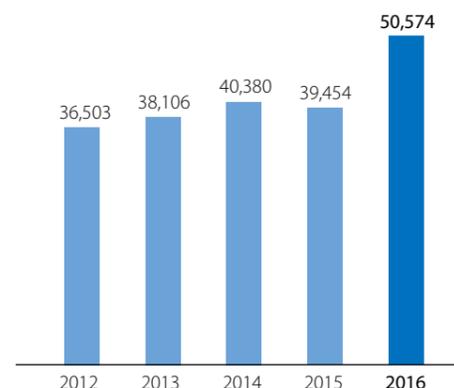
In Japan, orders and sales in the water treatment facilities business and maintenance services for the electronics industry rose, reflecting high capacity utilization at plants manufacturing electronic components for smartphones. Orders and sales in the ultrapure water supply business declined slightly due to a fall resulting from the termination of some contract periods, which was partially offset by revenue from new contracts, leading to a slight decline overall.

In general industries, orders in the water treatment facilities business rose, reflecting orders for dry methane fermentation facilities for recycling waste materials and wastewater treatment facilities in the food industry, but sales declined chiefly due to delays in progress in project construction. Orders and sales in maintenance services were affected by a reactionary fall following renewal and modification projects in the previous fiscal year, but nonetheless increased thanks to orders through proposals of solutions to customers' challenges. Orders for and sales of water treatment facilities for electric power rose. Orders for soil remediation services declined, but sales rose due to the posting of sales from projects for which orders were received in the previous fiscal year.

Overseas, orders rose significantly, chiefly reflecting large-scale projects in the electronics industry in China, Taiwan and South Korea, but sales fell due to the completion of the posting of sales from large-scale projects.

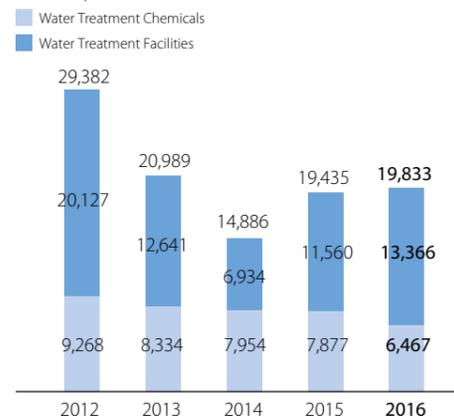
**SG&A Expenses**

Years ended March 31  
(Millions of yen)



**Operating Income by Segment**

Years ended March 31  
(Millions of yen)



As a result, segment orders increased 13.0%, to ¥137,832 million, and sales grew 1.0%, to ¥130,692 million.

**Operating Income**

Operating income grew 15.6%, to ¥13,366 million, due to enhanced collaboration among the sales, design and construction divisions; a reduction in unprofitable projects; and an improvement in the cost of sales ratio.

**g) Overseas Sales**

**Sales by Region**

Overseas sales rose 63.3%, to ¥63,877 million. The overseas sales ratio within consolidated net sales increased to 29.8% from 20.6% in the previous fiscal year.

**Regional Breakdown**

- Asia: Up 17.8% to ¥37,778 million; 59.1% of total overseas sales
- North America: Up 19.9% to ¥2,431 million; 3.8% of total overseas sales
- EMEA: Up 1,329% to ¥20,698 million; 32.4% of total overseas sales
- Other regions: Down 14.2% to ¥2,970 million; 4.6% of total overseas sales

Note: The regional categories have changed, beginning in the fiscal year ended March 31, 2016. Figures for the fiscal year ended March 31, 2015, have been retroactively adjusted to match the new classification. For fiscal years ended on or before March 31, 2014, "other regions" includes South America, Oceania and Africa. From the fiscal year ended March 31, 2015, "other regions" includes South America and Oceania. EMEA includes Europe, the Middle East and Africa.

**h) Other Income and Expenses**

Other income and expenses-net was income of ¥578 million, compared with expenses of ¥968 million in the previous fiscal year.

The main reason was a decrease from ¥1,626 million to ¥221 million in the posting of expenses related to the acquisition of business in Europe.

**i) Income before Income Taxes**

Income before income taxes increased 10.5%, to ¥20,411 million, compared with ¥18,467 million in the previous fiscal year.

The pretax profit margin fell to 9.5% from 9.8% in the previous fiscal year.

**j) Net Income Attributable to Owners of Parent**

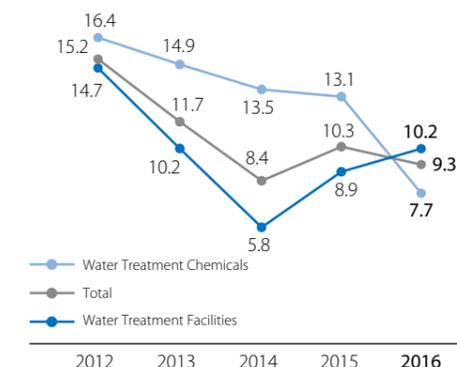
After deducting income taxes and profit attributable to non-controlling interests, Kurita recorded consolidated net income attributable to owners of parent of ¥12,577 million for the fiscal year ended March 31, 2016, an increase of 20.5%, compared with ¥10,434 million in the previous fiscal year.

Net income per share increased to ¥108.24 from ¥87.81 in the previous fiscal year, and the net margin rose to 5.9% from 5.5%.

Return on equity (ROE) increased to 5.6% from 4.7% in the preceding fiscal year.

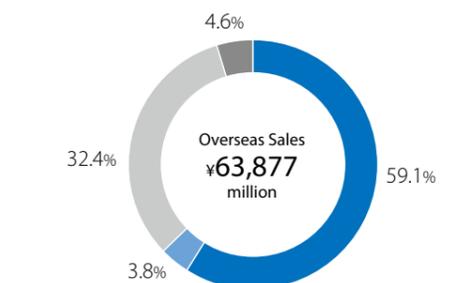
**Operating Margin by Segment**

Years ended March 31  
(%)



**Overseas Sales by Region**

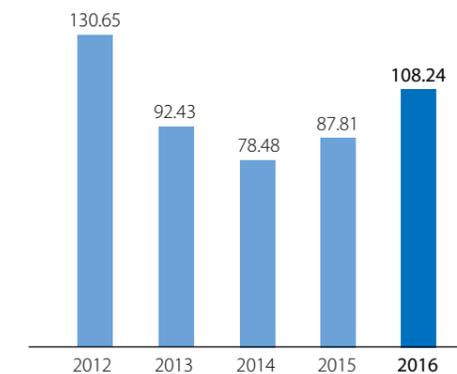
Fiscal year ended March 31, 2016



- Asia ..... ¥37,778 million
- North America ..... ¥2,431 million
- EMEA ..... ¥20,698 million
- Other regions ..... ¥2,970 million

**Net Income per Share**

Years ended March 31  
(Yen)



**k) Policies on Shareholder Returns**

Kurita's basic policy is to pay stable dividends on an ongoing basis. Setting a payout ratio of 30% to 50% as our target, we will continuously work to increase dividends, making decisions based on the payout ratios for the most recent five years to respond flexibly to fluctuations in business performance each year. With regard to the use of excess internal reserves, we prioritize business investment, and then take into account precautionary funds to prepare for rapid fluctuations in performance and the operating environment. If excess funds remain, we will take steps to improve capital efficiency and return profits to shareholders, including through the acquisition of treasury stock, taking the share price into consideration.

During the year, the Company paid dividends of ¥48 per share, including an interim dividend of ¥24. This amount corresponds to a ¥2 increase from ¥46 per share in the previous fiscal year.

**Capital Expenditures**

The Kurita Group is committed to making investments necessary for technological innovation and production capacity expansion, and to enhance competitiveness in response to intensified sales competition. In the fiscal year ended March 31, 2016, capital expenditures totaled ¥19,623 million, an increase of ¥6,759 million compared with the previous fiscal year (including leased assets and lease obligations for finance lease transactions that do not transfer ownership), mainly due to the acquisition of business facilities.

The Water Treatment Chemicals segment undertook capital expenditures totaling ¥2,434 million, mainly for upgrading water treatment chemicals production facilities. This represented a decrease of ¥2,944 million compared with the previous fiscal year.

The Water Treatment Facilities segment carried out capital expenditures totaling ¥17,188 million, mainly for the installation and expansion of facilities for the ultrapure water supply business. This represented a ¥9,702 million increase compared with the preceding fiscal year.

Depreciation and amortization increased 6.0%, to ¥15,749 million.

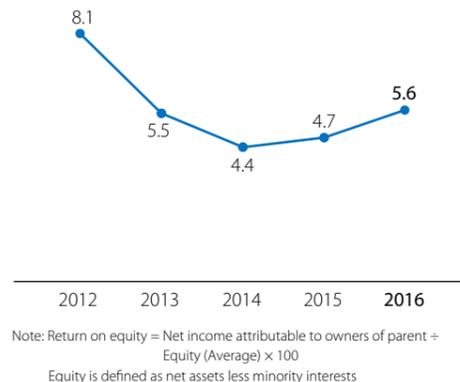
**Research and Development**

The Kurita Group engages in technological development to reinforce its core businesses. These include technologies related to boiler and cooling water treatment, ultrapure water production, water and wastewater treatment, water reclamation, and soil and groundwater remediation. We also strive to deepen our understanding of the assay and analysis technologies that underpin our other technologies, as well as new materials development and other basic technologies. Furthermore, we are actively engaged in developments in new fields, such as water processing involving space and the oceans.

Going forward, we will continue to hone the water-related technologies we have cultivated over the many years to date. As we strive to realize our corporate vision of being an advanced water and environmental management company, we will proactively engage in product and technology development that meets the broad-ranging

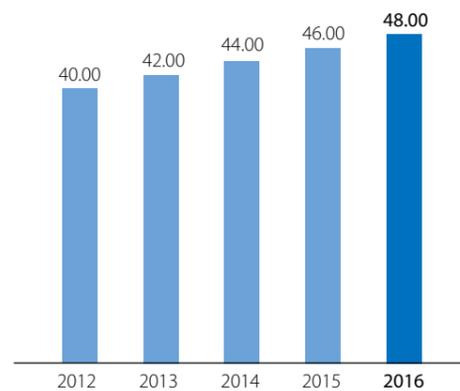
**Return on Equity**

Years ended March 31 (%)



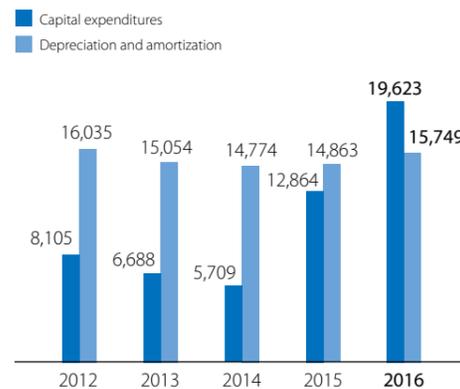
**Dividends per Share**

Years ended March 31 (Yen)



**Capital Expenditures and Depreciation and Amortization**

Years ended March 31 (Millions of yen)



needs of industry and society from the perspectives of environmental impact reduction, resource recycling and productivity improvement. We will also aggressively pursue R&D involving new water functions that will lead to new business developments.

Kurita's R&D activities are performed mainly by the Research and Development Division. R&D staff number approximately 200, accounting for 3.6% of overall Group employees. In the fiscal year ended March 31, 2016, Kurita's R&D expenses totaled ¥5,269 million, equivalent to 2.5% of net sales.

In the Water Treatment Chemicals segment, Kurita is engaged in the development of chemicals for water treatment, environmental improvement and production processes, which contribute to customers' energy savings, environmental impact reduction and productivity enhancements. Other development activities include diagnostic technology for chemical effectiveness.

The segment's main achievements during the year were as follows.

- In combination with our boiler chemicals, we developed boiler supply water equipment for low-pressure boilers using a reverse osmosis membrane that prevents scale failure and reduces fuel consumption for diverse qualities of supplied water in Japan and overseas. Also, through combination with the Company's boiler sensors, we developed a comprehensive water treatment management system that displays the status of water treatment and fuel efficiency improvements on a computer.
- Large-scale tunnel construction is expected to increase as Linear Chuo Shinkansen construction commences. We developed safe, low-cost chemicals that can be used to prevent walls from collapsing during this excavation.
- By combining the polymer synthesis technology Kurita Europe APW GmbH obtained in its acquisition of BK Guilini GmbH with the water treatment chemical technology we have accumulated, we developed a highly cost-competitive anti-corrosion and anti-scale chemical for use in cooling water in Asian industrial complexes.

The R&D expenses for the Water Treatment Chemicals segment for the fiscal year ended March 31, 2016, totaled ¥2,129 million.

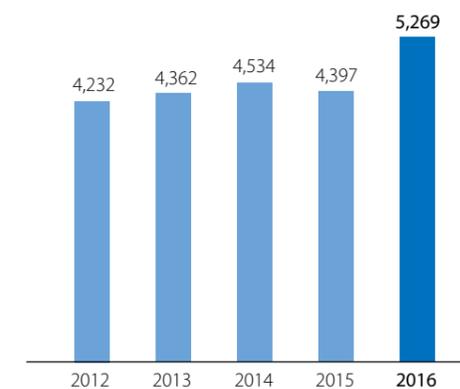
In the Water Treatment Facilities segment, Kurita is taking up the challenge of realizing further advances in the quality of ultrapure water that will contribute to productivity improvements in such industries as electronics. The Group is also pursuing the development of wastewater treatment technologies that stay ahead of the curve vis-à-vis environmental regulations. Another focus area is the development of technologies to meet the needs of a recycling-oriented society. These include wastewater recovery and reuse technology, and sludge reduction technology.

The segment's main achievements during the year were as follows.

- Based on our biological treatment technology for reducing sludge generation by using animalcules to predate on the microorganism-derived sludge grown during wastewater purification, we developed space-saving, low-cost biological treatment equipment that granulates

**R&D Expenses**

Years ended March 31 (Millions of yen)



animalcules to enhance sedimentation properties and renders solid-liquid separation equipment in later processes unnecessary.

- We developed a dry methane fermentation system that separates from the mixed garbage emitted as general industrial waste those items that are suitable for fermentation, applies methane fermentation and collects methane gas as an energy source.
- Based on our knowledge in water treatment chemicals, equipment and operations management, we developed a support tool that performs simple simulations using mobile PCs to demonstrate to customers the benefits of water and energy conservation and the advantages of proposing water supply agreements using standardized water treatment facilities.

The R&D expenses for the Water Treatment Facilities segment for the fiscal year ended March 31, 2016, totaled ¥3,139 million.

**Financial Position**

**a) Assets**

As of March 31, 2016, Kurita had total assets of ¥298,107 million, an increase of ¥3,615 million, compared with ¥294,492 million as of March 31, 2015.

**Breakdown of Assets**

**Current Assets**

Current assets as of March 31, 2016, totaled ¥150,546 million, an increase of ¥1,579 million, compared with ¥148,967 million as of March 31, 2015. This rise was primarily attributable to an increase of ¥3,742 million in accounts receivable-trade, which outweighed an increase of ¥1,556 million in cash reserves—cash and deposits and marketable securities. The expansion in accounts receivable-trade was mainly due to higher sales in the Water Treatment Facilities segment in the second half of the fiscal year, compared with the previous fiscal year. The decrease in cash reserves was principally the result of the purchase of equipment for ultrapure water supply vehicles and payment of the remaining cost of the acquisition of a business in Europe.

**Investments and Long-Term Receivables, Property, Plant and Equipment, and Intangible Assets**

As of March 31, 2016, investments and long-term receivables came to ¥44,970 million, up ¥1,656 million from ¥43,314 million as of March 31, 2015.

Property, plant and equipment, net, totaled ¥78,388 million, an increase of ¥3,355 million compared with ¥75,033 million as of March 31, 2015.

Intangible assets as of March 31, 2016, were ¥24,202 million, down ¥2,975 million compared with ¥27,177 million a year earlier.

The increase in investments and other assets was mainly due to higher unrealized gains on investment securities due to rises in the market prices of the shares held by the Group.

The increase in property, plant and equipment was attributable chiefly to new projects in the ultrapure water supply business.

The decrease in intangible fixed assets chiefly reflected the posting of

amortization of goodwill associated with business acquisition in Europe.

**b) Liabilities**

As of March 31, 2016, liabilities totaled ¥69,142 million, a decrease of ¥1,872 million, compared with ¥71,014 million as of March 31, 2016.

**Current Liabilities**

Current liabilities totaled ¥44,407 million at the end of the fiscal year, a fall of ¥3,568 million from ¥47,975 million at the end of the previous fiscal year. The decline was mainly attributable to decreases of ¥2,961 million in accounts payable-other, ¥890 million in income taxes payable and ¥1,018 million in "other" in current liabilities, which outweighed a ¥1,891 million increase in accounts payable-trade. The decrease in accounts payable-other was mainly due to the settlement of the remaining cost of the acquisition of a business in Europe. The decrease in "other" in current liabilities was chiefly attributable to a reduction in advances received in association with the posting of sales.

**Long-Term Liabilities**

Noncurrent liabilities totaled ¥24,735 million at the end of the fiscal year, an increase of ¥1,696 million from ¥23,039 million at the end of the previous fiscal year. This was mainly due to an increase in net defined benefit liability of ¥1,717 million, which resulted chiefly from a change in the discount rate used in the calculation of retirement benefit obligations.

**c) Net Assets**

Net assets totaled ¥228,964 million at the end of the fiscal year, an increase of ¥5,486 million from ¥223,478 million at the end of the previous fiscal year, primarily due to an increase of ¥6,117 million in shareholders' equity and a decrease of ¥551 million in accumulated other comprehensive income. The main factors for the increase in shareholders' equity were a ¥7,095 million increase in retained earnings, mainly due to net income attributable to owners of parent of ¥12,577 million for the fiscal year under review, which exceeded dividend payments of ¥5,469 million—the sum of year-end dividends for the previous fiscal year and interim dividends for the fiscal year under review—and a ¥990 million rise in treasury stock mainly through acquisitions in the market. Accumulated other comprehensive income declined, chiefly reflecting a ¥2,128 million fall in foreign currency translation adjustments due to the stronger yen, which outweighed an increase of ¥1,293 million in unrealized gains on available-for-sale securities associated with the above-mentioned increase in unrealized gains from investment securities.

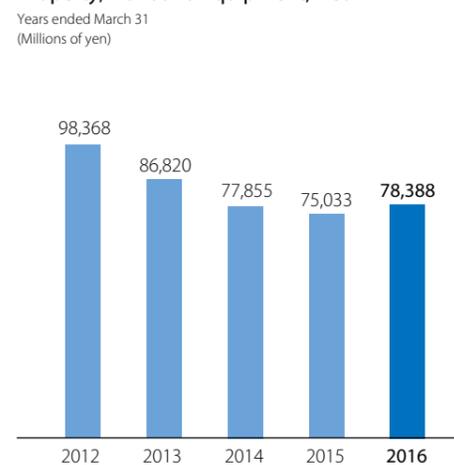
As a result, total assets were ¥298,107 million as of March 31, 2016, an increase of ¥3,615 million, compared with ¥294,492 million at the previous fiscal year-end. As of March 31, 2016, Kurita had an equity ratio of 76.4%, up 0.9 percentage point from 75.5% a year earlier. Net assets per share at March 31, 2016, were ¥1,961.30, an increase of ¥53.50 compared with ¥1,907.80 a year earlier.

Note: Equity is defined as total net assets less minority interests.

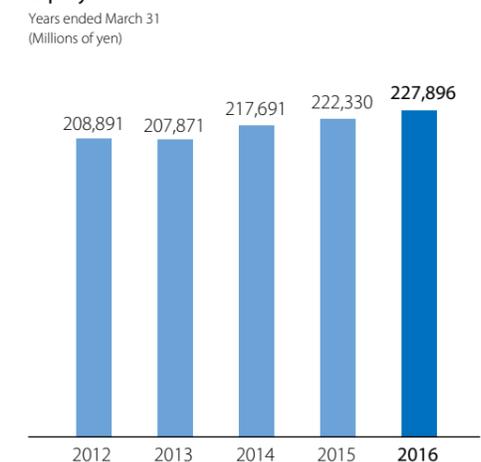
**Total Assets and Return on Assets**



**Property, Plant and Equipment, Net**



**Equity**



**Cash Flows**

**Cash Flows from Operating Activities**

Net cash provided by operating activities during the fiscal year ended March 31, 2016, totaled ¥26,582 million, an increase of ¥3,268 million from the previous fiscal year. Inflows from income before income taxes of ¥20,411 million, depreciation and amortization of ¥15,749 million and an increase in notes and accounts payable–trade of ¥2,293 million were partially offset by an increase in notes and accounts receivable–trade of ¥4,473 million and income taxes paid of ¥8,264 million.

**Cash Flows from Investing Activities**

Net cash used in investing activities totaled ¥33,172 million, a decline of ¥37,918 million from the previous fiscal year. Net cash decreased mainly due to payments into time deposits, net of withdrawals from time deposits, of ¥10,138 million; payments for purchases of property, plant and equipment totaling ¥17,693 million, including capital expenditures for the ultrapure water supply business; and payments for the acquisition of businesses in Europe of ¥3,857 million.

**Cash Flows from Financing Activities**

Net cash used in financing activities totaled ¥5,707 million, a decrease of ¥8,222 million from the previous fiscal year. The main cash outflows were cash dividends paid of ¥5,474 million and the purchase of treasury stock of ¥990 million, which were partially offset by proceeds from long-term loans payable of ¥1,256 million.

**Cash and Cash Equivalents at End of Year**

At March 31, 2016, Kurita had cash and cash equivalents totaling ¥43,591 million, a decrease of ¥12,084 million compared with March 31, 2015.

**Business Risks**

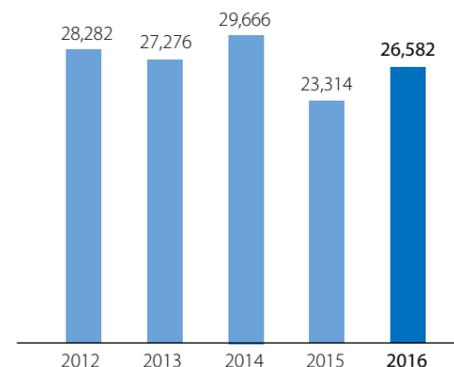
The following are summaries of major foreseeable risks present in the business environments in which the Kurita Group operates. Forward-looking statements herein are based on judgments made by management as of March 31, 2016.

**1. Economic and Market Conditions**

The Group's Water Treatment Chemicals and Water Treatment Facilities businesses are affected by economic conditions in Japan and countries and regions outside Japan where the Group operates. Demand in the Water Treatment Chemicals business fluctuates in response to factory capacity utilization rates in industries such as steel, petroleum refining and petrochemicals, and pulp and paper—the main areas of demand for the business. Such demand fluctuations may affect the Group's financial results. Demand in the Water Treatment Facilities business fluctuates in response to trends in capital expenditure in electronics—the main area of demand for the business—and other industries. Such demand fluctuations may affect the Group's financial results.

**Cash Flows from Operating Activities**

Years ended March 31  
(Millions of yen)



More intense competition with rivals in the Group's business domains could lead to declines in prices of products and services, which could lower the Group's profitability.

**2. Materials and Parts Procurement**

The Group procures raw materials and parts from outside the Group for the manufacture of products and fabrication of facilities. The prices of raw materials and parts fluctuate based on changes in market conditions, and this may affect the Group's financial results.

**3. Overseas Business Development**

The Group is striving to expand its business outside Japan. In contrast to the Japanese market, doing business in overseas markets involves a number of inherent risks, including the risk of changes to local laws and regulations, the risk of political and economic instability, and the risk of foreign exchange rate fluctuations. If such risks materialized, the Group's financial results could be affected.

**4. New Product Development**

The Group continuously endeavors to develop new technology and appealing new products.

The success of new technology and product development efforts cannot be guaranteed. The Group may not be able to offer new technologies and products that meet the needs of its customers or launch new products in a timely fashion. The Group may also fail to keep pace with rapid technological innovation and changing customer needs. If the Group were to fail to develop outstanding new products, this could hamper its future growth and profitability or otherwise affect its financial results.

**5. Intellectual Property**

The Group recognizes the importance of intellectual property and continually seeks to register its own intellectual property while avoiding infringing the intellectual property rights held by third parties, both in Japan and overseas. Given the wide scope of the Group's business, however, there is potential for the Group's intellectual property rights to be infringed and potential for the Group to infringe the rights held by third parties. Such occurrences may affect the Group's financial results.

**6. Dependence on Information Systems**

The Group's use of information systems is increasing, as is the importance of information systems to the Group's business. If a computer virus or some other factor were to obstruct the functions of the Group's information systems, the Group's business activities, financial results, and financial condition could be negatively affected.

**7. Large-Scale Natural Disasters**

If an earthquake, typhoon, or other kind of natural disaster were to directly or indirectly upset the Group's business execution, the Group's business activities, financial results, and financial condition could be negatively affected.

## CONSOLIDATED BALANCE SHEETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
As of March 31, 2016 and 2015

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Current assets:</b>			
Cash and time deposits (Notes 3, 4 and 6)	¥ 58,374	¥ 52,497	\$ 516,584
Notes and accounts receivable, trade (Note 4)	71,016	67,324	628,460
Allowance for doubtful accounts	(185)	(233)	(1,637)
Marketable securities (Notes 4 and 5)	7,566	14,999	66,955
Inventories (Note 7)	9,254	9,480	81,893
Deferred tax assets (Note 9)	1,652	1,728	14,619
Other current assets	2,866	3,169	25,362
Total current assets	150,546	148,967	1,332,265
<b>Investments and long-term receivables:</b>			
Investment securities (Notes 4 and 5)	34,324	32,424	303,752
Investments in unconsolidated subsidiaries and affiliates (Note 4)	2,739	3,253	24,238
Deferred tax assets (Note 9)	4,232	4,595	37,451
Other investments	3,879	3,342	34,327
Allowance for doubtful accounts	(204)	(302)	(1,805)
Total investments and long-term receivables	44,970	43,314	397,964
<b>Property, plant and equipment, at cost (Note 15):</b>			
Land (Note 12)	13,941	13,972	123,371
Buildings and structures	61,278	62,403	542,283
Machinery and equipment	109,735	102,923	971,106
Construction in progress	8,586	4,160	75,982
Other facilities	13,105	13,362	115,973
Leased assets	8,315	8,199	73,584
Total	214,964	205,022	1,902,336
Accumulated depreciation	(136,575)	(129,988)	(1,208,628)
Property, plant and equipment, net	78,388	75,033	693,699
<b>Intangible assets:</b>			
Goodwill	15,114	17,475	133,752
Other intangible assets	9,088	9,701	80,424
Total intangible assets	24,202	27,177	214,177
Total assets	¥298,107	¥294,492	\$2,638,115

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Current liabilities:</b>			
Short-term borrowings and current portion of long-term debt (Note 8)	¥ 2,300	¥ 1,794	\$ 20,353
Notes and accounts payable, trade (Note 4)	22,780	20,819	201,592
Accounts payable, other	6,897	9,858	61,035
Income taxes payable	3,705	4,595	32,787
Advances received	1,496	3,021	13,238
Accrued employees' bonuses	2,365	2,255	20,929
Provision for product warranties	768	784	6,796
Provision for loss on construction contracts	284	1,037	2,513
Other current liabilities	3,809	3,809	33,707
Total current liabilities	44,407	47,975	392,982
<b>Long-term liabilities:</b>			
Long-term debt (Note 8)	4,763	5,159	42,150
Net defined benefit liability (Note 10)	15,467	13,750	136,876
Accrued retirement benefits for directors and corporate auditors	57	75	504
Deferred tax liabilities on revaluation of land (Note 12)	1,119	1,181	9,902
Other long-term liabilities (Note 8)	3,327	2,872	29,442
Total long-term liabilities	24,735	23,029	218,893
Total liabilities	69,142	71,014	611,876
<b>Net assets:</b>			
<b>Shareholders' equity (Note 11):</b>			
Common stock, 2016 and 2015			
Authorized: 531,000,000 shares			
Issued: 119,164,594 shares	13,450	13,450	119,026
Capital surplus	10,993	10,980	97,283
Retained earnings	196,788	189,693	1,741,486
Treasury stock, at cost			
2016—2,967,674 shares	(8,695)	(7,705)	(76,946)
2015—2,626,561 shares			
Total shareholders' equity	212,536	206,419	1,880,849
<b>Accumulated other comprehensive income:</b>			
Unrealized gains on available-for-sale securities	16,061	14,768	142,132
Deferred gains or losses on hedges	398	66	3,522
Revaluation reserve for land (Note 12)	(380)	(442)	(3,362)
Foreign currency translation adjustments	(618)	1,510	(5,469)
Remeasurements of defined benefit plans (Note 10)	(101)	8	(893)
Total accumulated other comprehensive income	15,360	15,911	135,929
<b>Non-controlling interests</b>	1,067	1,147	9,442
Total net assets	228,964	223,478	2,026,230
Total liabilities and net assets	¥298,107	¥294,492	\$2,638,115



# CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2015

## CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net sales</b> (Note 18)	¥214,372	¥189,398	\$1,897,097
<b>Cost of sales</b> (Note 13)	143,964	130,509	1,274,017
Gross profit	70,407	58,889	623,070
<b>Selling, general and administrative expenses</b> (Note 14)	50,574	39,454	447,557
Operating income (Note 18)	19,833	19,435	175,513
<b>Other income (expenses):</b>			
Interest and dividend income	710	636	6,283
Foreign exchange losses	(102)	(86)	(902)
Interest expense	(276)	(84)	(2,442)
Equity in earnings of unconsolidated subsidiaries and affiliates	145	286	1,283
Gain on sales of properties (Note 15)	148	—	1,309
Loss on disposal of properties (Note 15)	—	(241)	—
Acquisition-related costs	(221)	(1,626)	(1,955)
Impairment loss	—	(226)	—
Loss on liquidation of business	(176)	—	(1,557)
Other, net	348	374	3,079
Other income (expense), net	578	(968)	5,115
<b>Income before income taxes</b>	20,411	18,467	180,628
<b>Income taxes</b> (Note 9):			
Current	7,027	7,718	62,185
Deferred	626	242	5,539
Total income taxes	7,654	7,961	67,734
<b>Net income</b>	12,757	10,506	112,893
<b>Net income attributable to non-controlling interests</b>	180	71	1,592
<b>Net income attributable to owners of parent</b>	¥ 12,577	¥ 10,434	\$ 111,300

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net income</b>	¥12,757	¥10,506	\$112,893
<b>Other comprehensive income</b> (Note 16):			
Unrealized gains on available-for-sale securities	1,293	6,916	11,442
Deferred gains or losses on hedges	332	66	2,938
Revaluation reserve for land	62	121	548
Foreign currency translation adjustments	(2,113)	1,049	(18,699)
Remeasurements of defined benefit plans	(109)	33	(964)
Share of other comprehensive income of entities accounted for using equity method	(86)	115	(761)
Total other comprehensive income	(621)	8,303	(5,495)
<b>Comprehensive income</b>	¥12,136	¥18,809	\$107,398
<b>Comprehensive income attributable to:</b>			
Comprehensive income attributable to owners of parent	¥11,997	¥18,688	\$106,168
Comprehensive income attributable to non-controlling interests	138	121	1,221
	Yen		U.S. dollars (Note 1)
	2016	2015	2016
<b>Per share of common stock</b> (Note 20):			
Net income	¥108.24	¥87.81	\$0.96
Cash dividends applicable to the year	48.00	46.00	0.42

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2015

	Millions of yen												
	Shareholders' equity (Note 11)					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2014	¥13,450	¥11,426	¥185,159	¥ (2)	¥210,034	¥ 7,862	¥ —	¥(564)	¥ 384	¥ (25)	¥ 7,657	¥1,461	¥219,153
Cumulative effects of changes in accounting policies			(501)		(501)								(501)
Restated balance as of March 31, 2014	¥13,450	¥11,426	¥184,657	¥ (2)	¥209,532	¥ 7,862	¥ —	¥(564)	¥ 384	¥ (25)	¥ 7,657	¥1,461	¥218,652
<b>Changes during the year</b>													
Cash dividends paid			(5,362)		(5,362)								(5,362)
Net income attributable to owners of parent			10,434		10,434								10,434
Acquisition of treasury stock				(7,703)	(7,703)								(7,703)
Changes in equity interest in consolidated subsidiaries		(445)			(445)								(445)
Other			(36)		(36)								(36)
Net changes of net assets other than shareholders' equity						6,905	66	121	1,126	33	8,253	(314)	7,939
Total changes during the year	—	(445)	(5,035)	(7,703)	(3,113)	6,905	66	121	1,126	33	8,253	(314)	4,826
Balance as of March 31, 2015	¥13,450	¥10,980	¥189,693	¥(7,705)	¥206,419	¥14,768	¥ 66	¥(442)	¥1,510	¥ 8	¥15,911	¥1,147	¥223,478
Cumulative effects of changes in accounting policies													—
Restated balance as of March 31, 2015	¥13,450	¥10,980	¥189,693	¥(7,705)	¥206,419	¥14,768	¥ 66	¥(442)	¥1,510	¥ 8	¥15,911	¥1,147	¥223,478
<b>Changes during the year</b>													
Cash dividends paid			(5,469)		(5,469)								(5,469)
Net income attributable to owners of parent			12,577		12,577								12,577
Acquisition of treasury stock				(990)	(990)								(990)
Changes in equity interest in consolidated subsidiaries		12			12								12
Other			(13)		(13)								(13)
Net changes of net assets other than shareholders' equity						1,293	332	62	(2,129)	(109)	(551)	(79)	(630)
Total changes during the year	—	12	7,094	(990)	6,117	1,293	332	62	(2,129)	(109)	(551)	(79)	5,486
Balance as of March 31, 2016	¥13,450	¥10,993	¥196,788	¥(8,695)	¥212,536	¥16,061	¥398	¥(380)	¥ (618)	¥(101)	¥15,360	¥1,067	¥228,964

	Thousands of U.S. dollars (Note 1)												
	Shareholders' equity (Note 11)					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land (Note 12)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2015	\$119,026	\$97,168	\$1,678,699	\$(68,185)	\$1,826,716	\$130,690	\$ 584	\$(3,911)	\$13,362	\$ 70	\$140,805	\$10,150	\$1,977,681
Cumulative effects of changes in accounting policies													—
Restated balance	\$119,026	\$97,168	\$1,678,699	\$(68,185)	\$1,826,716	\$130,690	\$ 584	\$(3,911)	\$13,362	\$ 70	\$140,805	\$10,150	\$1,977,681
<b>Changes during the year</b>													
Cash dividends paid			(48,398)		(48,398)								(48,398)
Net income attributable to owners of parent			111,300		111,300								111,300
Acquisition of treasury stock				(8,761)	(8,761)								(8,761)
Changes in equity interest in consolidated subsidiaries		106			106								106
Other			(115)		(115)								(115)
Net changes of net assets other than shareholders' equity						11,442	2,938	548	(18,840)	(964)	(4,876)	(699)	(5,575)
Total changes during the year	—	106	62,778	(8,761)	54,132	11,442	2,938	548	(18,840)	(964)	(4,876)	(699)	48,548
Balance as of March 31, 2016	\$119,026	\$97,283	\$1,741,486	\$(76,946)	\$1,880,849	\$142,132	\$3,522	\$(3,362)	\$(5,469)	\$(893)	\$135,929	\$ 9,442	\$2,026,230

The accompanying notes are an integral part of these statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>I. Cash flows from operating activities</b>			
Income before income taxes	¥20,411	¥18,467	\$180,628
Depreciation and amortization	15,749	14,863	139,371
Increase in net defined benefit liability	1,587	781	14,044
Decrease in other allowances	(842)	(547)	(7,451)
Equity in earnings of unconsolidated subsidiaries and affiliates	(145)	(286)	(1,283)
Interest and dividend income	(710)	(636)	(6,283)
Interest expense	276	84	2,442
Loss (gain) on sales and disposal of properties	(74)	231	(654)
Impairment loss	—	226	—
Gain on sales of investment securities	(23)	(39)	(203)
Loss on valuation of investment securities	20	17	176
Changes in assets and liabilities:			
Increase in trade receivables	(4,473)	(7,674)	(39,584)
Increase in inventories	(249)	(504)	(2,203)
Decrease in other assets	282	177	2,495
Increase in trade payables	2,293	1,868	20,292
Increase (decrease) in other liabilities	(274)	1,515	(2,424)
Others, net	360	1,290	3,185
	34,189	29,835	302,557
Interest and dividends received	710	783	6,283
Interest paid	(276)	(84)	(2,442)
Income taxes paid	(8,264)	(5,934)	(73,132)
Others, net	223	(1,285)	1,973
Net cash provided by operating activities	26,582	23,314	235,238
<b>II. Cash flows from investing activities</b>			
Decrease in time deposits, net	(10,138)	(1,330)	(89,716)
Payments for purchase of property, plant and equipment	(17,693)	(8,148)	(156,575)
Proceeds from sale of property, plant and equipment	156	38	1,380
Payments for purchase of intangible assets	(772)	(4,375)	(6,831)
Payments for purchase of marketable securities and investment securities	(9,585)	(45,008)	(84,823)
Proceeds from sale and redemption of marketable securities and investment securities	9,027	88,072	79,884
Payments for acquisition of business (Note 3)	(3,857)	(24,383)	(34,132)
Others, net	(309)	(117)	(2,734)
Net cash provided by (used in) investing activities	(33,172)	4,746	(293,557)
<b>III. Cash flows from financing activities</b>			
Increase in short-term borrowings, net	339	605	3,000
Proceeds from long-term loans payable	1,256	—	11,115
Repayment of long-term loans payable	(15)	—	(132)
Cash dividends paid	(5,474)	(5,362)	(48,442)
Cash dividends paid to non-controlling shareholders of consolidated subsidiaries	(77)	(118)	(681)
Payments for lease obligations	(626)	(588)	(5,539)
Payments for purchase of treasury stock, net	(990)	(7,703)	(8,761)
Proceeds from share issuance to non-controlling shareholders	—	54	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(119)	(815)	(1,053)
Net cash used in financing activities	(5,707)	(13,929)	(50,504)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	154	515	1,362
<b>V. Net increase (decrease) in cash and cash equivalents</b>	(12,143)	14,647	(107,460)
<b>VI. Cash and cash equivalents at beginning of year</b>	55,675	41,028	492,699
<b>VII. Increase in cash and cash equivalents from newly consolidated subsidiary</b>	59	—	522
<b>VIII. Cash and cash equivalents at end of year (Note 3)</b>	¥43,591	¥55,675	\$385,761

The accompanying notes are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

### 1. Basis of presentation of consolidated financial statements

Kurita Water Industries Ltd. (the "Company") and its domestic subsidiaries maintain their books of account and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, while its foreign subsidiaries maintain their books of account and prepare their financial statements in conformity with those of the countries of their domicile. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The Company's consolidated financial statements, prepared in accordance with accounting principles and practices generally accepted in Japan, were filed with the Japanese Ministry of Finance and the Tokyo Stock Exchange as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications of accounts and modifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. In addition, certain reclassifications have been made in the 2015 financial statements to conform to the classification used in 2016.

All figures in the consolidated financial statements and notes are stated in millions of Japanese yen by discarding fractional amounts of less than ¥1 million. As a result, the totals shown in the consolidated financial statements and notes in yen do not necessarily agree with the sum of the individual amounts.

The translation of yen amounts as of or for the year ended March 31, 2016 into U.S. dollars is included solely for the convenience of readers and has been made, as a matter of arithmetical computation only, at the rate of ¥113 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2016. The translation should not be construed as a representation that yen amounts have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

### 2. Significant accounting policies

#### (1) Consolidation

##### Scope of consolidation

The consolidated financial statements included the accounts of the Company and its significant subsidiaries (together, the "Group"). For the years ended March 31, 2016 and 2015, 45 and 43 subsidiaries were consolidated, respectively.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

All significant inter-company transactions and balances have been eliminated in consolidation.

*Names of principal consolidated subsidiaries:*

Kurita Europe APW GmbH  
Kurita Water Industries (Jiangyin) Co., Ltd.  
Hansu Technical Service Ltd.  
Kuritaz Co., Ltd.  
Kurita Engineering Co., Ltd.  
Kuritec Service Co. Ltd.  
Kurita Chemical Manufacturing Ltd.

##### Fiscal years of consolidated subsidiaries

The fiscal years of all of the foreign consolidated subsidiaries (Kurita (Singapore) Pte. Ltd. and others) end on December 31. For these consolidated subsidiaries, the financial statements as of December

31 were used for consolidation purposes. However, material transactions that have occurred during the three-month period from January 1 to March 31 of the following year have been adjusted as necessary for consolidation.

#### Amortization of goodwill

Goodwill is amortized using the straight-line method over a reasonable number of years, not exceeding 20 years, on a case-by-case basis, except for minor amounts that are charged to income in the period of acquisition.

#### (2) Equity method

##### Scope of equity method application

Under the influence concept, significant investments in unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence with regard to the operating and financial policies of the investees are accounted for by the equity method. For the years ended March 31, 2016 and 2015, 5 and 6 companies were accounted for by the equity method, respectively.

*Name of principal company applying the equity method:*

Matsuyama Safety Water

Investments in the remaining unconsolidated subsidiaries and affiliates were stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

##### Fiscal years of companies accounted for by the equity method

The companies accounted for by the equity method that have different closing dates are included in the consolidated financial statements based on their respective fiscal year-end.

#### (3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, readily available bank deposits, and short-term investments with an original maturity of three months or less and subject to a minor risk of fluctuations in value.

#### (4) Available-for-sale securities

Available-for-sale securities that have available fair values are stated at fair value at the balance sheet date, with resulting unrealized holding gains and losses reported as a separate component of net assets. Available-for-sale securities with no available fair values are stated at cost computed by the moving-average method. The cost of sold securities is computed by the moving-average method.

#### (5) Inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost determined by the moving-average method, except for work in process determined by the specific-identification method, or net selling value.

#### (6) Derivative transactions

Derivative transactions are measured at fair value in principle.

#### (7) Depreciation of property, plant and equipment

Property, plant and equipment is depreciated by the declining-balance method for the Company and its domestic consolidated subsidiaries, except for buildings (other than building equipment) acquired on and after April 1, 1998, and ultrapure water supply facilities located at clients' sites,

for which the straight-line method is applied. The straight-line method is applied by foreign consolidated subsidiaries.

The estimated useful lives of these assets are as follows:

Buildings and structures:	2–65 years
Machinery and equipment:	4–10 years

#### (8) Intangible assets

Intangible assets are amortized by the straight-line method.

#### (9) Impairment of long-lived assets

The Company reviews its long-lived assets for impairment in accordance with the accounting standards for impairment of fixed assets whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

#### (10) Accrued employees' bonuses

The Company and its domestic consolidated subsidiaries accrue the amount of employees' bonuses based on the anticipated bonus payments to employees.

#### (11) Provision for loss on construction contracts

Provision for loss on construction contracts is provided in an amount sufficient to cover probable losses on construction contracts on hand when substantial losses in the future are anticipated and can be reasonably estimated.

#### (12) Hedges

Gain or loss on derivatives designated as hedging instruments is deferred until the gain or loss on the underlying hedged items is recognized.

The Company uses forward foreign exchange contracts only in order to manage certain risks arising from fluctuations in foreign exchange rates and do not use derivative transactions for speculative purposes.

The Company evaluates the effectiveness of its hedging activities by comparing cumulative changes in cash flows on the hedging instruments with those of the related hedged items.

Hedging instruments: Forward foreign exchange contracts

Hedged items: Forecasted transactions denominated in foreign currencies

#### (13) Accounting method for employees' retirement benefits

The straight-line method is used as a method of attributing expected benefits to be paid to the current period in calculating retirement benefit obligations.

Actuarial differences are subject to amortization over a period of 1–2 years from the year when they are incurred.

#### (14) Leases

Finance leases which do not transfer ownership are capitalized to recognize leased assets and lease obligations in the consolidated balance sheets. Leased assets are depreciated using the straight-line method over the respective lease periods without residual value.

**(15) Consumption taxes**

Consumption taxes are accounted for separately from transaction prices and are not reflected in the consolidated statements of income.

**(16) Construction contracts**

The percentage-of-completion method has been applied to the contracts if the outcome of the construction activity is deemed certain for the percentage of performance of the contractor's obligation at the end of the balance sheet date, otherwise the completed-contract method is applied. The percentage of completion is determined using the cost incurred to the estimated total cost.

**(17) Foreign currency translation**

Monetary receivables and payables denominated in foreign currency are translated using the spot exchange rate prevailing at the balance sheet date, and the differences are charged to income as foreign exchange gains or losses.

Foreign subsidiaries' assets and liabilities are translated using the spot exchange rate at their balance sheet dates, and their income and expenses are translated using the average exchange rate during the year. The translation differences are recorded in "Foreign currency translation adjustments" and "Non-controlling interests" in net assets.

**(18) Appropriation of retained earnings**

The accompanying consolidated statements of changes in net assets reflect the appropriations of retained earnings of the Company in the fiscal year in which the appropriations are approved at the general shareholders' meeting.

**(19) Earnings per share**

Earnings per share are computed by dividing net income attributable to common shareholders of parent by the weighted-average number of common shares outstanding.

**(20) Accounting standard issued but not yet adopted****Implementation Guidance on Recoverability of Deferred Tax Assets**

(ASBJ Guidance No. 26, March 28, 2016; "Guidance No. 26")

**(1) Outline of changes**

Guidance No. 26 basically continues to follow the framework of Auditing Committee Report No. 66 "Audit Treatment regarding Judgement of Recoverability of Deferred Tax Assets," whereby companies are classified into five categories and deferred tax assets are assessed based on each of these categories. Necessary revisions were made on the following accounting treatments:

- 1) Treatment for companies that do not satisfy any of the category requirements for Category 1 to Category 5
- 2) Category requirements for Category 2 and Category 3
- 3) Treatment of unscheduled deductible temporary differences for the companies in Category 2
- 4) Treatment for the period in which a reasonable estimate is possible for the future taxable income before considering taxable or deductible temporary differences for the companies in Category 3
- 5) Treatment for the companies which satisfy Category 4 requirements but also satisfy Category 2 or Category 3

**(2) Date of adoption**

Guidance No. 26 will be adopted from the beginning of the year ending March 31, 2017.

**(3) Effect of adoption of Guidance No. 26**

The effect of adoption of Guidance No. 26 on the consolidated financial statements is under assessment.

**(21) Change in presentation****Change due to adoption of Accounting Standard for Business Combinations, etc.**

The Group adopted the treatment stipulated in article 39 of "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013). Accordingly, the Group changed the presentation of net income, etc., and the presentation of minority interests to non-controlling interests. The Group has reclassified the 2015 consolidated financial statements to conform to the change in presentation.

**(22) Reclassifications**

Certain reclassifications have been made in the 2015 consolidated financial statements to conform to the 2016 presentation. These reclassifications had no impact on previously reported results of operations.

**3. Reconciliation between cash and cash equivalents .....**

- (1) The reconciliation between the fiscal year-end cash and cash equivalents (See Note 2 (3)) in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheet items is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash and time deposits	¥58,374	¥52,497	\$516,584
Time deposits with original maturity of more than three months	(21,783)	(11,821)	(192,769)
Certificates of deposits included in marketable securities, excluding deposits maturing over three months	7,000	14,000	61,946
Commercial paper included in marketable securities, excluding paper maturing over three months	—	999	—
Cash and cash equivalents	¥43,591	¥55,675	\$385,761

- (2) The details of assets and liabilities in relation to acquisition of business for cash and cash equivalents consideration

For the year ended March 31, 2015

The details of assets in relation to acquisition of the water treatment chemicals business, paper process chemicals business, and alumina chemical compounds business from BK Giulini GmbH and its affiliates for cash and cash equivalents consideration and reconciliation between acquisition costs of the businesses and net payment for the acquisition are as follows:

	Millions of yen
Current assets	¥ 5,124
Non-current assets	7,045
Goodwill	18,825
Current liabilities	(1,191)
Non-current liabilities	(1,196)
Total acquisition costs	28,606
Accounts payable – other in relation to the acquisition of businesses	(3,387)
Cash and cash equivalents	(835)
Net payment for the acquisition of businesses	¥24,383

#### 4. Financial instruments and related disclosures .....

##### (1) Policy for financial instruments

The Group invests its funds in low-risk financial assets (deposits, etc.) in principle. The Group finances its working fund and capital investment fund internally and does not need external funds, but may raise necessary funds from external resources in case of special demand for significant capital investment, if any. In such cases, financing from external resources would be possible without any problem thanks to our sound financial position. With respect to derivatives, only forward foreign currency contracts are used if necessary to avoid foreign exchange risk, and not for speculative purposes.

##### (2) Nature of financial instruments and their related risks

Trade receivables such as notes and accounts are exposed to customer credit risk. Certain trade receivables denominated in foreign currencies arising from overseas operations are exposed to the market risk of fluctuation in foreign currency exchange rates.

Marketable securities and investment securities are exposed to the risk of market price fluctuations and business risk of the investees.

Payment terms of trade payables such as notes and accounts are mostly less than one year. Lease obligations under finance lease transactions are mainly related to the ultrapure water supply business and its payment term is 13 years (14 in 2015) later at maximum.

##### (3) Risk management system for financial instruments

###### Credit risk management (customers' default risk):

The Company manages its credit risk involved in trade receivables based on the Credit Control Policy and Manual. The Control Division of each business unit and the Legal Department collect credit information on a regular basis and control the payment terms and outstanding balances by customer, and the Company is making efforts to prevent them from damages and to improve the soundness of the transactions by monitoring the default risk of customers due to the deterioration of their financial position at an early stage. The consolidated subsidiaries are also making efforts to reduce credit risk by controlling payment terms and outstanding balances of customers. Counterparties of forward foreign currency contracts to be used to avoid foreign exchange risk when necessary are limited to high-credit-rating financial institutions and, accordingly, we believe there is very little credit risk.

###### Market risk management (foreign exchange risk and interest rate risk):

The Company and certain consolidated subsidiaries utilize forward foreign currency contracts to hedge the market risk of fluctuations in foreign exchange rates involved in trade receivables and payables by currency and by month. Forward foreign currency contracts are executed and controlled by the Finance & Accounting Department after the individual contract is approved in accordance with the predetermined rule.

The fair value of marketable securities and investment securities and the financial position of the issuers are regularly reviewed. The Finance & Accounting Department of the Company executes and monitors each of the forward foreign currency contracts individually, followed by appropriate authorization procedures prescribed in the internal rules.

###### Liquidity risk management (risk that the Company may not be able to settle on the payment due date):

The Finance & Accounting Department of the Company and its consolidated subsidiaries prepare and update the fund management plan every month based on reports from each business unit and hold a sufficient amount of liquidity in hand and manage the liquidity risk.

Carrying amounts, fair values and unrealized gain (loss) of financial instruments at March

31, 2016 and 2015 were as follows (financial instruments whose fair values cannot be reliably determined are not included in the following tables):

At March 31, 2016	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 58,374	¥ 58,374	¥—
Notes and accounts receivable, trade	71,016	71,016	—
Marketable securities and investment securities Available-for-sale securities	41,800	41,800	—
Total assets	¥171,190	¥171,190	¥—
Notes and accounts payable, trade	¥ 22,780	¥ 22,780	¥—
Total liabilities	¥ 22,780	¥ 22,780	¥—
Derivatives	¥ 757	¥ 757	¥—

At March 31, 2016	Thousands of U.S. dollars (Note 1)		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 516,584	\$ 516,584	\$—
Notes and accounts receivable, trade	628,460	628,460	—
Marketable securities and investment securities Available-for-sale securities	369,911	369,911	—
Total assets	\$1,514,955	\$1,514,955	\$—
Notes and accounts payable, trade	\$ 201,592	\$ 201,592	\$—
Total liabilities	\$ 201,592	\$ 201,592	\$—
Derivatives	\$ 6,699	\$ 6,699	\$—

At March 31, 2015	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 52,497	¥ 52,497	¥—
Notes and accounts receivable, trade	67,324	67,324	—
Marketable securities and investment securities Available-for-sale securities	47,334	47,334	—
Total assets	¥167,156	¥167,156	¥—
Notes and accounts payable, trade	¥ 20,820	¥ 20,820	¥—
Total liabilities	¥ 20,820	¥ 20,820	¥—
Derivatives	¥ (11)	¥ (11)	¥—

Notes:

###### a. Computation method of fair values

Cash and time deposits and notes and accounts receivable, trade:  
Fair values approximate carrying amounts because of their short maturities.

Marketable securities and investment securities:  
Fair values approximate carrying amounts because of their short maturities since marketable securities consist of certificates of deposits, commercial paper, and money trusts. Fair values of investment securities are determined based on the quoted market price of the stock exchange.

Notes and accounts payable, trade:  
Fair values approximate carrying amounts because of short maturities.

Derivatives:  
Details and information are discussed in Note 6.

###### b. Financial instruments whose fair values cannot be reliably determined are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unlisted equity securities (Unlisted shares)	¥ 90	¥ 90	\$ 796
Investments in capital	410	241	3,628
Shares of unconsolidated subsidiaries and affiliates	2,739	3,253	24,238

These securities are not included in above "Marketable securities and investment securities" since their fair values cannot be reliably determined.

c. Maturities of monetary receivables and securities after the balance sheet date

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
At March 31, 2016				
Deposits	¥ 58,338	¥—	¥—	¥—
Notes and accounts receivable, trade	71,016	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Certificates of deposits)	7,000	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Commercial paper)	566	—	—	—
Total	¥136,921	¥—	¥—	¥—

	Thousands of U.S. dollars (Note 1)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
At March 31, 2016				
Deposits	\$ 516,265	\$—	\$—	\$—
Notes and accounts receivable, trade	628,460	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Certificates of deposits)	61,946	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Commercial paper)	5,008	—	—	—
Total	\$1,211,690	\$—	\$—	\$—

## 5. Marketable securities and investment securities.....

(1) Available-for-sale securities with fair value at March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
At March 31, 2016			
Carrying amount exceeding acquisition cost:			
Stocks	¥34,138	¥11,898	¥22,240
Bonds	—	—	—
Other	—	—	—
Subtotal	34,138	11,898	22,240
Carrying amount not exceeding acquisition cost:			
Stocks	95	140	(44)
Bonds	—	—	—
Other	—	—	—
Subtotal	95	140	(44)
Total	¥34,233	¥12,038	¥22,195

	Thousands of U.S. dollars (Note 1)		
	Carrying amount	Acquisition cost	Difference
At March 31, 2016			
Carrying amount exceeding acquisition cost:			
Stocks	\$302,106	\$105,292	\$196,814
Bonds	—	—	—
Other	—	—	—
Subtotal	302,106	105,292	196,814
Carrying amount not exceeding acquisition cost:			
Stocks	840	1,238	(389)
Bonds	—	—	—
Other	—	—	—
Subtotal	840	1,238	(389)
Total	\$302,946	\$106,530	\$196,415

Notes:

The above table does not include negotiable deposits that have not been assigned a market value (value on consolidated balance sheets: ¥7,000 million), unlisted shares (value on consolidated balance sheets: ¥90 million), investments in unaffiliated companies (value on consolidated balance sheets: ¥410 million), and money trusts (value on consolidated balance sheets: ¥566 million).

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
At March 31, 2015			
Carrying amount exceeding acquisition cost:			
Stocks	¥32,284	¥11,990	¥20,293
Bonds	—	—	—
Other	—	—	—
Subtotal	32,284	11,990	20,293
Carrying amount not exceeding acquisition cost:			
Stocks	49	63	(13)
Bonds	—	—	—
Other	—	—	—
Subtotal	49	63	(13)
Total	¥32,334	¥12,054	¥20,280

Notes:

The above table does not include negotiable deposits that have not been assigned a market value (value on consolidated balance sheets: ¥14,000 million), commercial paper (value on consolidated balance sheets: ¥999 million), unlisted shares (value on consolidated balance sheets: ¥90 million), and investments in capital (value on consolidated balance sheets: ¥241 million).

(2) Available-for-sale securities sold during the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Sales amount	¥27	¥72	\$238
Total gains on sales	23	39	203
Total losses on sales	—	—	—

## 6. Derivatives

Derivatives for which hedge accounting was not applied at March 31, 2016 and 2015 are as follows:

### Currency related

At March 31, 2016	Hedging instrument	Millions of yen			
		Contract amount	Due after one year	Fair value	Unrealized gains (losses)
	Currency swaps: Receive Yen, Pay Korean Won	¥3,566	¥2,913	¥220	¥220

At March 31, 2016	Hedging instrument	Thousands of U.S. dollars (Note 1)			
		Contract amount	Due after one year	Fair value	Unrealized gains (losses)
	Currency swaps: Receive Yen, Pay Korean Won	\$31,557	\$25,778	\$1,946	\$1,946

At March 31, 2015	Hedging instrument	Millions of yen			
		Contract amount	Due after one year	Fair value	Unrealized gains (losses)
	Currency swaps: Receive Yen, Pay Korean Won	¥3,081	¥3,081	¥(109)	¥(109)

Note: Fair value is based on the prices provided by the counterparty financial institutions.

Derivatives for which hedge accounting was applied at March 31, 2016 and 2015 are as follows:

### Currency related

At March 31, 2016	Hedging instrument	Hedged item	Millions of yen		
			Contract amount	Due after one year	Fair value
	Currency swap contracts:				
	Receive Yen, Pay Euro	Forecasted transactions denominated in foreign currencies	¥12,388	¥11,011	¥537

At March 31, 2016	Hedging instrument	Hedged item	Thousands of U.S. dollars (Note 1)		
			Contract amount	Due after one year	Fair value
	Currency swap contracts:				
	Receive Yen, Pay Euro	Forecasted transactions denominated in foreign currencies	\$109,628	\$97,442	\$4,752

At March 31, 2015	Hedging instrument	Hedged item	Millions of yen		
			Contract amount	Due after one year	Fair value
	Currency swap contracts:				
	Receive Yen, Pay Euro	Forecasted transactions denominated in foreign currencies	¥13,764	¥12,388	¥97

Note: Fair value is based on the prices provided by the counterparty financial institutions.

## 7. Inventories

Inventories at March 31, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Finished products	¥3,130	¥3,840	\$27,699
Raw materials	2,433	2,561	21,530
Work in process	3,690	3,078	32,654
Total	¥9,254	¥9,480	\$81,893

Inventories and provision for loss on construction contracts related to construction contracts that are likely to incur losses are presented as is and are not offset. The amount of inventories (work in process) corresponding to the provision for loss on construction contracts is immaterial.

## 8. Short-term borrowings and long-term debt

### (1) Short-term borrowings and current portion of long-term debt

The short-term borrowings and current portion of long-term debt at March 31, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Short-term borrowings	¥1,617	¥1,182	\$14,309
Current position of long-term borrowings	61	16	539
Current portion of lease obligations	621	595	5,495
Total	¥2,300	¥1,794	\$20,353

The weighted-average annual interest rate of short-term borrowings for the years ended March 31, 2016 and 2015 were 4.51% and 5.04%, respectively.

### (2) Long-term debt

Long-term debt at March 31, 2016 and 2015 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Long-term borrowings	¥1,081	¥ 54	\$ 9,566
Less current portion of long-term borrowings	(61)	(16)	(539)
Long-term borrowings (Excluding current portion)	¥1,019	¥ 38	\$ 9,017
Lease obligations	¥5,384	¥5,754	\$47,646
Less current portion of lease obligations	(621)	(595)	(5,495)
Lease obligations (Excluding current portion)	¥4,763	¥5,159	\$42,150

The weighted-average annual interest rate of long-term borrowings for the years ended March 31, 2016 and 2015 were 1.04% and 2.98%, respectively.

Annual maturities of long-term borrowings at March 31, 2016 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥ 61	\$ 539
2018	253	2,238
2019	243	2,150
2020	243	2,150
2021	243	2,150

Annual maturities of lease obligations at March 31, 2016 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥621	\$5,495
2018	546	4,831
2019	511	4,522
2020	472	4,176
2021	398	3,522

### (3) Other long-term liabilities

Other than the short-term borrowings, long-term borrowings and lease obligations described above, ¥682 million (US\$6,035 thousand) and ¥663 million of interest-bearing long-term deposits received were included in other long-term liabilities as of March 31, 2016 and 2015, respectively.

The weighted-average annual interest rates for such deposits received for the years ended March 31, 2016 and 2015 were 0.36%.

## 9. Income taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Deferred tax assets:</b>			
Excess depreciation of property, plant and equipment	¥ 5,778	¥ 6,205	\$ 51,132
Net defined benefit liability	4,431	4,000	39,212
Loss on revaluation of investment securities	1,008	1,063	8,920
Excess provision for accrued bonuses to employees	693	737	6,132
Tax loss carry-forward of consolidated subsidiaries	316	75	2,796
Accrued enterprise taxes not deductible	286	355	2,530
Impairment loss	233	325	2,061
Unrealized gains on sale of property, plant and equipment	264	264	2,336
Excess provision of allowance for product warranty	211	234	1,867
Other	1,836	1,269	16,247
Subtotal	15,060	14,530	133,274
Valuation allowance	(1,244)	(1,452)	(11,008)
Total deferred tax assets	13,816	13,077	122,265
<b>Deferred tax liabilities:</b>			
Unrealized losses on available-for-sale securities	(6,113)	(5,502)	(54,097)
Tangible and intangible assets identified due to business combinations	(1,096)	(937)	(9,699)
Estimated income taxes pertaining to retained earnings of foreign consolidated subsidiaries	(712)	(741)	(6,300)
Capital gains on properties deferred for tax purposes	(539)	(576)	(4,769)
Other	(166)	(105)	(1,469)
Total deferred tax liabilities	(8,628)	(7,862)	(76,353)
Deferred tax assets, net	¥ 5,187	¥ 5,215	\$ 45,902

Provision for loss on construction contracts which was separately presented as a component of deferred tax assets for the year ended March 31, 2015 is included in Other in deferred tax assets from the year ended March 31, 2016 because of decreased materiality. The 2015 note on significant components of the deferred tax assets and liabilities has been reclassified to conform to the change in presentation.

As a result, provision of loss on construction contracts of ¥106 million which was separately presented in deferred tax assets as of March 31, 2015 has been reclassified to Other in deferred tax assets.

Tax loss carry-forward of consolidated subsidiaries which was included in Other as a component of deferred tax assets for the year ended March 31, 2015 is separately presented from the year ended March 31, 2016 because of increased materiality. The 2015 note on significant components of the deferred tax assets and liabilities has been reclassified to conform to the change in presentation.

As a result, ¥1,344 million which was presented as Other in deferred tax assets as of March 31, 2015 has been reclassified to ¥75 million of tax loss carry-forward of consolidated subsidiaries and ¥1,269 million of Other.

A reconciliation between the normal effective statutory tax rate and the effective income tax rate as a percentage of income before income taxes for the years ended March 31, 2016 and 2015 was as follows:

	2016	2015
Normal effective statutory tax rate	33.1%	35.6%
Non-deductible loss on valuation of marketable securities	(0.7)	—
Expenses not deductible for income tax purposes	0.3	0.4
Withholding tax withheld from foreign subsidiaries' dividends	0.4	0.5
Reversal of deferred tax liabilities on retained earnings of foreign consolidated subsidiaries	0.1	(0.4)
Dividend income not taxable for income tax purposes	0.1	(0.3)
R&D expense tax credit	(1.5)	(1.4)
Difference in statutory tax rates of foreign subsidiaries	(0.7)	(0.1)
Reduction of deferred tax assets due to tax rate change	3.5	6.8
Per capita inhabitant taxes	0.5	0.5
Other	2.4	1.5
Actual effective tax rate	37.5%	43.1%

On March 29, 2016, "Act on Partial Revision of the Income Tax Act" (Act No. 15 of 2016) and "Act on Partial Revision of the Local Tax Act" (Act No. 13 of 2016) were enacted in the Diet session. As a result, the normal effective statutory tax rate will be changed from 32.3% to 30.9% for the year beginning on April 1, 2016 and the year beginning on April 1, 2017, and to 30.6% for the year beginning on April 1, 2018.

As a result of this change, compared with when using the previous normal effective statutory tax rate, deferred tax assets, net of deferred tax liabilities as of March 31, 2016 decreased by ¥381 million (US\$3,371 thousand) and income taxes – deferred increased by ¥722 million (\$6,389 thousand), which resulted in increase in income tax expenses, for the year ended March 31, 2016.

## 10. Retirement benefits and pension plans.....

### Defined benefit plans

The Company and certain consolidated subsidiaries provide lump-sum retirement benefit plans for defined benefit plans. Also, the Company and certain consolidated subsidiaries provide defined contribution pension plans. Certain consolidated subsidiaries use the simplified method for computing retirement benefit obligations.

#### (1) Movement in retirement benefit obligations, except plans applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of year	¥12,364	¥ 9,975	\$109,415
Cumulative effects of changes in accounting policies	—	779	—
Restated balance at beginning of year	¥12,364	¥10,754	\$109,415
Service cost	695	629	6,150
Interest cost	132	106	1,168
Actuarial differences incurred	1,125	92	9,955
Benefits paid	(365)	(370)	(3,230)
Increase due to acquisition of business	—	1,093	—
Other	(20)	58	176
Balance at end of year	¥13,931	¥12,364	\$123,283

#### (2) Movement in net defined benefit liability for plans applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of year	¥1,385	¥1,387	\$12,256
Net periodic benefit costs	214	95	1,893
Benefits paid	(161)	(97)	(1,424)
Increase due to newly consolidated subsidiaries	98	—	867
Balance at end of year	¥1,536	¥1,385	\$13,592

#### (3) Reconciliation between retirement benefit obligations and net defined benefit liability

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Retirement benefit obligations	¥15,467	¥13,750	\$136,876
Net liability on the consolidated balance sheet	¥15,467	¥13,750	\$136,876
Net defined benefit liability	¥15,467	¥13,750	\$136,876
Net liability on the consolidated balance sheet	¥15,467	¥13,750	\$136,876

#### (4) Net periodic benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Service cost	¥ 695	¥ 629	\$ 6,150
Interest cost	132	106	1,168
Amortization of actuarial differences	966	144	8,548
Net periodic benefit costs computed by simplified method	214	95	1,893
Other	17	27	150
Net periodic benefit costs	¥2,026	¥1,002	\$17,929

#### (5) Remeasurements of defined benefit plans, before income tax effect in other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Actuarial differences	¥(158)	¥12	\$(1,398)
Total	¥(158)	¥12	\$(1,398)

#### (6) Remeasurements of defined benefit plans, before income tax effect in accumulated other comprehensive income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrecognized actuarial differences	¥(146)	¥12	\$(1,292)
Total	¥(146)	¥12	\$(1,292)

**(7) Assumptions for actuarial calculation**

The Company uses multiple weighted-average discount rates determined by reflecting the estimated periods of retirement benefit payments.

The Company and its consolidated subsidiaries not using the simplified method for computing retirement benefit obligations have changed the discount rate, as a result of a review made at March 31, 2016, based on the judgment that the discount rate applied at April 1, 2015 will affect the computation of retirement benefit obligations. As a result of this change, retirement benefit obligations as of March 31, 2016 increased by ¥1,269 million (US\$11,230 thousand) and net periodic benefit costs for the year ended March 31, 2016 increased by ¥1,153 million (US\$10,203 thousand). Negative discount rates were adjusted to 0% in computing retirement benefit obligations.

**Defined contribution pension plans**

The amount to be contributed to the defined contribution pension plans by the Company and its consolidated subsidiaries was ¥852 million (US\$7,539 thousand) and ¥880 million for the years ended March 31, 2016 and 2015, respectively.

**11. Shareholders' equity**

Japanese companies are subject to the Companies Act. A summary of the sections of the Companies Act that affect financial statements and accounting matters is as follows:

**(1) Distribution of dividends to shareholders**

Under the Companies Act, if companies meet certain criteria, dividends can be paid at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors' meeting if the articles of incorporation of the company so stipulate.

The Companies Act provides certain limitations on the amounts available for dividends and/or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, and it is calculated mainly based on capital surplus other than paid-in capital, retained earnings, and treasury stock, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

**(2) Increases/decreases; transfer of common stock, reserve, and surplus**

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. However, such appropriation may not be made if the aggregate amount of legal reserve and additional paid-in capital exceeds 25% of the common stock. Under the Companies Act, this legal reserve and additional paid-in capital may be reversed without limitation.

The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

**(3) Treasury stock**

The Companies Act provides that companies may purchase, hold, or dispose of such treasury stock by resolution of the Board of Directors' meetings. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

**12. Revaluation reserve for land**

The Company implemented a revaluation of land for business use in accordance with the Land Revaluation Law (enacted on March 31, 1998). The revaluation difference, net of taxes is stated as "Revaluation reserve for land" in accumulated other comprehensive income in net assets. The tax equivalent is stated as deferred tax assets or liabilities in long-term liabilities.

When any revaluated land is sold, the related unrealized gain or loss on revaluation of land is transferred to retained earnings.

Revaluation method: The revaluation of land was computed in accordance with Article Two, Item One of the Land Revaluation Law Enforcement Order.

Revaluation date: March 31, 2002

**13. Cost of sales**

Provision for loss on construction contracts included in cost of sales were ¥(728) million (US\$(6,442) thousand) and ¥(273) million for the years ended March 31, 2016 and 2015, respectively.

**14. Selling, general and administrative expenses**

Selling, general and administrative expenses for the years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Salaries and allowances	¥19,021	¥16,064	\$168,327
Provision for employees' bonuses	1,318	1,216	11,663
Retirement benefit expenses	2,001	1,117	17,707
Travel expenses	3,023	2,767	26,752
Research and development expenses	5,269	4,397	46,628
Other	19,939	13,889	176,451
Total	¥50,574	¥39,454	\$447,557

**15. Other income (expenses)**

Gain on sales of properties for the years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Buildings and structures	¥ 29	¥—	\$ 256
Machinery and equipment	108	—	955
Leased assets	6	—	53
Other (Tools, furniture and fixtures, etc.)	3	—	26
Total	¥148	¥—	\$1,309

Loss on disposal of properties for the years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Buildings and structures	¥—	¥ 57	\$—
Other (Leasehold, etc.)	—	184	—
Total	¥—	¥241	\$—

## 16. Comprehensive income .....

The components of other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrealized gains on available-for-sale securities:			
Amount arising during the year	¥1,852	¥9,520	\$16,389
Reclassification adjustments to profit or loss	38	(15)	336
Amount before income tax effect	1,891	9,505	16,734
Income tax effect	(597)	(2,588)	(5,283)
Subtotal	1,293	6,916	11,442
Deferred gains on hedges:			
Amount arising during the year	465	97	4,115
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	465	97	4,115
Income tax effect	(132)	(31)	(1,168)
Subtotal	332	66	2,938
Revaluation reserve for land:			
Income tax effect	62	121	548
Foreign currency translation adjustments:			
Amount arising during the year	(2,113)	1,049	(18,699)
Remeasurments of defined benefit plans:			
Amount arising during the year	(146)	12	(1,292)
Reclassification adjustments to profit or loss	(12)	39	(106)
Amount before income tax effect	(158)	52	(1,398)
Income tax effect	48	(18)	424
Subtotal	(109)	33	(964)
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the year	(86)	125	(761)
Reclassification adjustments to profit or loss	0	(9)	0
Subtotal	(86)	115	(761)
Total	¥ (621)	¥8,303	\$ (5,495)

## 17. Business combinations .....

Business combinations carried out with Kurita Europe APW GmbH, Kurita Water Industries (Jiangyin) Co., Ltd. and seven other companies on January 31, 2015 for which a provisional accounting treatment was applied in the year ended March 31, 2015 were completed in the year ended March 31, 2016.

Due to the completion of the provisional accounting treatment, significant changes to the initial allocation of acquisition costs were reflected in the 2015 information included in the consolidated financial statements.

As a result, the provisional amount of goodwill of ¥19,391 million decreased by ¥1,916 million, to ¥17,475 million. This decrease is primarily due to increases in inventories, property, plant and equipment, and other intangible assets of ¥626 million, ¥987 million, and ¥1,760 million, respectively.

## 18. Segment information .....

### (1) Overview of reportable segments

The Company's reportable segments are components of the Group about which separate financial information is available. These segments are subject to periodic examinations to enable the Company's Board of Directors to decide how to allocate resources and assess performance.

The Company's business divisions are based on product and service categories. Each of the divisions conducts business based on comprehensive strategies formulated for the products and services that they handle in Japan and overseas. The Company's consolidated subsidiaries conduct business under the supervision of the relevant business divisions.

The Group's operations are therefore classified into two reportable segments, the Water Treatment Chemicals segment and the Water Treatment Facilities segment, based on the products and services handled by each of the divisions.

The Water Treatment Chemicals segment manufactures and sells water treatment chemicals and equipment and provides maintenance services. The Water Treatment Facilities segment manufactures and sells water treatment equipment and facilities, provides ultrapure water, chemical cleaning, tool cleaning, soil and groundwater remediation services, and provides maintenance services that encompass operation, maintenance, and management of water treatment facilities.

### (2) Methods for calculating sales, income and loss, assets and liabilities, and other amounts by reportable segment

Accounting methods applied in the reportable segments are consistent with the methods applied in preparation of the accompanied consolidated financial statements. Segment income represents operating income. Intersegment sales and transfers between the Group reflect values based on market price. Intersegment sales and transfers between the Company's divisions are based primarily on book values.

## (3) Sales, income and loss, assets and liabilities, and other amounts by reportable segment

Year ended March 31, 2016	Millions of yen				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Adjustments	Consolidated
Sales					
1) Sales to outside customers	¥83,680	¥130,692	¥214,372	¥ —	¥214,372
2) Intersegment sales	235	158	394	(394)	—
Total	¥83,916	¥130,850	¥214,767	¥ (394)	¥214,372
Segment income	¥ 6,467	¥ 13,366	¥ 19,834	¥ (0)	¥ 19,833
Segment assets	79,365	142,564	221,930	76,176	298,107
Segment liabilities	24,142	45,060	69,202	(59)	69,142
Other items					
Depreciation and amortization	2,613	12,068	14,682	—	14,682
Impairment loss	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	2,434	17,188	19,623	—	19,623

Year ended March 31, 2016	Thousands of U.S. dollars (Note 1)				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Adjustments	Consolidated
Sales					
1) Sales to outside customers	\$740,530	\$1,156,566	\$1,897,097	\$ —	\$1,897,097
2) Intersegment sales	2,079	1,398	3,486	(3,486)	—
Total	\$742,619	\$1,157,964	\$1,900,592	\$ (3,486)	\$1,897,097
Segment income	\$ 57,230	\$ 118,283	\$ 175,522	\$ (0)	\$ 175,513
Segment assets	702,345	1,261,628	1,963,982	674,123	2,638,115
Segment liabilities	213,646	398,761	612,407	(522)	611,876
Other items					
Depreciation and amortization	23,123	106,796	129,929	—	129,929
Impairment loss	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	21,539	152,106	173,654	—	173,654

Year ended March 31, 2015	Millions of yen				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Adjustments	Consolidated
Sales					
1) Sales to outside customers	¥59,999	¥129,399	¥189,398	¥ —	¥189,398
2) Intersegment sales	377	231	608	(608)	—
Total	¥60,376	¥129,631	¥190,007	¥ (608)	¥189,398
Segment income	¥ 7,877	¥ 11,560	¥ 19,437	¥ (2)	¥ 19,435
Segment assets	79,790	136,391	216,182	78,310	294,492
Segment liabilities	26,653	44,581	71,235	(220)	71,014
Other items					
Depreciation and amortization	1,406	13,457	14,863	—	14,863
Impairment loss	—	226	226	—	226
Increase in property, plant and equipment and intangible assets	5,378	7,486	12,864	—	12,864

Note:

"Adjustments" represents the following:

1. Sales: Elimination of intersegment transactions
2. Segment income: Amount resulting from eliminations of intersegment transactions
3. Segment assets: Mainly corporate assets of ¥76,237 million (US\$674,663 thousand) and ¥78,533 million as of March 31, 2016 and 2015, respectively, unallocated to reportable segment assets (cash deposits, securities in trust, and long-term investments)
4. Segment liabilities: Amount resulting from eliminations of intersegment claims and liabilities

## Related Information

## (Information by geographic region)

## (1) Net sales

Year ended March 31, 2016	Millions of yen					
	Japan	Asia	North America	EMEA	Other	Total
Sales	¥150,495	¥37,778	¥2,431	¥20,698	¥2,970	¥214,372

Year ended March 31, 2016	Thousands of U.S. dollars (Note 1)					
	Japan	Asia	North America	EMEA	Other	Total
Sales	\$1,331,814	\$334,318	\$21,513	\$183,168	\$26,283	\$1,897,097

Year ended March 31, 2015	Millions of yen					
	Japan	Asia	North America	EMEA	Other	Total
Sales	¥150,291	¥32,061	¥2,028	¥1,557	¥3,460	¥189,398

Note:

Sales are allocated to regions based on the location of the customer to which the products or services are delivered or provided. EMEA includes Europe, the Middle East, and Africa.

(Change in presentation)

Because of increased materiality of the EMEA region due to acquisition of businesses operating mainly in Europe, the Middle East, and Africa, certain amounts previously presented as Europe, Asia, and Other are presented as EMEA for the year ended March 31, 2016. The 2015 net sales by geographic region have been reclassified to conform to the change in presentation.

As a result, a total amount of ¥1,557 million, out of which ¥1,514 million, ¥31 million and ¥10 million were previously presented as Europe, Asia and Other, has been reclassified to the EMEA for the year ended March 31, 2015.

## (2) Property, plant and equipment

Year ended March 31, 2016	Millions of yen					
	Japan	Asia	North America	EMEA	Other	Total
Sales	¥68,993	¥6,790	¥21	¥2,038	¥544	¥78,388

Year ended March 31, 2016	Thousands of U.S. dollars (Note 1)					
	Japan	Asia	North America	EMEA	Other	Total
Sales	\$610,557	\$60,088	\$185	\$18,035	\$4,814	\$693,699

For the year ended March 31, 2015, the Company has omitted disclosure here because property, plant and equipment holdings in Japan account for more than 90% of the amount of property, plant and equipment reported on the consolidated balance sheet.

### (Information by major customer)

Year ended March 31, 2016	Millions of yen	Thousands of U.S. dollars (Note 1)		Reportable segment
Sales to:				
Sharp Corporation	¥23,097	\$204,398		Water Treatment Facilities

Year ended March 31, 2015	Millions of yen	Thousands of U.S. dollars (Note 1)		Reportable segment
Sales to:				
Sharp Corporation	¥26,298			Water Treatment Facilities

### (Information about amortization and unamortized balance of goodwill)

Year ended March 31, 2016	Millions of yen				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Corporate/ Elimination	Total
Amortization	¥ 1,066	¥—	¥ 1,066	¥—	¥ 1,066
Unamortized balance	15,114	—	15,114	—	15,114

Year ended March 31, 2016	Thousands of U.S. dollars (Note 1)				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Corporate/ Elimination	Total
Amortization	\$ 9,433	\$—	\$ 9,433	\$—	\$ 9,433
Unamortized balance	133,752	—	133,752	—	133,752

Year ended March 31, 2015	Millions of yen				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Corporate/ Elimination	Total
Amortization	¥ —	¥—	¥ —	¥—	¥ —
Unamortized balance	17,475	—	17,475	—	17,475

## 19. Subsequent events .....

### Appropriation of retained earnings

The following appropriation of retained earnings for the year ended March 31, 2016 was approved at the ordinary general meeting of shareholders of the Company held on June 29, 2016.

Cash dividends (year-end dividends)	Thousands of U.S. dollars (Note 1)	
	Millions of yen	
	¥2,788	\$24,672

## Report of Independent Certified Public Accountants



Grant Thornton Taiyo LLC

## 20. Per share information

	Yen		U.S. dollars (Note 1)
	2016	2015	2016
Net assets per share	¥1,961.30	¥1,907.80	\$17.35
Net income per share (EPS)	108.24	87.81	0.95

The basis of calculation for net assets per share is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net assets	¥ 228,964	¥ 223,478	\$2,026,230
Amounts excluded from net assets	1,067	1,147	9,442
(Non-controlling interests on the above)	(1,067)	(1,147)	(9,442)
Net assets attributable to common shareholders of parent	227,896	222,330	2,016,778
Number of common stock at the year-end used for the calculation of net assets per share	116,196,920	116,538,033	

The basis of calculation for EPS is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income attributable to owners of parent	¥ 12,577	¥ 10,434	\$111,300
Net income attributable to common shareholders of parent	12,577	10,434	111,300
Average number of shares outstanding	116,197,479	118,825,349	

(The Company has no dilutive shares.)

## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of  
Kurita Water Industries Ltd.**

We have audited the accompanying consolidated financial statements of Kurita Water Industries Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kurita Water Industries Ltd. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*Grant Thornton Taiyo LLC*

June 29, 2016  
Tokyo, Japan

Member of Grant Thornton International Ltd

## Kurita History: Path of a Technology-Driven Company

### 1951

#### Boiler Water Supply Laboratory Established

Shortly after the Company's foundation, its first research facility was established. The laboratory started with analysis of boiler water and later began developing boiler compounds and boiler cleaning methods.



The photo shows the laboratory after the name was changed to the Central Research Laboratory

### 1972

#### One of the World's Largest Reverse Osmosis Desalination Devices Completed

The Company delivered a reverse osmosis desalination device with an unprecedented water treatment capacity of 3,000 m<sup>3</sup>/day (at the time, one of the world's largest) to an industrial complex customer.



### 2002

#### Launch of Ultrapure Water Supply Business

Launch of outsourcing business in which the Company owns, operates and manages facilities for customers, and supplies them with ultrapure water. A business model is developed that represents a fusion of products, technologies and services developed to date across the chemicals, facilities and maintenance arms of the business.



### 2003

#### 100% Wastewater Recovery and Recycling Achieved

In 2003, the Company created a wastewater recovery and reuse system that uses membrane filtration and biological treatment at one of Japan's largest liquid crystal panel plants.

Today, leveraging this technology the Company increases adoptions of wastewater recovery and recycling system not only in Japan, but also at overseas sites with high water reuse demand.

### 2012

#### Phosphoric Acid Recovery System Wins METI Industrial Technology Environmental Agency Director General's Award

The system selectively recovers phosphoric acid, which is used in large volumes in electronic device manufacturing processes, from wastewater and concentrates it to about 50%, a level at which reuse as a valuable resource is possible.



### 2013

#### S.sensing™ New Water Treatment Management Service Launched

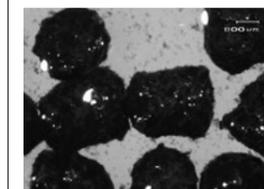
S.sensing, a service that optimizes water treatment in real time using the Company's proprietary sensing technology, was launched in the water treatment chemicals business.



### 2014

#### Biosaver TK™, a Carrier-Type Anaerobic Water Treatment System, Wins METI Award at the 40th Excellent Environmental Equipment Awards

By using a resin carrier developed by the Company, it is possible to treat low-concentration organic wastewater and wastewater consisting of a single composition, which is difficult to treat with conventional anaerobic biological treatment systems, reducing environmental impact in a wider range of fields.



### 2015

#### Chromatography Devices for Biopharmaceuticals Developed

The Company became the first Japanese manufacturer to create chromatography devices that can be used to separate and purify the active constituents (active pharmaceutical ingredients) of biopharmaceuticals during the manufacturing process. The Company used proprietary analysis technology, and optimized the structure of the containers, making it possible to consistently separate and purify constituents at a high level.



## History & Achievements

### 1949–1950s

#### 1949 Founded upon water treatment chemicals business (boiler water treatment chemicals)

The founder of the Company starts selling boiler water treatment chemicals based on boiler technology for large ships.

#### 1951 Entry into the water treatment facilities business

Capitalizing on sales of deionizers for the pretreatment of boiler water supplies, the Company moves into the water treatment facilities business. Start of comprehensive service of water treatment chemicals and water treatment facilities.

#### 1951 Boiler Water Supply Laboratory established.

#### 1953 Start-up of chemical cleaning services

New expansion into the chemical cleaning services, where boiler interiors are cleaned using chemical technology.

#### 1958 Expansion of maintenance services

An organization specializing in maintenance services is established with a view to expanding after-sales services and maintenance operations for water treatment facilities.

#### 1959 KK Suzuki Shokai established as a chemical cleaning company (currently Kurita Engineering Co., Ltd.).

### 1960s

#### 1961 Listed stock on the Second Section of the Tokyo Stock Exchange and the Osaka Securities Exchange

#### 1961 Kansai Kurita Seibi KK established as a maintenance company for water treatment facilities (predecessor of Kurita Technical Service Co., Ltd.).

#### 1962 Listed stock on the First Section of the Tokyo Stock Exchange and the Osaka Securities Exchange.

#### 1965 Expansion into process treatment chemicals

Development of chemicals that increase productivity in the pulp and paper, petrochemical and steel industries, where large volumes of water are used, as the Company broadens the scope of its business from water treatment chemicals to production process treatment chemicals.

### 1970s

#### 1973 Entry into the electronics industry

Ultrapure water production technology is developed to meet the demand for water of a higher degree of purity that comes with increasing miniaturization in semiconductor manufacturing processes.

#### 1974 Completion of Tokyo Head Office building in Shinjuku, Tokyo

#### 1975 Establishment of an overseas company for water treatment chemicals business

Kurita do Brasil LTDA. established to manufacture and sell water treatment chemicals in Brazil.

#### 1975 Kurita Operation and Maintenance Services, Ltd. established as a water treatment facilities operation and maintenance company (currently Kuritaz Co., Ltd.).

#### 1978 Kurita (Singapore) Pte. Ltd. established as Kurita's water treatment chemicals and water treatment facilities business base in Southeast Asia.

### 1980s

#### 1986 Deployment of tool cleaning services

Sales channels established for the electronics business and chemical cleaning technology developed to date are used for the Company's entry into the cleaning services for tools and jigs used in semiconductor production equipment.

#### 1986 PT. Kurita Indonesia established to carry out the production and sales of water treatment chemicals in Indonesia.

#### 1987 Kurita (Taiwan) Co., Ltd. established to conduct water treatment chemical manufacturing and sales in Taiwan.

#### 1989 Kurita Europe GmbH established in Germany as Kurita's base in Europe for water treatment chemical production and sales.

#### 1989 Goshu Chemical Co., Ltd. established to conduct water treatment chemical manufacturing and sales in Thailand (currently Kurita-GK Chemical Co., Ltd.).

### 1990s

#### 1991 Launch of soil remediation services

Soil pollution was increasingly becoming a major social problem, and, as a result, the Company commenced soil remediation business operations based on water treatment technology developed to date.

#### 1995 Kurita Water Industries (Dalian) Co., Ltd. established as Kurita's base in China for water treatment chemical production and sales.

#### 1996 Kurita America, Inc. established in the United States to conduct water treatment facilities sales and maintenance services.

#### 1997 Kurita Water Industries Ltd. merges with maintenance company Kurita Technical Service Co., Ltd.

#### 1998 Acquires an equity stake in Hansu Technical Service Ltd., which is involved in the production, sales and maintenance of water treatment facilities in South Korea.

### 2000s

#### 2001 Land Solution Inc. established as a consulting company dealing in soil remediation.

#### 2001 Start of consulting services for hedging soil pollution risks Start of business involving the hedging of pollution risks and schemes to facilitate the smooth liquidation of land that has been restored to a safe condition based on soil remediation successes to date.

#### 2001 Kuritec (Shanghai) Co., Ltd. established as Kurita's base in China for sales and maintenance services of water treatment facilities sales and maintenance services.

#### 2002 Launch of ultrapure water supply business

#### 2003 Integration of tool cleaning business units from Group companies and establishment of Kuritec Service Co. Ltd.

#### 2003 Analysis division split off to establish Kurita Analysis Service Co. Ltd.

#### 2004 Kurita Water Industries (Suzhou) Ltd. established as a water treatment facilities production and sales base in China.

#### 2005 Kurita Global Technology Center established through the integration of research and development facilities.

#### 2009 Kurita Chemical Manufacturing Ltd. established as a new subsidiary to manufacture water treatment chemicals.

### 2010s

#### 2012 Head office relocation to Nakano, Tokyo

#### 2015 Acquisition of water treatment-related businesses in Europe Acquires water treatment chemicals, paper process chemicals and alumina compound businesses of BK Giulini GmbH from Israel Chemicals Ltd.; Kurita Europe APW GmbH established.

#### Launch of ultrapure water supply business in South Korea

#### 2016 Kurita Europe GmbH and Kurita Europe APW GmbH merge (the new company name is Kurita Europe GmbH).

## Corporate Data

**Company Name** Kurita Water Industries Ltd.  
**Address** 10-1, Nakano 4-chome, Nakano-ku, Tokyo 164-0001, Japan  
**Paid-in Capital** ¥13,450,751,434  
**Date of Establishment** July 13, 1949  
**Number of Employees** 5,481 (on a consolidated basis); 1,528 (parent company)  
 (As of March 31, 2016)

**Osaka Office:**  
 2-22, Kitahama 2-chome, Chuo-ku, Osaka-shi, Osaka 541-0041, Japan  
 Tel: 81 (6) 6228-4800  
**Other Offices:**  
 Shizuoka, Tohoku, Nagoya, Hiroshima and Kyushu

**Taiwan Branch:**  
 5F-3, No. 295, Section 2, Kuang-Fu Rd., Empire Commercial Bldg., Shinchu, Taiwan, R.O.C.  
 Tel: 886 (3) 575-1157

### Overseas Office

**Major Domestic Offices**  
**Head Office:**  
 10-1, Nakano 4-chome, Nakano-ku, Tokyo 164-0001, Japan  
 Tel: 81 (3) 6743-5000  
**Kurita Global Technology Center:**  
 1-1, Kawada, Nogi-machi, Shimotsuga-gun, Tochigi 329-0105, Japan  
 Tel: 81 (280) 54-1511

### Major Consolidated Subsidiaries and Affiliated Companies

	Paid-in capital (Millions)	Equity ownership (%)	Main business
<b>Asia</b>			
Kurita Water Industries (Dalian) Co., Ltd.	¥550	90.1	Manufacture & sale of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Sale & maintenance of water treatment facilities
Kurita Water Industries (Suzhou) Ltd.	¥530	100.0	Sale & manufacture & construction of water treatment facilities
Kurita Water Industries (Jiangyin) Co., Ltd.	US\$16.043	100.0	Manufacture & sale of water treatment chemicals and paper process chemicals
Angang BK Giuliani Water Treatment Co., Ltd.	RMB55	50.0	Manufacture & sale of water treatment chemicals
Hansu Co., Ltd.	W2,500	33.2	Manufacture & sale of water treatment chemicals
Hansu Technical Service Ltd.	W15,400	100.0	Sale & manufacture & maintenance of water treatment facilities and operation & maintenance of water treatment facilities
Kurita (Taiwan) Co., Ltd.	NT\$20	100.0	Manufacture & sale of water treatment chemicals
Kurita (Singapore) Pte. Ltd.	S\$4	100.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kurita-GK Chemical Co., Ltd.	BAHT204	85.0	Manufacture & sale of water treatment chemicals
P.T. Kurita Indonesia	US\$2.00	92.5	Manufacture & sale of water treatment chemicals and water treatment facilities
Kurita Water (Malaysia) Sdn. Bhd.	RM\$0.6	100.0	Sale of water treatment chemicals
<b>Europe</b>			
Kurita Europe GmbH	EUR20	100.0	Manufacture & sale of water treatment chemicals
Kurita France S.A.S.	EUR15.0936	100.0	Sale of water treatment chemicals
Kurita Iberica SL	EUR0.00301	100.0	Sale of water treatment chemicals
Kurita Turkey Kimya A.S.	TRY5.78445	100.0	Manufacture & sale of water treatment chemicals
Kurita Sverige AB	SEK0.1	100.0	Sale of water treatment chemicals
<b>North America &amp; South America</b>			
Kurita America, Inc.	US\$3.0	100.0	Manufacture & sale of water treatment chemicals and operation and maintenance of water treatment facilities
Kurita do Brasil LTDA.	R\$6.986	100.0	Manufacture & sale of water treatment chemicals
<b>Japan</b>			
Kurita Chemical Manufacturing Ltd.	¥50	100.0	Manufacture of water treatment chemicals
Kuritec Creation Co. Ltd.	¥160	100.0	Manufacture & sales of water treatment equipment and products for general households
Kuritz Co., Ltd.	¥220	100.0	Operation & maintenance of water treatment facilities
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical cleaning
Land Solution Inc.	¥450	69.0	Soil remediation
Kuritec Service Co. Ltd.	¥50	100.0	Tool cleaning

(As of April 1, 2016)

## Investor Information

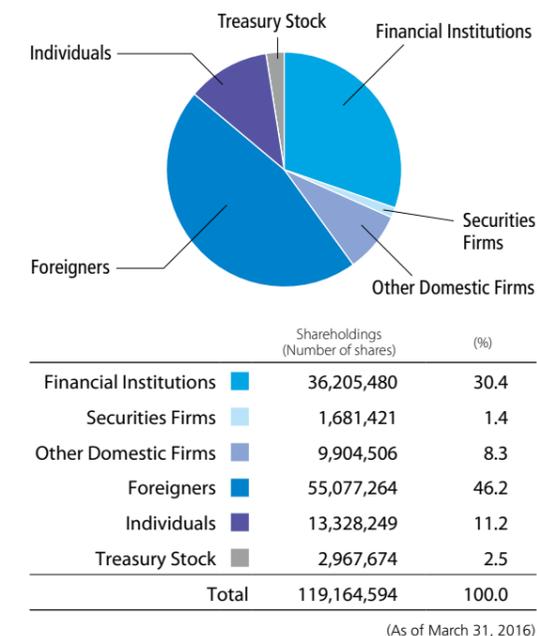
**Stock Exchange Listing** First Section of the Tokyo Stock Exchange  
**Common Stock** Authorized: 531,000,000 shares  
 Issued: 119,164,594 shares  
 (Stock trading unit: 100 shares) (As of March 31, 2016)  
**Number of Shareholders** 27,039 (As of March 31, 2016)  
**Independent Auditor** Grant Thornton Taiyo LLC  
 Akasaka Oji Bldg. 5F, 8-1-22, Akasaka, Minato-ku, Tokyo 107-0052, Japan  
**Transfer Agent** Sumitomo Mitsui Trust Bank, Ltd.  
 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

### Major Shareholders

	Shareholdings (Number of shares)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	6,151,200	5.16
Nippon Life Insurance Company	5,979,883	5.01
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,382,900	2.83
Kurita Water Industries Ltd.	2,967,674	2.49
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,877,500	2.41
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,155,826	1.80
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,056,131	1.72
NORTHERN TRUST CO. (AVFC) RE-HSD00	1,785,300	1.49
BNYML-Non Treaty Account	1,784,200	1.49
Northern Trust Co. (AVFC) Re U.S. Tax Exempted Pension Funds	1,737,500	1.45

(As of March 31, 2016)

### Distribution of Shares



### Stock Price Range and Trading Volume (Tokyo Stock Exchange)

