

# THE STORY OF VALUE CREATION

**Kurita Water Industries Ltd. Annual Report 2017**

For the year ended March 31, 2017



Corporate Philosophy

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

The Kurita Group's History of Value Creation

—Kurita treasures its corporate philosophy—

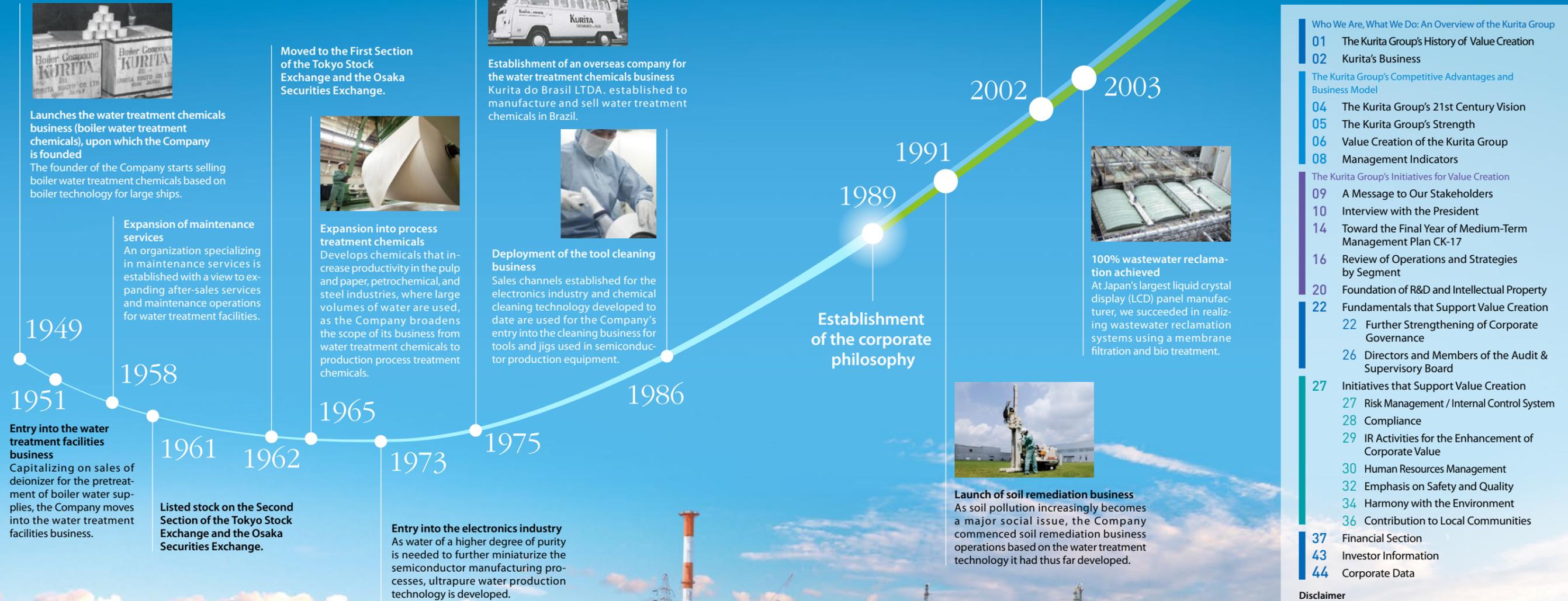
Since its establishment, the Kurita Group has provided value to its customers by resolving water-related issues in various industries.

In 1989, in commemoration of the 40th anniversary of Kurita Water Industries Ltd.'s founding, we established our corporate philosophy, further refined the knowledge and technologies for water that we have cultivated since our foundation, and have expanded these into the environment field.

We have redefined our business areas and decided that water and the environment will be our areas to focus on and develop going forward.

Establishment of this philosophy has become a driving force behind the development of today's Kurita Group.

We will continue to offer optimal solutions for water and environmental problems, and provide customers with value that improves productivity, saves energy, and reduces environmental burden.



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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

The Kurita Group has accumulated technological know-how on water treatment since its foundation.

To meet customers' needs, such as improving productivity and reducing their environmental burden, the Kurita Group provides comprehensive solutions to customers by integrating a variety of technologies, products, and services in three business areas: water treatment chemicals, water treatment facilities, and maintenance services.

■ Water Treatment Chemicals ■ Water Treatment Facilities

## Water treatment systems

We provide systems for manufacturing water that meet various industrial needs, such as purified water used in the electronics industry as well as water for pharmaceutical use, including injectable drugs and eye medications, water for manufacturing foods and beverages, and boiler water for use in the electric power and steel industries.



Industrial water, river / well water

## Ultrapure water production systems

These systems produce water that is nearly theoretically pure by removing impurities to the maximum possible extent. By fully employing various water treatment technologies—including ion exchange, reverse osmosis membranes, electric deionization, and ultrafiltration—we provide systems that are optimally matched to our customers' needs.



## Maintenance of water treatment facilities

Our maintenance services prevent the performance of water treatment systems delivered to our customers from decreasing, stopping problems before they ever happen.



## Soil remediation

We provide comprehensive services that meet the needs of customers, from a contamination level check for ground and underground water to selection and implementation of purifying measures best suited to each property.



## Wastewater treatment chemicals

We produce chemicals that contribute to the reduction of environmental burdens with adequate treatment to wastewater with various characteristics from factories, etc., which includes the removal of suspended matters, sludge dewatering, odor elimination and deodorization, etc.



## Wastewater treatment systems

Kurita's water treatment systems use a variety of technologies for the treatment of wastewater from factories with different quality and characteristics.

## Cooling water treatment chemicals

These chemicals, used for cooling systems at factories and office buildings, contribute to the prevention of troubles and the increase of Legionella bacteria that are generated in water, and to energy savings by improving the operational efficiency of equipment.



## Boiler water treatment chemicals

Our boiler water treatment chemicals are used to prevent trouble in boilers and help them operate efficiently. We offer chemicals that meet high safety standards in terms of ingredients as well as chemical effects.

## Wastewater reclamation systems

We propose the reclamation and recycling of wastewater with waste reduction also taken into consideration, thus contributing to more effective use of water resources, environmental burden reduction, and cost reduction.



## Water Treatment Chemicals

- Boiler water treatment chemicals
- Cooling water treatment chemicals
- Wastewater treatment chemicals
- Process treatment chemicals
- Packaged contracts
  - Cooling water / Boiler water supply contracts
  - Comprehensive wastewater treatment contracts, etc.
- Chemical injection and dosing equipment, etc.

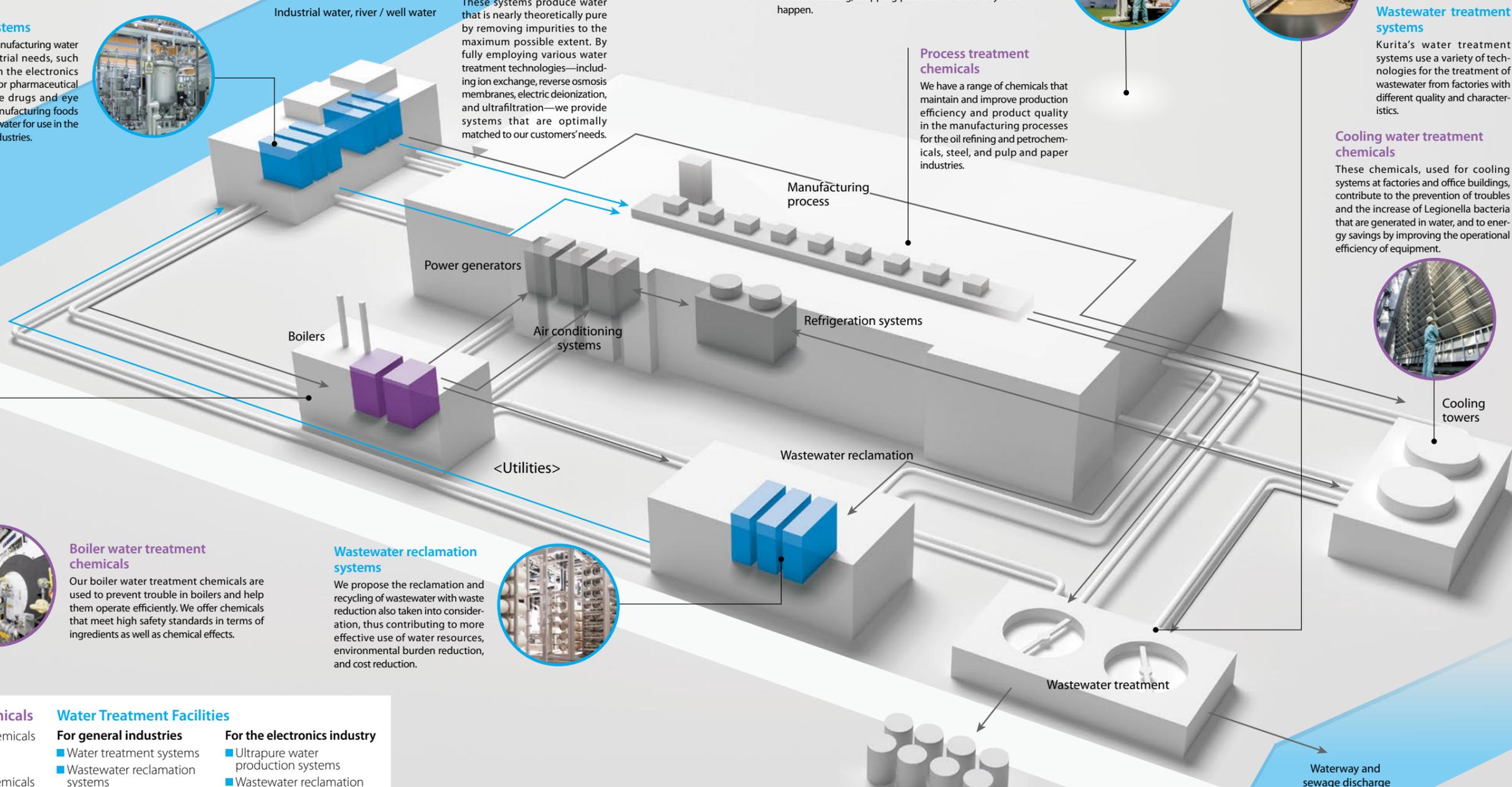
## Water Treatment Facilities

### For general industries

- Water treatment systems
- Wastewater reclamation systems
- Wastewater treatment systems
- Soil remediation
- Chemical cleaning
- Maintenance services, operation

### For the electronics industry

- Ultrapure water production systems
- Wastewater reclamation systems
- Wastewater treatment systems
- Tool cleaning
- Maintenance services, operation
- Ultrapure water supply business



# The Kurita Group's 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.

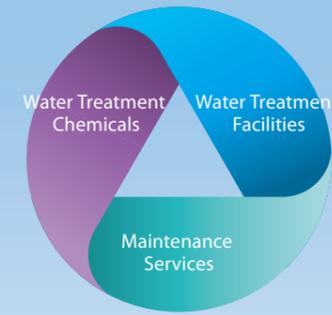


## The Kurita Group's Strength

Kurita provides its customers in various fields with value, including productivity enhancement, reduction of environmental burden, and energy savings, by providing solutions for water treatment in many ways effectively using management resources that are: Kurita's distinctive business structure of water treatment chemicals, water treatment facilities, and maintenance services; R&D capabilities that are the fundamental to truly being a "Technology-Driven Company"; maintaining strong, long-standing relationships with customers in various industries; a base that generates profits stably by maintaining a high ratio of service businesses; and the stretch of wide networks that spread throughout Japan and the world.

### A Business Structure with Distinctive Character

Kurita provides comprehensive solutions with diverse technologies, know-how, and services of the following three business areas: water treatment chemicals, water treatment facilities, and maintenance services.



### R&D Capabilities (Technology-Driven Company)

Not only having eight core technology focus areas, Kurita also strengthens the creation ability for technology seeds for innovative product development.



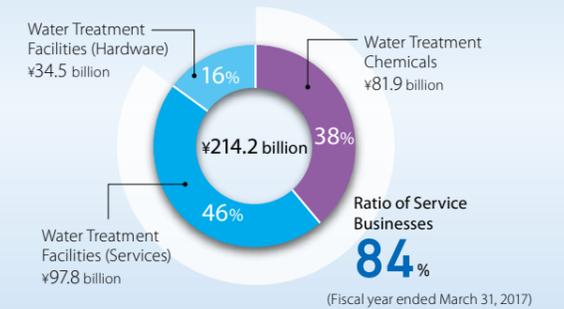
### Diverse yet Strong Business Fundamentals

Our Water Treatment Chemicals business has a variety of products and approximately 30,000 customers in many different levels, while our Water Treatment Facilities business targets diverse businesses mainly in the electronics industry.



### High Ratio of Service Businesses

Our service businesses generate profits in a stable manner as they account for 84% of the total of the Group's total consolidated net sales.



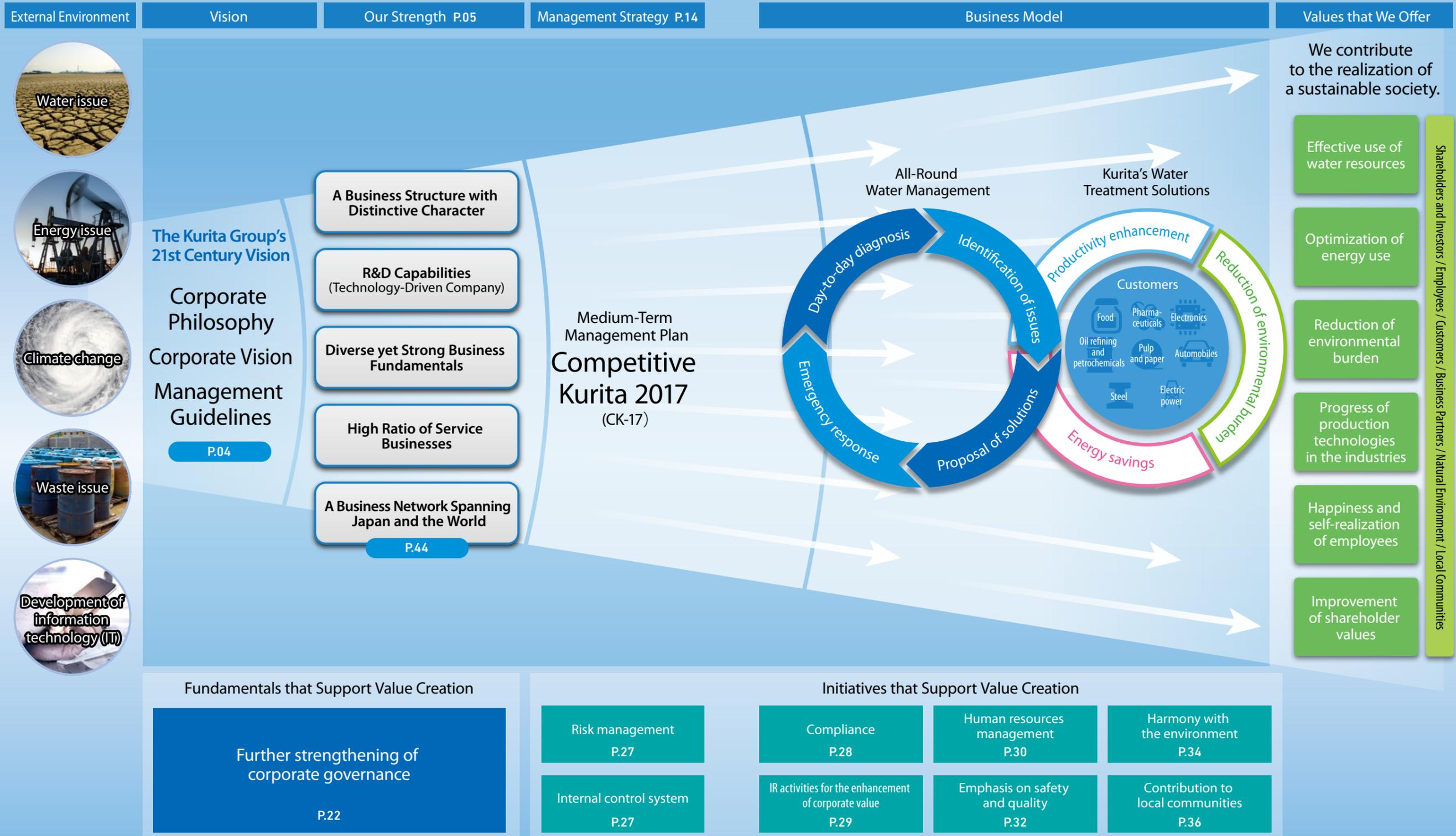
### A Business Network Spanning Japan and the World

We maintain well-functioning networks that include our Group companies and sales dealerships, and are also able to respond to the needs of our overseas customers in various countries and regions.



# Value Creation of the Kurita Group

Under the Kurita Group's 21st Century Vision—the blueprint for Kurita's future vision—the Kurita Group strives to provide the best solutions for issues regarding water and the environment as a leading water treatment company through the utilization of its considerable R&D capabilities, which the Group has been accumulating since its establishment in 1949, and the advantages of its business structure with distinctive character. In order to realize its corporate philosophy, the Group is committed to further strengthening its fundamentals and strategies that support value creation. Kurita aims to improve its corporate value by contributing to the realization of a sustainable society through solutions on issues regarding water and the environment.



## Management Indicators

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

### Financial

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Millions of yen 2017	Thousands of U.S. dollars <sup>1</sup> 2017
Orders	¥208,689	¥195,065	¥175,162	¥181,951	¥197,256	¥186,741	¥173,463	¥181,282	¥221,273	¥218,730	\$1,952,946
Net sales	204,875	199,706	178,520	181,234	193,792	180,143	178,137	189,398	214,372	214,187	1,912,383
Cost of sales	138,549	135,874	117,221	118,573	127,905	121,047	122,870	130,509	143,964	145,455	1,298,705
Selling, general and administrative expenses	35,857	35,896	34,941	35,528	36,503	38,106	40,380	39,454	50,574	49,280	440,000
Operating income	30,468	27,935	26,358	27,131	29,382	20,989	14,886	19,435	19,833	19,452	173,678
Operating income margin (%)	14.9	14.0	14.8	15.0	15.2	11.7	8.4	10.3	9.3	9.1	
Net income attributable to owners of parent <sup>2</sup>	18,297	16,299	17,288	17,138	16,548	11,476	9,352	10,434	12,577	14,506	129,517
Return on sales (%) <sup>3</sup>	8.9	8.2	9.7	9.5	8.5	6.4	5.2	5.5	5.9	6.8	
Total assets	231,498	245,406	251,620	253,298	271,141	263,580	274,925	294,492	298,107	299,249	2,671,866
Total assets turnover (Times) <sup>4</sup>	0.88	0.84	0.72	0.72	0.74	0.67	0.66	0.67	0.72	0.72	
Equity <sup>5</sup>	169,402	177,291	192,588	198,042	208,891	207,871	217,691	222,330	227,896	227,623	2,032,348
Equity ratio (%) <sup>6</sup>	73.2	72.2	76.5	78.2	77.0	78.9	79.2	75.5	76.4	76.1	
Return on assets (ROA) (%) <sup>7</sup>	7.8	6.8	7.0	6.8	6.3	4.3	3.5	3.7	4.2	4.9	
Return on equity (ROE) (%) <sup>8</sup>	11.2	9.4	9.3	8.8	8.1	5.5	4.4	4.7	5.6	6.4	
Capital expenditures	24,097	56,322	8,083	5,965	8,105	6,688	5,709	12,864	19,623	10,087	90,062
Depreciation and amortization	9,425	11,716	15,523	16,066	16,035	15,054	14,774	14,863	15,749	15,857	141,580
R&D expenses	4,551	4,363	3,990	4,225	4,232	4,362	4,534	4,397	5,269	5,038	44,982
										Yen	U.S. dollars <sup>1</sup>
Net income per share <sup>9</sup>	¥ 142.2	¥ 126.7	¥ 134.4	¥ 134.0	¥ 130.7	¥ 92.4	¥ 78.5	¥ 87.8	¥ 108.2	¥ 125.2	\$ 1.12
Equity per share <sup>10</sup>	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	1,991.9	17.78
Dividends per share	32.0	34.0	36.0	38.0	40.0	42.0	44.0	46.0	48.0	50.0	0.45
Dividend payout ratio (%)	22.5	26.8	26.8	28.4	30.6	45.4	56.1	52.4	44.3	39.9	

- Notes: 1. The U.S. dollar amounts are given solely for convenience at the rate of ¥112 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2017.  
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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total CO <sub>2</sub> emissions (t-CO <sub>2</sub> )*	22,505	22,541	23,563	23,941	158,121	162,748	181,149	188,543	188,709	185,435
Total waste output (t)*	26,895	27,133	26,186	24,739	47,181	41,561	47,859	54,679	33,756	27,538
Number of employees	4,249	4,404	4,445	4,490	4,555	4,640	4,635	5,222	5,481	5,654

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



## A Message to Our Stakeholders

The fiscal year ended March 31, 2017, was a year for the Kurita Group to strengthen its resolve to implement reforms.

During the year, growing economic inequality brought on by globalism and technological advancements not only destabilized political situations around the world but also challenged the workings of modern capitalism. At the same time, industrial structures and people's work environments are being transformed by rapid progress in such technologies as the Internet of Things (IoT) and Artificial Intelligence (AI).

In such a dramatically changing operating environment, we are concerned that Kurita's current business model is at risk of becoming irrelevant. Moreover, we recognize that the Company must change by giving more consideration to the natural environment and society in its business activities.

When I was appointed President and Representative Director in 2016, I declared the Kurita Group's goals of earning the trust of all stakeholders and contributing to the development of society by realizing its corporate philosophy. While staying true to our philosophy, we believe that proactive in-house reforms are necessary for further strengthening the Group's competitive advantages. In the future, we intend to reorganize the Group while carefully enhancing Kurita's identity with the aim of establishing a business structure and value system that fits with today's world.

As we work to reform Kurita, we look forward to the continued understanding and support of the Company's shareholders and other stakeholders.

July 2017

門田道也

President and Representative Director  
Michiya Kadota

## Interview with the President



For detailed information on **market environment**, refer to Review of Operations and Strategies by Segment on **P.16–19**.



For detailed information on the **medium-term management plan CK-17**, refer to [Kurita Water Industries website](#) ▶ [Investor Relations](#) ▶ [Management Policy](#) ▶ [Medium-Term Management Plan](#).



For information on **results of the fiscal year ended March 31, 2017**, refer to **P.14**.



### Q Please describe the Company's consolidated financial performance in the fiscal year ended March 31, 2017.

In terms of **market environment** in the fiscal year ended March 31, 2017, we saw signs of recovery in production activity and capital expenditures in domestic manufacturing. In East and Southeast Asia, we continued to see rising demand for water treatment. Amidst this, the Kurita Group's revenues in yen terms were depressed by the impact of a higher yen on overseas sales, and contract revisions with an ultrapure water supply customer. However, disciplined cost controls in the domestic and overseas Water Treatment Facilities business supported profitability. In the absence of the one-off expenses of the previous fiscal year related to the business acquisition in Europe and retirement benefits, we were able to effectively match the level of operating income on a year-on-year basis. Net income attributable to owners of parent rose year-on-year on the decline in corporate tax rates, which led to a lower tax burden.

### Q What measures were taken in the second year of your medium-term management plan, Competitive Kurita 2017 (CK-17), and what were the main results?

In the fiscal year ended March 31, 2017, **the Kurita Group worked to expand its overseas business, improve profitability, and create competitive products and services.**

As part of our efforts to expand overseas business, the Company acquired Fremont Industries, LLC, which operates a water treatment chemicals business in the American Midwest, in order to gain a foothold in the United States. To raise operational efficiency in the Europe, Middle East, and Africa region, we merged Kurita Europe GmbH with Kurita Europe APW GmbH, combined the technologies and know-how of both companies, and reorganized their sales and manufacturing organizations. Furthermore, we established subsidiaries in the United Arab Emirates (UAE) and

Vietnam to sell water treatment chemicals, which have been in short supply in those markets, which allows us to set up organizations that can offer more meticulous solutions. In South Korea, our ultrapure water supply business is winning the trust of a customer by helping its plant operate stably. This business is laying a solid foundation for business growth after being launched in the second half of the previous fiscal year to provide services to a large semiconductor manufacturer.

To improve profitability, we worked to add more value to the products and services offered to customers by **combining sensing technologies with our water treatment data analysis expertise**. In the Water Treatment Facilities business, we overhauled production processes and had project managers improve manufacturing operations and cost management. Those efforts greatly increased the profitability of water treatment facilities both in and outside Japan.

Among our initiatives for creating competitive products and services, we invested in **APANA Inc.**, an American venture firm, with the goal of acquiring leading-edge technologies. APANA specializes in big data analysis using IoT, and has many accomplishments in the United States as a provider of services that help commercial facilities conserve water. In addition, through the acquisition of a company in Europe, we improved our products for the Japanese market, specifically water treatment chemicals for boilers. We also launched a **standardized wastewater reclamation system**, which meets the needs for low-cost water reclamation and recycling.

### Q What important measures will be taken in the final year of CK-17?

With a view toward raising corporate value, we aim to **"improve customer intimacy by providing the best customer solutions"** in the fiscal year ending March 31, 2018. By improving customer intimacy, I believe that Kurita will become even more beneficial for customers as an essential partner. For that purpose, we are working to respond to customers even quicker and are enhancing our solutions capabilities so that we can help them overcome challenges. To realize this, we plan to launch competitive products and services to the market that utilize Information Technology (IT) and sensing technologies and will reform business processes to increase operational efficiency.



For information on **combining sensing technologies with our water treatment data analysis expertise**, refer to **S.sensing™**: Next-generation water treatment management service that support productivity improvements on **P.17**.



For information on **APANA Inc.**'s services, refer to **P.14**.



For information on the **standardized wastewater reclamation system**, refer to **P.14**, **P.19**.



For information on **issues and important measures in the final year of CK-17**, refer to **P.15**.



For information on the R&D center in Singapore, refer to P.20.

Meanwhile, we also aim to expand businesses that we have positioned for growth: overseas business and the service business. We intend to speed up overseas business expansion by having our global business network work in unison to offer the Kurita Group's specialized technologies, solutions, and business model. In the United States, which is home to the top global companies in the water treatment chemicals industry, our aim is to become a major water treatment chemicals company by conducting a series of mergers and acquisitions (M&As) in the future to expand our coverage area across the entire country. In addition, we **established an R&D center in Singapore** in April 2017 with the goal of bolstering the Group's global R&D network. The center will work to acquire advanced technologies by collaborating with universities and research institutions in Singapore.

To expand our service businesses, in addition to ongoing efforts to grow the ultrapure water supply business in South Korea, we plan to make use of APANA's IoT wireless transmission technology to develop water conservation services in Japan, and to extend our service business model to the Chinese market, supplying pure water, wastewater reclamation, and other services.

### Q What will the Kurita Group need in the future to provide a means for creating value?

I think stronger initiatives for meeting environmental, social, and governance (ESG) criteria will be essential for ensuring the sustainable growth of the Kurita Group.

With respect to **corporate governance**, in order to improve the effectiveness of deliberations by the Board of Directors, we held discussions during the fiscal year ended March 31, 2017 about the appropriateness of matters subject to decisions by the Board along with related organizational design and systems, and changed the compensation plan for directors and members of the Audit & Supervisory Board. Furthermore, with a view to increasing management efficiency, we verified the Company's shareholdings in other listed companies and sold off a portion of such shares. Turning to **compliance**, now that Kurita is expanding its overseas business, we have established the Kurita Group Code of Conduct, which stipulates basic standards of behavior to be followed by all officers and employees of the Group.



For information on corporate governance, refer to P.22-25.



For information on compliance, refer to P.28.

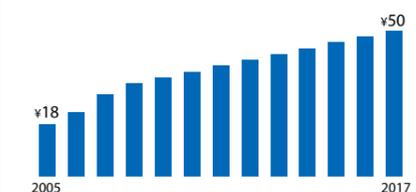
Today, companies are expected to play a more positive role in society because social issues and environmental problems are becoming increasingly serious. Accordingly, it will be necessary for the Kurita Group to give greater weight to social concerns in its business activities going forward. In the fiscal year ending March 31, 2018, we are reforming working conditions for employees while continuing to enhance corporate governance. As we make progress in meeting such ESG criteria, we plan to increase the transparency of management by promoting dialogue with a wide range of stakeholders.

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

The Company's dividend policy is to continuously increase dividends to the maximum extent possible while aiming for a payout ratio between 30% to 50%, calculated on a five-year basis. For the fiscal year under review, the Company paid an annual dividend of ¥50 per share, comprised of an interim and a year-end dividend of ¥25. That amount was an increase of ¥2 per share over the previous fiscal year, and **marked the 13th consecutive year of increased dividend payments**.

Furthermore, we are striving to raise capital efficiency while, at a minimum, keeping the return on equity (ROE) above the cost of shareholders' equity. When drawing from internal reserves entrusted by shareholders, we give the highest priority to investing in promising businesses, such as the ultrapure water supply business and M&As. In accordance with our policy of keeping the growth of shareholders' equity in check, the Company acquired 3,586,300 of its own shares over the period from March 2 to May 25, 2017. In order to erase any concerns about the dilution of share value among shareholders, on April 6, 2017, the Company cancelled 2,963,900 shares of treasury stock that existed before the acquisition. We hope that our shareholders find these equity-related measures to be agreeable.

**Dividends per Share**  
Thirteen consecutive years of increased dividends per share since the fiscal year ended March 31, 2005



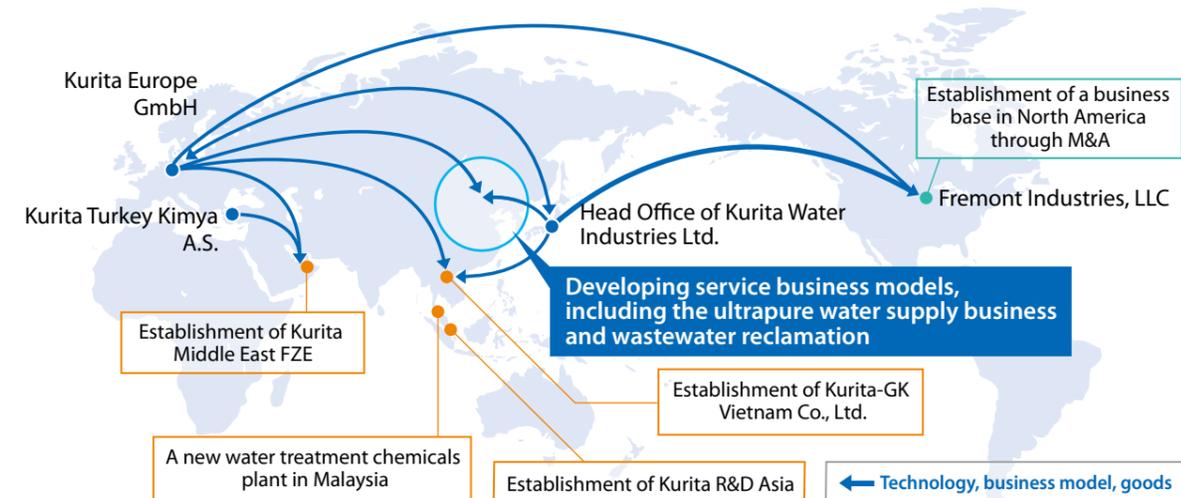
## Toward the Final Year of Medium-Term Management Plan CK-17

In the fiscal year ended March 31, 2017, the Kurita Group worked to “expand its overseas business,” “improve profitability,” and “create competitive products and services.” The basic policy of the fiscal year ending March 31, 2018, is to “improve customer intimacy\* by providing the best customer solutions” in order to further strengthen Kurita’s value.

\* Customer intimacy means more than just physical and / or temporal closeness with customers. It also includes the level of enterprise value offered as an essential partner for customers.

### Results of the Fiscal Year Ended March 31, 2017

#### 01 Overseas Business Expansion



**United States:** In order to accelerate business development activities in the United States, the Company has acquired Fremont Industries, LLC, a manufacturer and sales company for water treatment chemicals, which becomes our business hub in the central west of the United States.

**Europe / Middle East / Africa:** To raise operational efficiency in the Europe, Middle East, and Africa region, we merged Kurita Europe GmbH with Kurita Europe APW GmbH, combined the technologies and know-how of both companies, and reorganized their sales and manufacturing organizations.

**Middle East and Vietnam:** We established Group companies in the United Arab Emirates (UAE) and Vietnam to sell water treatment chemicals, which have been in short supply in those markets, which allows us to set up organizations that can offer more meticulous solutions.

**South Korea:** The ultrapure water supply business, launched in the second half of the fiscal year ended March 31, 2016, for a major semiconductor manufacturer, was successful in establishing fundamentals for its business expansion as the business has contributed to the smooth operation of the customer’s plant, which has led to us receiving a second round of orders.

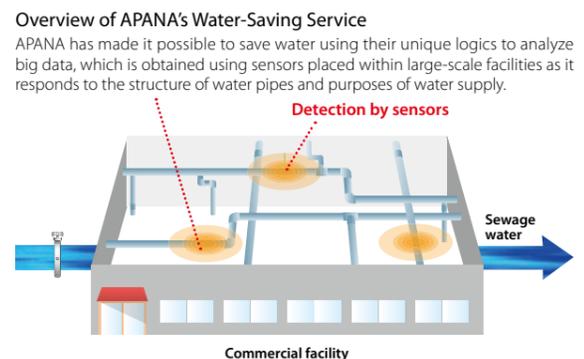
#### 02 Improvement of Profitability

**Water Treatment Chemicals:** We worked to offer better services to customers by applying our unique sensing technologies and know-how on water treatment data analysis to existing technologies and products.

**Water Treatment Facilities:** We were successful in improving profitability in construction as we focused on jobs that we can offer high added-value creation while reviewing and standardizing operational processes in production.

#### 03 Creation of Competitive Products and Services

We succeeded in developing a new standardized wastewater reclamation system, which was designed after combining our own water treatment system and the underlying technologies for water treatment chemicals that contribute to the reuse of wastewater. We also started drafting a new service in cooperation with APANA Inc., a U.S. venture firm running services in North America that save water at commercial facilities by analyzing big data using IoT.



### The Final Year of CK-17: Establishing the Fundamentals of a New Medium-Term Management Plan

In the fiscal year ending March 31, 2018, the final year of CK-17, we will strive to establish the fundamentals of a new medium-term management plan by solving the following issues with a basic policy that is to “improve customer intimacy by providing the best customer solutions.”

#### 01



We will seek to strengthen our problem-solving capabilities in order to resolve customers’ issues and to improve the speed at which we respond to customers (by reforming business processes that provide the best value to our customers (value chains), so as to further enhance our business quality and efficiencies.

We will promote comprehensive solutions that are achieved using technologies and know-how on water treatment chemicals, water treatment facilities, and maintenance services while introducing competitive products and services produced using IT and sensing technologies.

#### 02



We will continue to concentrate our business resources on overseas business as it has been positioned as a growth area. Along with the establishment and construction of our business base through M&As, we will accelerate the expansion of overseas business by mutually supplying technologies, products, and services as well as business models that are advantageous to each area.

We will attempt to make our Water Treatment Facilities business even more service-oriented. While expanding investment activities in the ultrapure water supply business in Japan and overseas and working to develop and promote a service-type business model in the fields of pure water supply and wastewater reclamation, we will move forward to create a new contract business by effectively using the know-how on operational management and maintenance in the energy and infrastructure markets.

In the Water Treatment Chemicals business, profitability will be improved by speedily providing products and services that meet the needs of each customer, from those in large-scale businesses to small-sized customers, after reviewing the systems for sales operations and service in Japan.

#### 03



The Kurita Group aims to achieve sustainable growth and an enhancement of business value from a long-term viewpoint.

We also strive to minimize potential risks by responding to the needs of society while providing solutions on social issues through our business activities.

We will ensure that all of our employees are happy and satisfied in both their private and work life by promoting work style reform, and will strengthen our competitiveness by securing talented personnel, increasing motivation, promoting learning, and boosting talents.

# Review of Operations and Strategies by Segment

## Water Treatment Chemicals



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

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

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

### Overview of the Fiscal Year Ended March 31, 2017

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

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

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

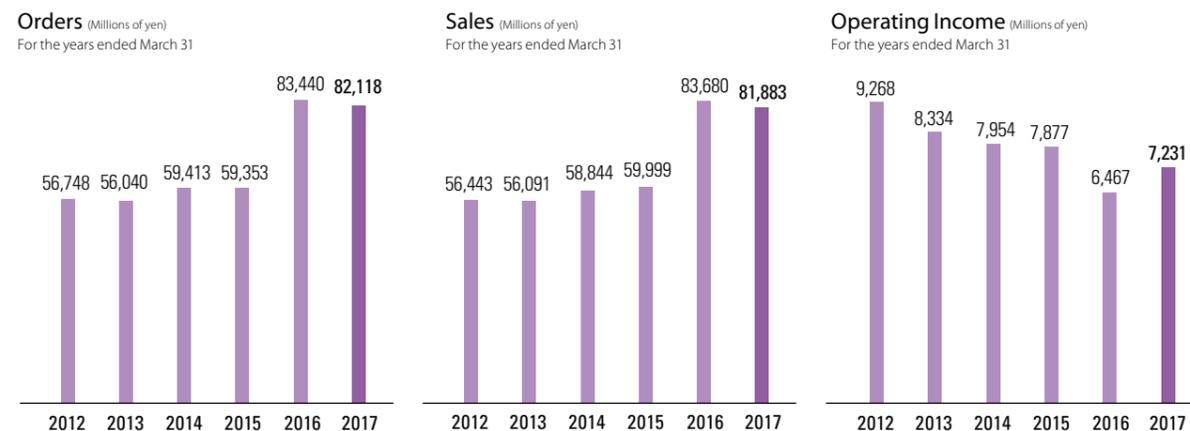
### Market Environment

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

### Growth Strategy

#### Pursuing best solutions

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



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

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

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

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

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

### Expanding sales of highly competitive products

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

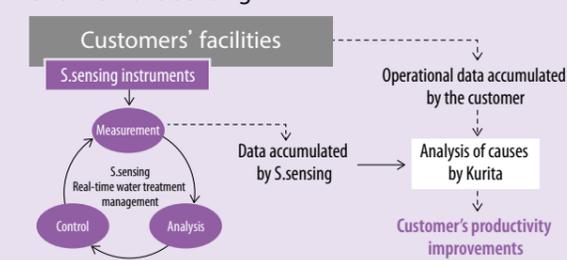
We are also striving to further upgrade the functions offered by S.sensing™, our water treatment management service, and begin a full-fledged rollout of the service globally. S.sensing™ combines IT and sensing technologies as a means of contributing to the stable operation of customers' facilities. We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

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

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

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

### Overview of S.sensing™



# Review of Operations and Strategies by Segment

## Water Treatment Facilities



**We identify new needs and contribute to our customers' businesses through our solution proposal capabilities.**

Overall, we achieved an increase in sales by making up for a fall in sales to the electronics industry through growth in sales to general industries. As an essential partner for our customers, we will strive to strengthen our existing businesses and create new businesses.

**Toshitaka Kodama**  
 Managing Director  
 General Manager of Sales II Division and in charge of the facilities business

### Overview of the Fiscal Year Ended March 31, 2017

In business operations catering to the electronics industry, orders for the sector overall declined. This reflected such factors as the completion of the recent cycle of orders for large-scale water treatment facilities overseas, as well as revisions in contractual conditions in a portion of the ultrapure water supply business. Although sales rose overseas, sales to the sector overall decreased, reflecting the impact of changes in the ultrapure water supply business.

In business operations catering to general industries, orders increased. This was driven by such factors as the winning of large-scale project orders in fields including water treatment facilities for thermal power plants and soil remediation, as well as a robust performance by maintenance services. Sales to general industries increased overall, underpinned by sales growth in such areas as soil remediation and maintenance services.

In operating income for the segment as a whole, although there was an improvement in the profitability of water treatment facilities, maintenance services, operating income decreased owing to the impact of lower sales from the ultrapure water supply business.

### Market Environment

In Japan, large-scale plant and equipment investment projects in semiconductor and smartphone-related industries

began to increase from the second half of calendar 2016. Accompanying liberalization of the electricity market, we are receiving orders for water and wastewater treatment facilities from customers entering the electric power generation business. In other areas, we are seeing a rise in such developments as logistics warehouses and large-scale shopping malls, reflecting the increasing liquidity of land on the outskirts of urban areas. This is leading to emerging needs for soil remediation. Plant and equipment investment in such industries as beverages and foodstuffs as well as pharmaceuticals remains robust. In the medium term, we anticipate rising needs relating to the replacement of aging facilities in such industries as petrochemicals and steel, as well as investment aimed at efficiency improvements and energy savings. However, when considering strategy in Japan, it is vital that we diligently observe capital investment trends in each industry among customers that manufacture competitive products.

In overseas markets, in China and South Korea—where customers are centered on LCD and semiconductor manufacturing—we anticipate that plant and equipment investment will remain at a high level. In particular, in the Chinese electronics industry, where the Kurita Group holds a high market share, we believe that the brisk capital investment climate seen in recent years has been buoyed by expectations of the provision of subsidies as a part of national policy.

In addition, driven by stricter wastewater regulations, needs are increasing in the area of facilities for wastewater reclamation and recycling. Having identified such trends, the Kurita Group has already developed a new standardized wastewater reclamation system, which is targeted at markets where water resources are scarce, such as China, Southeast Asia, and Singapore.

### Growth Strategy

**Becoming a company that boasts a high degree of flexibility**  
 Recently, general pure water facilities and wastewater treatment facilities are becoming increasingly commoditized. Within this environment, to maintain Kurita's significant differentiation from other market participants we are working to enhance the proposal capabilities, cost competitiveness, and customer response capabilities that we have cultivated to date. In April 2017, we launched sales activities based on a newly designed organizational structure, which is aimed at providing customers with the best solutions. As with the ultrapure water supply business, we support large-scale plant and equipment investment based on the customer's long-term management plan. Furthermore, as a company capable of providing services with a high degree of flexibility, we are striving to enhance customer satisfaction. Specifically, in response to discussions with and requests from customers, we speedily provide solution proposals.

At present, the entire Company is involved in efforts to advance the Kurita IT strategy. By increasing the efficiency of our operations through the utilization of IT, employees will be able to concentrate more fully on preparing and presenting proposals for customers. Simultaneously, we believe that the application of IT will also lead to improvements in product and service quality. For example, by migrating our design operations to 3D computer-aided design (CAD) and other digital technologies, we will work strenuously on measures to raise productivity and cost competitiveness.

### New business creation

The Kurita Group is strengthening its programs for developing new businesses across a wide range of fields. The use of biomass as a new energy source is receiving significant attention as a means of realizing a low-carbon society. Kurita has already developed dry methane fermentation technology, which recovers biogas generated by waste, and is providing this technology to facilities in Japan that have the potential to use it as fuel or for electricity generation. In our existing businesses also, we see potential for growth. For example, there may be opportunities to develop the ultrapure water supply business in industries outside of semiconductors and LCDs. Furthermore, we may be able to expand the scale of our businesses through collaboration with other companies. We are determined to turn such ideas into reality.

### Responding to next-generation customer needs

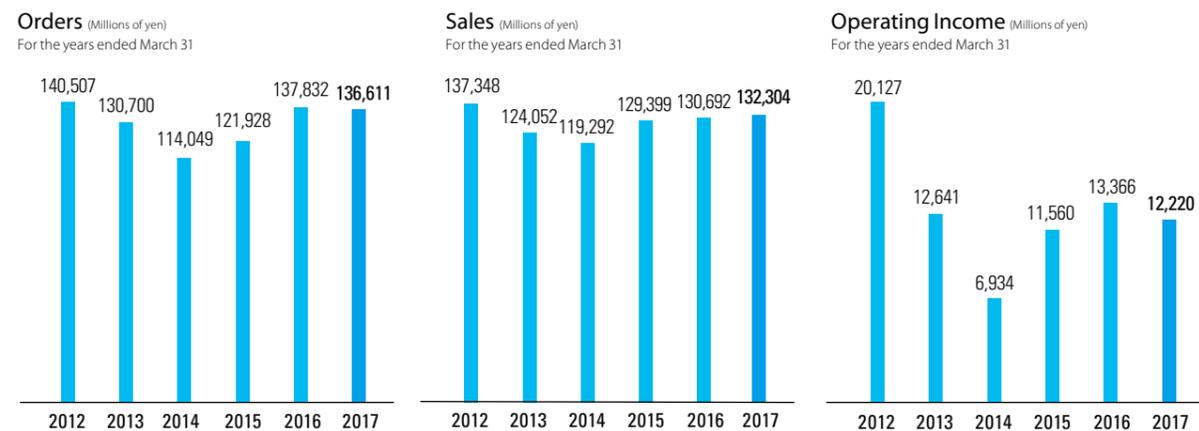
The Kurita Group has developed the ultrapure water supply business over many years. We believe that Kurita can contribute to factory innovation through water treatment facilities, driven by the rapid progress currently taking place in such technology spheres as IoT and AI. Such equipment as network cameras and robots are being introduced into customers' plants, and computer-controlled production is advancing. In these evolving factories, we envisage that customers' plants of the future will need to be capable of switching production instantaneously from one product to another. This will also require water treatment to be modified in real-time. By utilizing sensing technologies and data analysis, reconfiguration of water supply, water treatment, and other parameters can be automated, thus meeting next-generation customer needs for flexibility. I believe that we must collaborate closely with our customers to realize this service model of the future.

### Standardized Wastewater Reclamation System Created through the Integration of Chemical and Plant Technology

There is a large potential market for wastewater reclamation systems in regions overseas where water resources are scarce. Such systems make it possible not only to reduce the quantity of water and wastewater but also realize reductions in the volume of such inputs as electricity and steam. Hence, wastewater reclamation systems offer a wide array of advantages for the customer. In response to such needs, in 2017 Kurita developed a standardized, simple, low-cost, wastewater reclamation system. This system is comprised of the following four elements only: pretreatment chemicals; ultrafiltration membrane; reverse osmosis (RO) chemicals; and RO membrane. The system not only provides high functionality in its constituent units but also enables selection of membranes and chemicals to cater to a diverse range of input water qualities. As such, one of the system's major advantages is the ability to flexibly optimize it. Compared with conventional systems, the system realizes substantial reductions in both initial cost and running

costs. In the Chinese market, customer requirements are exceptionally demanding. A system must not only fulfill the need for compatibility with wastewater regulations and environmental conservation but also provide economic advantages based on wastewater reclamation. Kurita will work to strengthen its sales programs for this system with China as the main target market.

#### Standardized wastewater reclamation system



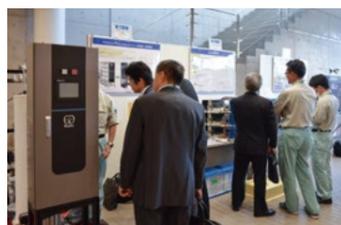
# Foundation of R&D and Intellectual Property



The Kurita Group strives to be a Technology-Driven Company. Aiming for the realization of its corporate philosophy, the Group is working to develop technologies that will resolve the challenges faced by industry and society as a whole from the perspective of reducing environmental burden, recycling resources, and improving industrial productivity.



R&D Conference

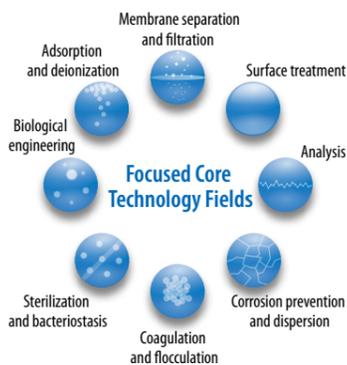


R&D Workshop

## R&D Activities under Medium-Term Management Plan CK-17

During the period of the CK-17 plan, the Kurita Group aims to develop technologies that will strengthen such core business fields as ultrapure water production, boiler and cooling water treatment, and wastewater reclamation. The Group is also working to further cultivate its core technology fields of analysis technologies and new materials development. The Kurita Group aims to raise its brand power in the water treatment market outside Japan and to expand its overseas business by holding world-leading technology in each field.

A business acquisition in Europe in 2015 added the European Water Treatment Chemicals Research Center of Kurita Europe GmbH to the Kurita Global Technology Center in Japan, making the Kurita Group's R&D structure a two-base system. Lively discussions took place when Kurita Europe gave presentations at the R&D Conference and R&D Workshop. In April 2017, Kurita established Kurita R&D Asia Pte. Ltd. in Singapore as a new company to conduct research and development. Singapore has numerous universities, research institutions, and corporate R&D centers involved in water and environmental technology. By establishing an R&D center here, Kurita will be able to obtain in a timely manner the latest technical information related to seawater desalination and wastewater reclamation and reuse, which will speed up technology development and lead to higher competitiveness of products and technologies.



R&D Staff  
Approx. **200**

## Main R&D Results in the Fiscal Year Ended March 31, 2017

### Water Treatment Chemicals Business

**New chemicals and a water treatment control support system for power boilers**  
Kurita developed a highly safe film-forming corrosion inhibitor as an alternative to the conventional oxygen scavenger for medium- to high-pressure boilers, such as power boilers, which are increasing in Japan and abroad. It also developed a water treatment control support system to prevent trouble by detecting signs of boiler facility malfunction.

**Solid cartridge-type cooling water treatment chemicals**  
Kurita developed solid cartridge-type water treatment chemicals that prevent the growth of Legionella bacteria and are effective for reducing the adhesion of dirt and inhibiting corrosion in small cooling towers over a long time just by placing the cartridge in the tower.

**Dehydrating agent for tunnel construction**  
Kurita developed a dehydrating agent that reduces the total slurry treatment cost in the slurry shield method used in tunnel construction work by increasing the performance of slurry dehydration and the filtration rate.

### Water Treatment Facilities Business

**Standardized wastewater reclamation system**  
Kurita developed a space-saving, low-cost standardized wastewater reclamation system that is easy to design and install, as it consists mainly of membrane treatment units. Stable operation is achieved by combining Kurita's unique chemical treatment technologies.

**Highly efficient treatment technology for high-concentration nitrogen wastewater**  
Kurita developed technology that is highly efficient at treating high-concentration nitrogen wastewater from methane fermentation. The technology is for facilities that conduct biogas power generation through methane fermentation of liquid waste from the food industry.

**Reducing the cost of ultrapure water production**  
By improving the performance of functional materials that make up the ultrapure water production system, revising the purifying method while still maintaining quality, Kurita was able to achieve cost reductions throughout the entire production system as well as maintain the water standards required by a major semiconductor manufacturing company.

## Utilization of Intellectual Property

The Kurita Group strives to secure and properly manage intellectual property with the aim of increasing the competitiveness of its core products and technologies in Japan and overseas.

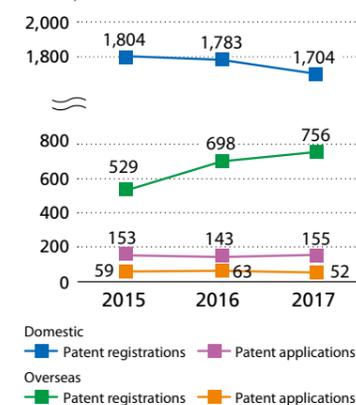
In the fiscal year ended March 31, 2017, the number of patent applications to secure the rights on new products and technologies was maintained while Kurita narrowed down its patents held in Japan to those that are useful in business. Outside Japan, the number of patents held by the Group increased substantially due to the focus placed on securing intellectual property rights abroad with the expansion of the Kurita Group's overseas business. The Group also strove to establish a centralized global intellectual property system and strengthened its centralized management of intellectual property activities to cope with global business expansion, such as establishing a policy on the handling of employee inventions at Group companies, including those overseas, and development of a system for dealing with patent litigation risk outside Japan.

In addition to these initiatives, Kurita worked to increase Group employees' awareness of intellectual property, including by conducting e-learning on intellectual property rights and starting intellectual property training for the employees of overseas Group companies in China and Europe, in order to reduce the risk of infringement on other company's intellectual property rights.

Going forward, Kurita will aim to secure rights for future core technologies together with the strengthening of its overseas business and solutions business. At the same time, it will strive to reduce intellectual property risk in its global business by expanding intellectual property training for the employees of overseas Group companies.

## Number of Patent Applications and Patents Held

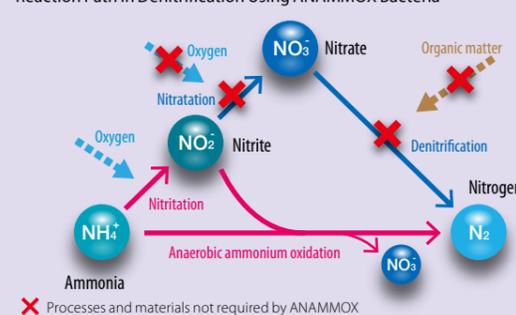
For the years ended March 31



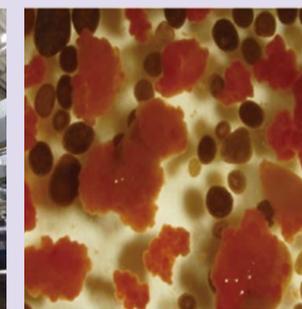
## Kurita Launches Japan's First Continuous One-Step ANAMMOX Process

The treatment of wastewater containing nitrogen compounds consists of two steps. The first step is nitrification, in which ammonia (NH<sub>4</sub><sup>+</sup>) as a nitrogen component in wastewater is oxidized into nitrite (NO<sub>2</sub><sup>-</sup>) and then into nitrate (NO<sub>3</sub><sup>-</sup>). The second step is denitrification, which converts nitrate into nitrogen gas (N<sub>2</sub>). The cost of these steps used to be a problem, as the nitrification process requires a large amount of electricity to feed a substantial quantity of oxygen to stimulate growth of nitrifying bacteria, and because the denitrification process generates surplus sludge as waste. ANAMMOX bacteria that can convert ammonia and nitrite into nitrogen gas innovate this wastewater treatment process. In March 2017, Kurita launched Japan's first continuous one-step ANAMMOX process, which has a more efficient and stable reaction than the conventional process and can meet a wide range of needs, including utilization for the treatment of large-amount flow wastewater with low nitrogen concentration. Kurita aims to promote the sale of this process as a system that will support energy recovery and the recycling of food waste. This includes its application for the dehydration and filtration process of wet-type methane fermentation in biogas power generation, which is anticipated to expand on the back of such factors as the Feed-in Tariff Program for renewable energy.

### Reaction Path in Denitrification Using ANAMMOX Bacteria



ANAMMOX reactor



ANAMMOX bacteria

Fundamentals that Support Value Creation

# Further Strengthening of Corporate Governance



## Overview of Corporate Governance Structure (As of June 29, 2017)

	Company with an audit & supervisory board	Disclosure of individual remuneration of directors	Disclosure is restricted to persons with ¥100 million or more.
Number of directors	10	Number of members of the Audit & Supervisory Board	3
Number of external directors (within the total above)	2	Number of external members of the Audit & Supervisory Board (within the total above)	2
Voluntary Advisory Committees	Nomination & Remuneration Advisory Council	Number of independent officers	4 (External directors: 2, External members of the Audit & Supervisory Board: 2)
Term of office of directors	1 year	Accounting auditor	Grant Thornton Taiyo LLC
Incentive payments to directors	Remuneration and bonuses linked to business results	Adoption of executive officer system	Yes

Based on its corporate philosophy, the Kurita Group works to enhance corporate governance with the aim 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. Accordingly, in the fiscal year ended March 31, 2017, we worked on a variety of governance reforms.

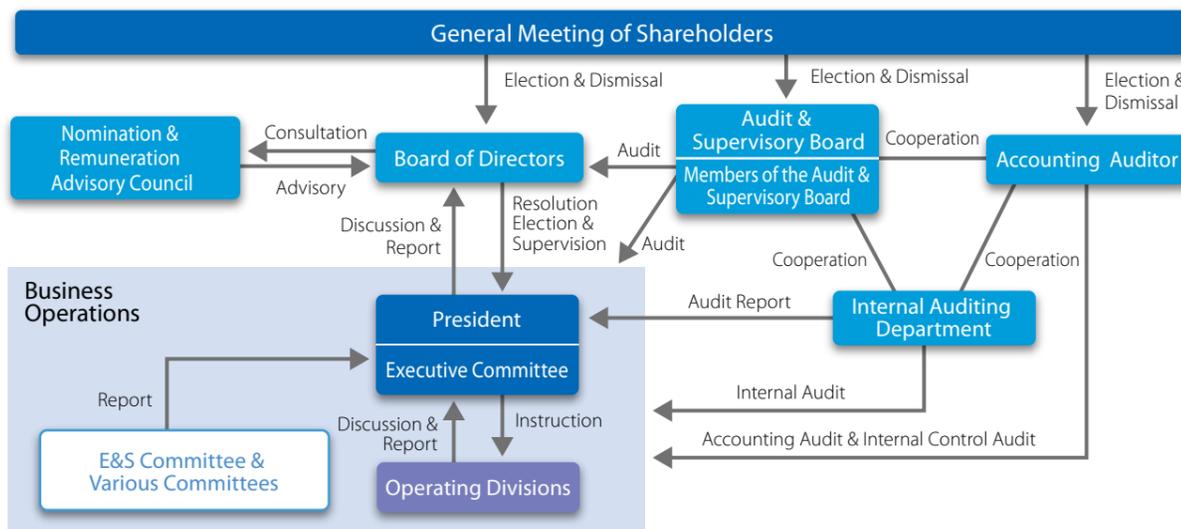
### Reinforcing Functions of the Board of Directors

In the evaluation of the effectiveness of the Board of Directors that took place in the fiscal year ended March 31, 2016, it was considered as an issue to implement further reinforcement so that the Board of Directors intensively discuss important matters, such as setting longer-term targets and drawing up strategies. Accordingly, in the fiscal year ended March 31, 2017, the Board of Directors discussed the possibility of its transition to either a company with a nominating committee, etc., or a company with an audit & supervisory committee,

as well as its basic approach to the task of improvement in operations execution systems and validity of matters to be resolved at Board meetings.

As a result, while it was determined that the audit & supervisory board system continues to function effectively, we will continue to consider a change in our organizational design. As well, in order to intensively discuss important matters at Board meetings, part of the decision-making authority was transferred to the Executive Committee, which is composed of management executives, and operating divisions from the Board of Directors. At the same time, with regard to the status of operational execution, the number of matters to be reported at Board meetings was reduced. From April 2017, with the Investment Committee established to consider and examine business strategies and financial matters prior to discussion on investment projects at Board meetings, we strove to further ensure the effectiveness of discussions at Board meetings.

## Corporate Governance Structure (As of June 29, 2017)



### Size and 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. As of June 29, 2017, the Board has 10 directors, of which two are external directors. To carry out 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. The term of office of directors is set to one year. This is intended to facilitate flexible changes to the management structure in response to changes in business conditions.

### Nomination & Remuneration Advisory Council

Kurita Water Industries Ltd. has in place a Nomination & Remuneration Advisory Council, a voluntary committee to increase transparency in the decision-making process regarding remuneration for directors and nomination of directors and members of the Audit & Supervisory Board. The Council, which mainly comprises external directors and external members of the Audit & Supervisory Board, is consulted about candidates for officers and their remunerations, and submits a report on appropriateness thereof to the Board of Directors. Through the application of these

processes, the effectiveness of improvements in transparency will be verified.

### Activities of External Directors and Reasons for Appointment

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

The Board of Directors valued the increased dynamism of its deliberations following the appointment of Mr. Seiji Nakamura in June 2013. Therefore, the number of external directors became two, with Mr. Tsuguto Moriwaki appointed in June 2015. Since assuming office, both of them have attended all of the Board meetings held, actively made comments, and provided a wide range of recommendations on reinforcing functions of the Board of Directors, some of which have been adopted by the Board of Directors.

The standard of their consecutive reappointments is set at three times as the Company expects the external directors to make comments on and point out issues from external and fresh perspectives. In June 2017, Mr. Nakamura resigned at the expiration of his term of office. Ms. Ryoko Sugiyama, an expert on the environment and waste, took office.

## Continuous Reform of the Board of Directors (April 2016–End of June 2017)

	Initiatives	Results
Form of corporate governance	Discussion on the transition to a company with an audit & supervisory committee	The transition was not accepted for the fiscal year ended March 31, 2017. The Company continues to discuss other options.
Management oversight and business execution	Refining subjects to be resolved and reported at Board of Directors' meetings	Increase in the number of discussions on corporate governance
	Transferring decision-making to the Executive Committee regarding business execution	Invigorated discussions at Board of Directors' meetings
Size and composition of the Board of Directors	Securing effectiveness of discussions on investments	Established the Investment Committee
	Consideration on size and composition	Discussions on reducing the number of Board members and possibly changing up member composition
	Consideration of enhancement of diversity	Discussions on female candidates as external directors

## Profile of Nomination & Remuneration Advisory Council (April 2016–End of June 2017)

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

\* Job titles are stated as of after April 2017.



### Status of External Directors and External Members of the Audit & Supervisory Board (As of June 29, 2017)

Post	Name	Number of meetings of the Board of Directors and the Audit & Supervisory Board attended (Fiscal year ended March 31, 2017)	Reasons for electing him / her as a director or a member of the Audit & Supervisory Board
Directors	Tsuguto Moriwaki	Board of Directors' meetings: 11/11	Mr. Tsuguto Moriwaki is an individual who possesses a great deal of knowledge about manufacturing and corporate reform and has held important positions such as representative director in other companies. The Company judged that he was capable of delivering opinions from an outside perspective, taking advantage of his knowledge and experience, and increasing the rationality and transparency of the Company's management.
	Ryoko Sugiyama <span>Newly elected</span>	—	Ms. Ryoko Sugiyama is an expert on the environment and waste and has held important positions such as a university professor and an external director of listed companies. The Company judged that she was capable of checking the Company's management from an outside perspective, different from those within the Company, and increasing its rationality and transparency.
Members of the Audit & Supervisory Board	Kenjiro Kobayashi	Board of Directors' meetings: 11/11 Audit & Supervisory Board meetings: 11/11	Mr. Kenjiro Kobayashi is an individual who has played an active role in different areas of the Group's businesses and has high expertise and a wealth of international experience in the areas of finance, corporate planning, new business development, and M&As, etc. As he is capable of reflecting his expertise and experience on the audit of the Company.
	Shigekazu Torikai <span>Newly elected</span>	—	Mr. Shigekazu Torikai has special knowledge as well as considerable experience and deep insight into corporate legal affairs as an attorney. The Company judged that he was expected to conduct a high-quality audit from an outside perspective, using his specialty, experience, and insight.

#### Adoption of the Audit & Supervisory Board System

Kurita Water Industries Ltd. is a company with an audit & supervisory board. The Audit & Supervisory Board currently comprises three members, of which two are external members. Individual members of the Audit & Supervisory Board monitor the status of execution of duties by directors and the status of performance of oversight duties by the Board of Directors. They also conduct asset status surveys of the entire Kurita Group including subsidiaries and audit the development and operation of internal control systems implemented by the directors. The individual members of the Audit & Supervisory Board attend important meetings including Board of Directors' and Executive Committee meetings and audit execution of duties by directors.

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

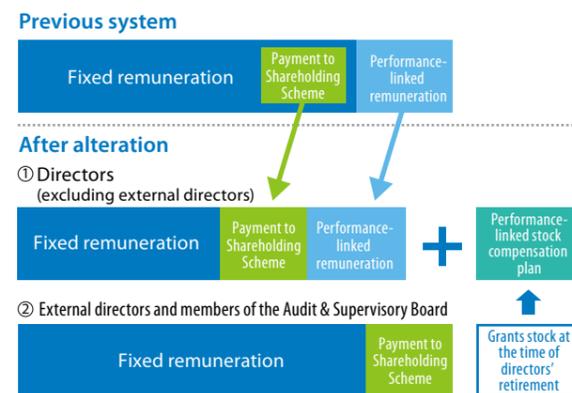
The Company has appointed Grant Thornton Taiyo LLC as its accounting auditor. The Audit & Supervisory Board nominates candidate accounting auditors, and makes decisions on proposed resolutions regarding appointment, dismissal, and refusal of reappointment of the accounting auditor. In addition, members of the Audit & Supervisory Board, the Internal Auditing Department, and the accounting auditor share information with one another on audit plans and concerns and work to engage in close collaboration.

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

The Company's remuneration system for directors excluding external directors is composed of fixed remuneration as base remuneration, and incentive remuneration reflecting business

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

#### Change in the Remuneration System for Officers



#### Disciplinary Rules for Investment

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

#### Shareholdings in Other Listed Companies

Kurita Water Industries Ltd. may hold shares of other listed companies for strengthening business relationships and other purposes. We verify the economic rationality for respective stocks we have held and the risks of holding those stocks, as well as relationships with companies whose stock the Company holds periodically and at other times as necessary, and review the appropriateness of holdings. In the fiscal year ended March 31, 2017, deciding to sell stock of two companies through resolutions at Board meetings, we sold stock of three companies including stock of a company decided to be sold in the fiscal year ended March 31, 2016.

#### Evaluation of the Board of Directors

Each of Kurita's directors and members of the Audit & Supervisory Board completed an analysis and evaluation of the effectiveness of the Board of Directors.

Evaluation method	This evaluation was conducted via a written survey, with each of the respondents identified. The aggregate results were discussed at Board meetings and helped members to better identify problems as well as decide future measures.
Assessment items	Six areas: (1) Roles and responsibilities of the Board of Directors, (2) Collaboration with external directors and external members of the Audit & Supervisory Board, (3) Composition of the Board of Directors, (4) Operation of the Board of Directors, (5) Contributions of individual directors and members of the Audit & Supervisory Board and (6) Dialogue with shareholders.
Evaluation period	From January to December 2016



External Director  
Tsuguto Moriwaki

#### Review by an External Director

While discussions at Board meetings are becoming more active each passing year, I feel that the time allotted for discussions regarding the Company's long-term strategy could be improved. Our vision should be clarified through Company discussions regarding strategies over the next 5–10 years. It is expected that this will have a positive effect on the behavior of our employees on the frontlines of business. We expect discussions to become even more active moving forward.

At Board meetings, it is important that I keep in mind the thoughts and opinions of shareholders and that I say what is maybe difficult for

#### 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. Especially with regard to "contributions of individual directors and members of the Audit & Supervisory Board" and "collaboration with external directors and external members of the Audit & Supervisory Board," the evaluation was high, without substantial disparities among the self-evaluations of the directors, the external directors, and the members of the Audit & Supervisory Board. Meanwhile, "dialogue with shareholders," "roles and responsibilities of the Board of Directors," and "operation of the Board of Directors" were evaluated relatively low, especially by the external directors. Based on these evaluation results, issues were identified and measures were decided, as follows:

#### Issues

- In relation to business strategies for a long-term improvement of corporate value as well as involvement with the environment and society that would lead to long-term growth, it is necessary to discuss these issues more deeply throughout the entire Kurita Group.
- In order to increase the level of discussions at Board meetings, it is necessary to enhance a prior examination on matters to be discussed at the meetings so as to further improve the accuracy of considerations.
- It is necessary for the Board of Directors to share a consistent theme and message with regard to dialogue with shareholders.

#### Measures

- With an eye on prospects 5–10 years in the future, we will review our corporate vision, set more specific targets regarding involvement with the environment and society, and reflect these in the Company's medium-term management plan.
- We will enhance our system to review investment projects, and thoroughly narrow down points of discussion and issues.
- We will improve the level of dialogue by clarifying themes and messages to be communicated to shareholders.

internal directors to say. In the fiscal year ended March 31, 2017, we pointed out the need to establish an Investment Committee so that internal experts can better consider and examine investment projects. The formation of this committee was approved by the Board of Directors.

As the Investment Committee is able to narrow down points of discussion for Board meetings and help maintain focus, allowing problems that were perhaps overlooked in the existing decision-making process to be addressed, we believe that the Committee will contribute to the Board becoming even more effective.

Fundamentals that Support Value Creation

# Directors and Members of the Audit & Supervisory Board



## Directors



President and Representative Director  
**Michiya Kadota**

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



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

2017 General Manager of Global Business Division and in charge of the chemicals business (to present)  
2016 Executive Senior Managing Director and Representative Director (to present)  
2013 Managing Director  
2011 President and Representative Director, Kuritec Service Co. Ltd.  
2007 Director  
2005 Executive Officer  
1975 Joined Kurita Water Industries Ltd.



Managing Director  
**Kiyoshi Itou**

2017 General Manager of Group 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**

2017 General Manager of Sales II Division and in charge of the facilities business (to present)  
2016 Managing Director (to present)  
2014 Director  
2011 Executive Officer  
1977 Joined Kurita Water Industries Ltd.



Director  
**Yoshio Yamada**

2017 General Manager of Sales I Division (to present)  
2014 Director (to present)  
2011 Executive Officer  
1982 Joined Kurita Water Industries Ltd.



Director  
**Ikuo Ishimaru**

2017 General Manager of Group Quality & Production Division (to present)  
2016 Director (to present)  
2013 Executive Officer  
1984 Joined Kurita Water Industries Ltd.



Director  
**Hirohiko Ejiri**

2017 General Manager of Corporate Planning Division (to present)  
2016 Director (to present)  
2014 Executive Officer  
1985 Joined Kurita Water Industries Ltd.



External Director  
**Tsuguto Moriwaki**

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



External Director  
**Ryoko Sugiyama**

2017 External Director of Kurita Water Industries Ltd. (to present)  
2015 External Director of UACJ Corporation (to present)  
2010 External Director and Audit and Supervisory Committee Member of LECIP Holdings Corporation (to present)  
2010 Professor at the Faculty of Social and Environmental Studies of Fuji Tokoha University (current Tokoha University)  
2007 Director of Sugiyama & Kurihara Environmental Consultants, Inc. (to present)  
1996 Established Sugiyama & Kurihara Environmental Consultants, Inc., Representative 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.



External 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 (current Development Bank of Japan Inc.)



External Member of the Audit & Supervisory Board (Part time)  
**Shigekazu Torikai**

2017 External Member of the Audit & Supervisory Board (part time) (to present)  
2015 External Director of United Super Markets Holdings Inc. (to present)  
1994 Established Torikai Management Law Office (current Torikai Law Office)  
1990 Registered as an attorney

## Initiatives that Support Value Creation

# Risk Management / Internal Control System



## Risk Management

The Kurita Group defines risk as any event that makes its sustainable growth and enhancement of the Group's corporate value uncertain. We identify risks that need to be addressed while minimizing losses and damage caused by risks by taking measures to avoid and mitigate risks, so that we can continue securing business opportunities for further growth.

The General Manager of the Corporate Planning Division is the officer responsible for monitoring risks and implementing risk management within the Kurita Group. The General Manager regularly conducts risk analysis and evaluation to relevant companies, 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 those responsible for responding to the risk, obtains approvals from the president, and immediately issues orders. Those responsible for responding to the risk promptly take actions 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 head of the E&S (Environmental & Social) Committee, while those related to hygiene, safety, and disasters are the responsibility of the head of the Safety / Hygiene Committee of the Headquarters. The general manager of each business division is responsible for responding to risks directly associated with day-to-day business operations. Also, responding to commonly seen risks relating to quality, the environment, information security, export controls, and so on are handled by the respective divisions responsible.

The General Manager of the Corporate Planning Division, the head of each committee, and the general managers of business divisions report periodically to the Board of Directors on the status of risk management implementation, and report as necessary to the Board of Directors and the Audit & Supervisory Board on the occurrence and effects of serious risks. In addition, the Board of Directors of each Group company regularly report to Kurita's Management Division and Business Division on the progress of risk management. Monitoring of the execution status and improvement status of risk management is conducted by the Internal Auditing Department.

## Internal Control System

The Kurita Group endeavors to enhance its internal control with the "Basic Policies for Constructing an Internal Control System," established by the Board of Directors in May 2006 in response to the enforcement of Japan's Companies Act. These policies are updated as necessary according to the decisions of the Board of Directors.

The internal control system of the Kurita Group is roughly divided into two: A system that ensures the accuracy of business operations, and a system that ensures the effective auditing of the Audit & Supervisory Board. These systems are established and appropriately operated. The former system is: (1) to ensure that the execution of the duties of directors and employees conforms with laws, regulations, and the articles of incorporation, (2) to store and manage information about the execution of the duties of directors, (3) to ensure regulations and other systems for managing the risk of loss, (4) to ensure the efficient execution of duties by the directors, and (5) to ensure the accuracy of operations in a corporate

group consisting of the Company and its subsidiaries. The latter system clarifies: (1) matters related to staff that assist the duties of the auditor, and (2) a system for the directors and employees of the Company and Group companies to report to the Audit & Supervisory Board.

In order to conduct financial reports in an adequate manner, the Kurita Group has established and now operates the internal control reporting system in accordance with the Financial Instruments and Exchange Act. Monitoring, recommendations for improvement, and support for improvement for the operation of the system is implemented by the Internal Auditing Department. In addition, the Accounting Department in the Corporate Planning Division shares responsibility for monitoring, recommendations for improvement, and support for improvement related to the "operations process control within the Company" and the "financial reporting process control of consolidated subsidiaries from a Company-wide perspective."

Initiatives that Support Value Creation

## Compliance



In order to establish a transparent and fair relationship with its stakeholders, the Kurita Group fully enforces the practice of conduct based on compliance with laws, regulations, and social ethics in its daily business activities.

### Framework for Promotion

The Company has established the E&S (Environmental & Social) Committee, which is chaired by the director, and the Group E&S Committee, which is also chaired by the above-mentioned director and whose members are representative directors of 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.

### Establishment of the Kurita Group Code of Conduct

On October 1, 2016, the Kurita Group Code of Conduct was established as a model for compliance with laws and for taking appropriate actions according to social ethics. With Kurita's business continuing to expand globally, the Code defines actions to be taken by all Group officers and employees beyond any gaps that may exist due to language, custom, or culture. As thorough understanding of the Code is a priority, it has been translated into 15 different languages.



Briefing session held at an overseas Group company

### Reinforcing the Kurita Group's Anti-Bribery Initiatives

The Kurita Group reinforced its Anti-Bribery Policy on March 1, 2017, in order to promote fair business activities within the Group. This policy defines basic items related to the Group's bribery prevention systems. Under this policy, the Company and each Group company defines items to be complied with as rules and works on the reduction of the risk of the occurrence of bribery.

### Initiatives to Prevent Bid-Rigging and Cartels

The Kurita Group actively works to avoid the re-occurrence of bid-rigging. In 2006, the Kurita Group withdrew, in principle, from all construction projects ordered by the national government and local public entities. However, exceptions to this principle are limited to cases where no existence of compliance risks are confirmed to projects involving facilities delivered by the Company that are subject to ongoing maintenance and management work by a Group company, 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 that can easily connect to bid-rigging and cartels.

### Initiatives to Establish Healthy Relationships with Suppliers

Since 2008, the Company has been conducting Surveys on Transactions with Kurita Water Industries Ltd. once a year with suppliers who fall under the category of subcontractors as provided in the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (the Subcontract Act). The Company is promoting fairer transactions and building relationships 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. We also request subcontractors to thoroughly comply with laws and regulations, as the procurement guideline regarding respect for basic human rights stipulates an adequate wage as well as hours of labor.

### Overview of the Kurita Group's Whistle-Blowing System

The Company and its domestic Group companies maintain consultation desks within each company as well as at outside organizations in an effort to protect persons who consult or make reports and to achieve early detection of dishonest practices. Starting in April 2016, we commenced operation of the Kurita Global Helpline, which allows the employees of overseas Group companies to make reports to a consultation desk.

As well, we also have the Supplier Helpline, which suppliers can call for consultation and reporting. This helpline is operated by an external organization.

Updates on operation of the Group's whistle-blowing system are reported to the Board of Directors on a regular basis.

### Questionnaires on Compliance

Questionnaires on compliance are conducted once a year for all Group employees. The Company monitors the results of compliance activities through the questionnaire results, and issues that become apparent through analysis are reflected in compliance activity plans for the following year.

### Response to Anti-Social Forces

The Company takes a firm stance against anti-social forces that threaten the order and safety of society, and we are vigilant that we never accept illegal requests from such forces. Upon reaching a basic agreement for business with our customers, we obtain a written statement from each supplier stating that they have no relationships with such anti-social forces.

Initiatives that Support Value Creation

## IR Activities for the Enhancement of Corporate Value



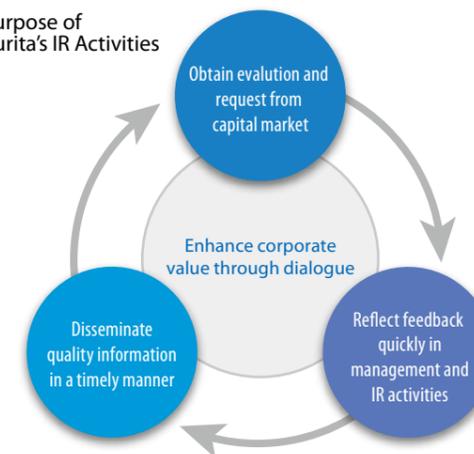
Based on the Management Guidelines, which specify "management that respects shareholders," the Kurita Group proactively listens to the opinions of shareholders and continuously establishes structures and takes measures to promote constructive dialogue with shareholders so that we can contribute to sustainable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

### System for Promoting Dialogue

The General Manager of the Corporate Planning Division has overall responsibilities for constructive dialogue with shareholders and investors. A specialized Investor Relations (IR) section has been established within the Corporate Planning Division, at which staff specialized in IR are assigned. The General Manager of the division is involved in dialogue with shareholders and investors. As well, he / she attempts to organize such dialogue between the president and other officers and shareholders and investors.

In regard to important information on matters within the Company, the General Manager of the division ascertains, collects, and controls it adequately, and discloses it in a timely and appropriate manner. He / She also provides feedback to the Board of Directors concerning the opinions and concerns of shareholders learned through such dialogue periodically and as necessary.

### Purpose of Kurita's IR Activities



### IR Activities for Institutional Investors

In activities taken for institutional investors in the fiscal year ended March 31, 2017, Kurita held financial results briefings at the time of its second-quarter and full-year financial results, at which the president and the directors of the Accounting Division and the Corporate Planning Division explained the Company's results and answered questions. Teleconferences were also held at the time of the Company's first- and third-quarter financial results, during which the General Manager overseeing the IR department explained the results and answered questions. The materials used at these briefings, as well as summaries of the questions and answers, have been posted on the Company's IR website to ensure the timely and fair disclosure of information.

In addition, IR staff conduct individual meetings with securities analysts and institutional investors in Japan and overseas

on a regular basis except during quiet periods. During the fiscal year ended March 31, 2017, over 200 meetings and telephone meetings were held.

For foreign shareholders and investors, the president and the General Manager of the Corporate Planning Division conduct roadshows in Europe, North America, and Asia. In addition, the General Manager of the Corporate Planning Division participates in domestic conferences organized by securities companies. In the fiscal year ended March 31, 2017, we visited 54 shareholders and investors overseas and held 28 meetings in Japan.

In recognition of our efforts for these activities, Kurita was chosen by the "Awards for Excellence in Corporate Disclosure by Securities Analysts," conducted by The Securities Analysts Association of Japan, as a "Company with the Notable Level of Disclosure Improvement" and received a commendation from the association.



Commendation by The Securities Analysts Association of Japan

### IR Activities for Individual Investors

For individual investors, a shareholder briefing is held after the General Meeting of Shareholders, and a company briefing is conducted at the branches of securities companies in the metropolitan areas as well as at venues in rural cities. In the fiscal year ended March 31, 2017, we shared with over 800 people the outline of the Company and organized opportunities for the exchange of opinions. The materials used at these briefings are available on the Company's IR website.



Individual investor briefing session

### Communication with Shareholders

In Japan, our IR staff visit major domestic shareholders as well as the hubs of foreign shareholders in Japan in order to create opportunities to communicate with the persons in charge of exercising voting rights. We at Kurita explain the direction of management and report 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. 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.

Initiatives that Support Value Creation

# Human Resources Management



The Kurita Group believes that sustainable growth requires enabling employees to choose employment styles that support self-realization according to their stage in life, the ability to work with passion, and allowing employees to play their roles in the right place. Consequently, we conduct human resource development and create systems to achieve these objectives.

## Development of Human Resources

The Kurita Group has traditionally recommended that employees tackle the challenges of extending their own capabilities at all stages of their careers, and we are enthusiastic in the development of human resources that support our global business strategies. 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 better understand the thinking of each individual, which is then 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 in place that provides employees with opportunities to study at educational and research institutions in Japan and overseas. 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 Human Resource Capabilities

Kurita Water Industries Ltd. believes that the enhancement of human resource capabilities is necessary to strengthen the fundamentals of its business. Therefore, in addition to lecturers for each skill level and position, we implement training programs for selected participants including global training programs, the purpose of which is to nurture human resources that are capable of working at a global level. We

## Number of Trainees

(including employees of some domestic and overseas Group companies)

Training for those in each ranking	346*
Training for executives and managers	237*
Training for female employees	15
Global training	22
Training for staff of overseas Group companies	26

\* Cumulative total number of persons in the fiscal year ended March 31, 2017

also enthusiastically work on the development of human resources that are the core of the management of overseas Group companies, and implement training for future executives among local employees and managers.

## Promotion of Diversity

The Kurita Group seeks to employ diverse personnel, placing 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, 2017, the Company held training programs that support the career development of female employees as well as established a work-suspension system for those whose husband is transferred overseas. We maintain a labor system that actively encourages female employees to continue their careers at Kurita as long as possible.

## 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. As of April 1, 2017, the Company's disabled person employment rate is 2.22%.

## Second Career Support System

We have a second career support system that offers preferential treatment to support employees who wish to try to work in a field different from their present one. 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 April 1 2006 and April 1, 2017, a total of 319 retirement-age personnel secured employment opportunities. As of April 1, 2017, there are 73 retirement-age employees who have secured employment opportunities at the Company.

## Supporting a Proper Work-Life Balance

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.

## Preventing the Occurrence of Long-Hours Labor

As a result of initiatives in the fiscal year ended March 31, 2017, Kurita Water Industries Ltd. and the domestic Group companies were successful in reducing the amount of overtime hours by promoting such measures as "No Overtime Day" and the "Regulation on the Period of Use of Company Facilities." We will continue to prevent the occurrence of long-hours labor by reviewing the quality of output resources, operational processes, and the amount of work.

## 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.

## 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. In addition, 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.

## Activities Related to Human Rights

The Kurita Group Code of Conduct, established in October 2016, states that the Group respects the Universal Declaration of Human Rights and takes actions according to the Declaration. It is common knowledge throughout the Kurita Group that, for the benefits and the employment of employees and any other business activities, no discrimination is acceptable regarding nationality, race, skin color, gender, religion, political view, country of origin, place of origin, physical ability, sexual orientation, etc. As well, child labor and forced labor are not permitted in any form in any business activity.

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

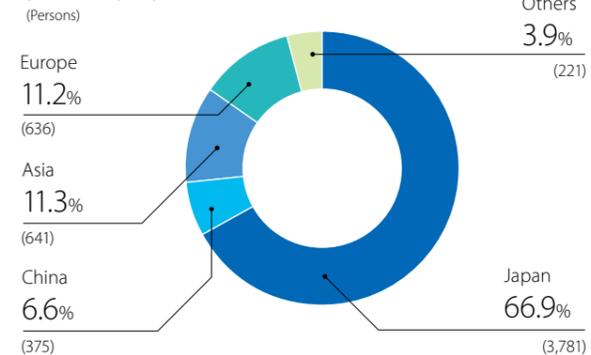
## Number of Employees Who Have Used the Leave System

(Cumulative total number from the fiscal years ended March 31, 2015 to 2017)

	Name of the system	Number of employees who took leave
Parental leave	Parental Leave System	24
	Work Less Hours for Parenting System	32
Nursing care leave	Nursing Care Leave System	0
	Work Less Hours for Nursing Care System	0
Others	Leave System Due to Spouse Being Transferred	1
	Volunteer Leave System	4

## Ratio of Employees in Each Region

(As of March 31, 2017)



Initiatives that Support Value Creation

# Emphasis on Safety and Quality

The Kurita Group believes that earning the confidence of customers by providing technologies and services with the levels of safety and exceptional quality that they expect leads to the development of a solid management foundation.

### Structures and Policies for Health and Safety

The Kurita Group believes that safety is an essential basis of value creation when providing customers with technologies, products, and services.

As part of the establishment of its health and safety management structure, under the Headquarters Health and Safety Committee, which is a committee under the direct control of the president, each office and division of Kurita Water Industries Ltd. establishes a Health and Safety Committee while each Group company also establishes a Health and Safety Committee. This allows us to develop and enhance safe and healthy work environments. A special department has been established to promote safety within the worksite, and it plans and takes active measures to prevent work-related accidents. The department also follows up on the activities of the Health and Safety Committee.

As a policy of the fiscal year ended March 31, 2017, the Group established a goal that states, "every one of us must become more aware of the possibility of risk occurrence and fully remove any potential risks at worksites." As such, we have endeavored to prevent work-related accidents and to promote health management.

### Prevention of Work-Related Accidents

The Kurita Group works diligently to prevent work-related accidents by maintaining safe work environments at its construction and worksites. The Water Treatment Chemicals business has focused efforts on enhancing safety control at worksites and on maintaining sustainability by giving lectures to each division on the topic of risk assessment at worksites. In addition, the business has been implementing evaluations at worksites according to the Risk Assessment Sheet, which defines safety measures necessary for each work process. At the same time, the Water Treatment Facilities business conducts activities to promote danger predictions that follow safety cycles at worksites and takes measures to prevent expansion of a work-related accident by illustrating work-related accident cases to its workers and subcontracting companies working at

a site to fully understand causes and measures as well as implementing emergency response training so that appropriate measures can be taken when work-related accidents occur.

### Safety Education

Kurita Water Industries Ltd. is eager to conduct educational activities on work safety as it implements various educational activities, which take place over 100 times a year, and conducts lectures to encourage workers to obtain unique Kurita certifications. Among others, we conduct safety training for new employees through hands-on exposures to dangers in order to raise their awareness of risks.

In the Water Treatment Facilities business, divisions that are involved in production, construction, and maintenance invite cooperating companies to participate in "Safety Conferences." These conferences consist of lessons given by external lecturers on safety and other activities that raise the awareness of staff using lessons learned on previous accidents. Similar Safety Conference activities are held overseas in order to raise shared awareness and share topics among participants.

### Health Management

The Company and its domestic Group companies actively promote health management of both body and mind, to ensure that employees are able to work enthusiastically. We pursue a deep understanding of health and attempt to raise awareness by offering opportunities for employees to refresh their body and mind by reducing their work hours and encouraging the use of paid holidays. As well, we hold lectures on mental health and events related to health over 50 times a year. In addition, we conduct a Stress Check, which is a survey given to all employees and carried out under the guidance of the stress check systems designed by the Ministry of Health, Labour and Welfare according to the Industrial Safety and Health Act. The Company supports the implementation of these activities at Group companies with less than 50 employees, even though there is no obligation to by law.

### Quality Management

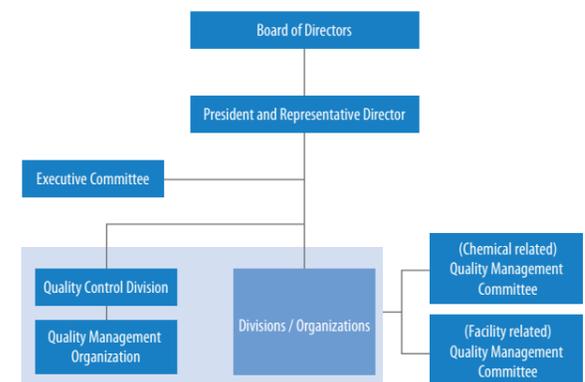
As the Kurita Group expands its overseas business, quality improvement has become an even more important concern. To further enhance the quality of the solutions that we offer our customers, under the Kurita Group's Quality Policy we implement quality management, which focuses on the flow from establishment, implementation, and evaluation to improvements in the quality of our products, technologies, and services.

### Outline and Structure of Our Quality Management System

With regard to product quality management, we have established a Quality Assurance Department to work on quality control from production to final receipt of the product. Committees have been established in the Water Treatment Chemicals business and the Water Treatment Facilities business to control quality improvement activities in each business, in order to form systems that allow us to improve quality in a proactive and sustainable manner and to maintain a quality management system.

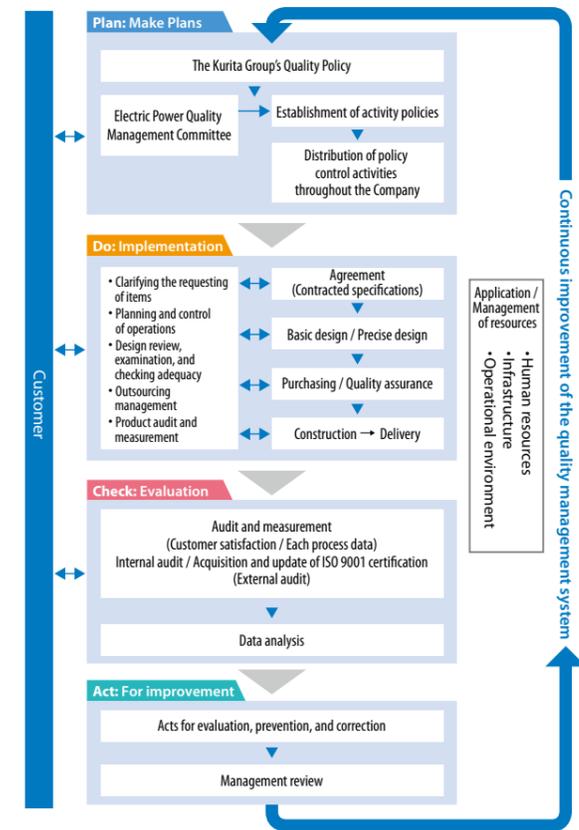
In the fiscal year ended March 31, 2017, the Water Treatment Facilities business saw relevant departments implementing mutual checks to evaluate the efforts on quality management, and conducted quality improvement activities including discussions on investigating the cause of issues and distributing issue-prevention measures throughout the entire Company.

### Control Structure of Quality Management System



### Map of Quality Management System

(Kurita Water Industries Ltd. Department related to electric power plant)



### ISO 9001 Certification

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.

## PICK UP

### Safety Patrols

As part of safety activities at worksites, Kurita Water Industries Ltd. implements safety patrols in order to stop unsafe activities and environments. Risk detection and improvement are implemented from different expert viewpoints through safety patrols conducted jointly by special divisions of the Water Treatment Chemicals business and the Water Treatment Facilities business, as well as safety patrols performed by invited external specialists. These activities are being expanded to overseas sites as well.



### Initiatives to Improve Technical Skills

Kurita Water Industries Ltd. has established the T&C (Technical & Career) Support Center 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 at the Yamaguchi Center, and plays a role in the global expansion of the Kurita Group's safety and quality.



Training held at the T&C Support Center

Initiatives that Support Value Creation

# Harmony with the Environment



The Kurita Group aims to realize its corporate philosophy by resolving water and environmental challenges through its business activities.



### The Three Aspects of Kurita's Environmental Improvement Activities

- Technological Innovation**  
Initiatives that contribute to the creation of a sustainable society by developing new products and technologies that support environmental improvement.
- Customers' Needs**  
Initiatives that contribute to the environmental improvements wanted by customers through products, technologies, and services.
- Internal Change**  
Initiatives that continuously reduce environmental burden through improvement of and innovation in our business operations.

## Results of Environmental Improvement Activities in the Fiscal Year Ended March 31, 2017

### Technological Innovation Initiatives

Through these initiatives, we try to contribute to the development of a sustainable society by creating new products and technologies for environmental challenges that are difficult to resolve with existing technology. Development results in the fiscal year ended March 31, 2017 were as follows.

New Products and Technologies	Improvement targets			
	Energy	Waste	Substances of environmental concern	Water pollutants
Water treatment chemicals for industrial power boilers that use materials that do not fall under the PRTR Law	●		●	
Solid chemicals for small cooling water tanks that is effective for removing Legionella bacteria, inhibiting corrosion, and preventing scale	●			
Sludge dehydrating water treatment agent for sludge that is difficult to dehydrate		●		
Dehydrating agent for slurry generated during underground tunnel construction	●	●		
Water treatment chemicals for large seawater desalination plants to inhibit pollution deriving from microorganisms	●			
Compact wastewater reclamation technology compatible with diverse water qualities	●		●	
Wet-type methane fermentation system for low-energy, low-waste biogas power generation using ANAMMOX (anaerobic ammonium oxidation) bacteria	●	●		●
Tools that help minimize water and heat usage in LCD and semiconductor manufacturing processes	●	●	●	
Tools that support proposals to reduce environmental burden in water treatment facilities	●		●	●

### Initiatives for Meeting Customers' Needs

Through these initiatives we try to contribute to the reduction of environmental burden and the detoxification of harmful substances in customers' plants and offices through provision of the Kurita Group's products, technologies, and services. Results in the fiscal year ended March 31, 2017, included fuel reduction

by increasing the efficiency of boilers and cooling water systems through water treatment chemicals, water savings through a wastewater reclamation system, and reduction of electricity consumption in customers' plants through power generation using gas generated from anaerobic wastewater treatment.

### Internal Change Initiatives

The targets and results for environmental burden reduction initiatives at all of the Kurita Group's sites in Japan were as follows.

### Reducing Energy Consumption

As a main initiative in the fiscal year ended March 31, 2017, we reduced heating fuel and water used for cooling by revising and improving the efficiency of the operations management of equipment that treats waste liquid at a high temperature at some ultrapure water supply sites. Also, we reduced electricity and fuel consumption by updating equipment, for example, to LED lighting and high-efficiency boilers, at production sites of Kurita Water Industries Ltd. In this way, we achieved our reduction targets for per-unit energy consumption and absolute energy consumption.

Item	Target for the fiscal year ended March 31, 2017	Result in the fiscal year ended March 31, 2017
Energy consumption (A Production sites*1)	Below 92,232 kl	91,914 kl

#### <Reference CO2 emissions>

Item	(t: Tons)	
	Results in the fiscal year ended March 31, 2016	Results in the fiscal year ended March 31, 2017
CO2 emissions	188,709 t	185,435 t
Breakdown	A Production sites	179,794 t
	B Production sites*2	3,856 t
	Non-production sites*3	1,786 t
		Year on year
		98.3%
		98.5%
		87.8%
		99.9%

Note: CO2 emissions include Scope 1 and Scope 2 emissions in the concept of supply chain emissions and are calculated using a coefficient for conversion from the consumption of such energies as electricity and fuel oil.

\*1 Kurita Group companies which are specified business operators and designated energy management factories of Kurita Water Industries Ltd.  
\*2 Companies and sites manufacturing water treatment chemicals and water treatment facilities  
\*3 Non-production sites: Kurita Group companies and sites other than those listed above

### Waste Reduction and an Increased Recycling Rate

We cut waste volumes substantially compared to the previous fiscal year, achieving our targets. The main factor in this achievement was the reduction of substances of environmental concern contained in wastewater emitted from customers' plants at some ultrapure water supply sites. The recycling rate target was not achieved due to the fact that all the waste reduced at the abovementioned ultrapure water supply sites was subject to recycling and the fact that the volume of waste increased with a revision of wastewater standards to comply with environmental laws at a production site.

Item	(t: Tons)	
	Targets for the fiscal year ended March 31, 2017 (Based on results in the fiscal year ended March 31, 2016)	Results in the fiscal year ended March 31, 2017
Waste generation	Below 33,756 t	27,538 t
Breakdown	C Production sites*4	25,687 t
	D Production sites*5	1,550 t
	Non-production sites*6	302 t
Recycling rate	80.0% or more	89.9%
Breakdown	C Production sites	92.1%
	D Production sites	67.3%
	Non-production sites	42.7%

\*4 Kurita Group companies and sites where the amount of waste generated is influenced by the production activities of specific customers  
\*5 Kurita Group companies and sites engaged in R&D and the manufacture of water treatment chemicals and water treatment facilities  
\*6 Kurita Group companies and sites other than those listed above

### PICK UP

#### DReeM Polymer™ Wins Environmental Technology Award

Kurita Water Industries Ltd.'s multifunctional polymer DReeM Polymer™ won the Environmental Technology Award at the 49th JCIA Technology Award, hosted by the Japan Chemical Industry Association (JCIA). Application of DReeM Polymer™ to boiler water leads to a reduction of fuel used in boilers by removing scale in boilers, thereby maintaining the heat transfer rate, and by enabling

the reuse of steam condensed water containing scale components such as calcium, which is often disposed, as boiler feedwater. The award recognized that DReeM Polymer™ has this kind of environmental improvement effect and that it has contributed to the progress of science and technology.

## Initiatives that Support Value Creation

## 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 Group companies have gained through business in order to 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 Company and domestic Group companies make contributions to the Foundation each year to provide operating funds, and the Foundation uses these contributions as its operating expenses for research and studies relating to water and the environment as well as international exchange support.

Its main activities include publicly soliciting research applications and then provision of subsidies to domestic and overseas researchers. In the fiscal year ended March 31, 2017, subsidies were given to 125 projects, which were selected through examination. The Foundation also launched a research subsidy project in Thailand, Vietnam, and Indonesia in the fiscal year ended March 31, 2016, with the subsidy presentation ceremony for this project being held in Indonesia in the fiscal year ended March 31, 2017. The Foundation has subsidized a total of 1,285 projects, amounting to roughly ¥642 million, since its establishment through to the end of March 2017.

Celebrating the 20th anniversary of its establishment in 2017, the Foundation is planning to provide subsidies for research projects and offer scholarships for the purpose of the development of researchers in a multilayered way in South-east Asian regions and the establishment of networks.



Subsidy presentation ceremony in Indonesia

#### Support for Disaster-Stricken 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 sites. In response to the Kumamoto Earthquake on April 14, 2016, the Group provided help with the reconstruction of plants that were damaged by the earthquake in response to its

customers, with the Kumamoto Sales Department of the Facilities Division of the Company operating as the center for these efforts. With the amount of damages varying by customer, it was extremely difficult to determine the overall level of damage and danger. While lifelines, supply chains, and transport routes were cut off, the Kurita Group worked to secure the safety of its employees and their families and carried out reconstruction work to recover the supply chains and transport routes of the Group including its suppliers and vendors. As a result, we were able to complete the reconstruction work earlier than customers were expecting without accident or injury. Through this, we were able to succeed in upgrading the aseismic strength of customers' facilities as well as strengthen the close relationship between us and our customers.

The Kurita Group also donated ¥10 million through the Japanese Red Cross Society and supplied 12,096 liters of mineral water produced by a Group company to local governments in the disaster-stricken areas as relief aid to assist those affected by the earthquake and support recovery in the affected region.

#### 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, 2017, the Company 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 activity

## Financial Section

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Business Overview

During the fiscal year ended March 31, 2017, the U.S. and European economies continued to recover, and China and other emerging economies in Asia shifted to economic recovery due largely to economic policies. As a result, the global economy overall grew gradually.

The Japanese economy continued to grow, though not vigorously, because of a gradual pickup in consumer spending, improved corporate earnings due to the slowdown in yen appreciation in the second half, and moderate growth in overseas economies.

Looking at the market environment surrounding the Kurita Group, signs of recovery were seen in production in the Japanese manufacturing industry, but capital expenditures have plateaued because of worries about the future due to the stronger yen in the first half. Overseas, demand for water treatment continued to grow in East and Southeast Asia.

In this environment, based on its three-year medium-term management plan Competitive Kurita 2017 (CK-17) begun in the fiscal year ended March 31, 2016, the Group focused on expanding its overseas businesses, improving profitability, and creating competitive products and services.

Regarding expanding our overseas businesses, to accelerate our business development in the United States, the Group purchased Fremont Industries, LLC, a U.S. limited liability company that manufactures and sells water treatment chemicals, thereby acquiring a business base in the American Midwest. Also, to increase its management effectiveness in Europe, the Middle East, and Africa (EMEA), the Group merged Kurita Europe GmbH and Kurita Europe APW GmbH and worked to unite their possessed technology and know-how and to reorganize their sales and manufacturing systems. It also decided to establish in Singapore a new company that carries out research and development in order to speed up technological development related to seawater desalination and wastewater reclamation and reuse and to gather information on leading-edge technology.

As for improving profitability, the Group worked hard to combine its proprietary sensing technology and water treatment data analysis expertise with existing technology and products to improve its ability to propose solutions to customers. Moreover, the Group improved the profitability of its installation projects by focusing on those in which it could add a large amount of value, while promoting the revision and standardization of processes in its manufacturing work.

Regarding the creation of competitive products and services, the Group developed a standardized wastewater reclamation system that combines the elemental water treatment equipment and chemicals technology it possesses and contributes to water reuse. The Group also invested in APANA Inc., an American venture firm, which is rolling out a service in the United States that contributes to saving water in commercial and industrial facilities through big data analysis using IoT, and is considering a new service business collaboration with APANA.

Factors behind reduced net sales for the Group include a drop in the converted yen amount of overseas sales due to appreciation of the yen and revisions of contracts with a customer in the ultrapure water supply

business. Nevertheless, because of improved profitability as a result of strict cost management of water treatment facilities and the elimination of previously incurred one-off costs associated with retirement benefits and the acquisition of a company in Europe, we were able to maintain operating income at almost the same level as the previous fiscal year. Consolidated net income attributable to owners of parent increased because of a reduced tax burden attributable to a revision to the corporate tax rate.

### Operating Results

#### a) Orders

In the Water Treatment Chemicals segment, since the rate of operation of customer factories in Japan recovered moderately and problem-solving proposals using new products and services were promoted, not only did orders for boiler water treatment chemicals shift to growth, orders for cooling water treatment chemicals and process treatment chemicals for iron and steel expanded and the amount of orders increased. Overseas, the yen equivalent amount of orders taken by overseas subsidiaries decreased because of yen appreciation, and the overall amount of orders fell.

In the Water Treatment Facilities segment, for the electronics industry, in addition to slow orders for large, overseas water treatment facilities, due to revisions of contracts with a customer in the ultrapure water supply business, the overall amount of orders decreased.

As a result, total consolidated orders were ¥218,730 million, a decrease of 1.1% compared with the previous fiscal year.

#### b) Net Sales

In Japan, sales of water treatment chemicals, maintenance services, and soil remediation increased, but domestic net sales decreased slightly because sales were down for our ultrapure water supply business. Overseas, sales by consolidated subsidiaries fell in yen terms because of the strengthening of the yen, but sales of water treatment facilities to the electronics industry in China and Korea increased, leading to a slight increase in overseas sales.

As a result, total net sales amounted to ¥214,187 million, a decrease of 0.1% compared with the previous fiscal year.

#### c) Cost of Sales and Gross Profit

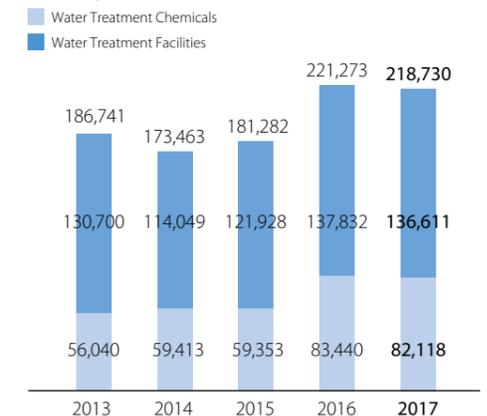
Cost of sales increased 1.0%, from ¥143,964 million in the previous fiscal year, to ¥145,455 million. Cost of sales as a percentage of sales came to 67.9%, compared with 67.2% in the previous fiscal year.

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

SG&A expenses were ¥49,280 million, down 2.6% from the previous fiscal year's ¥50,574 million. As salaries and bonuses increased, retirement benefit expenses and R&D expenses decreased.

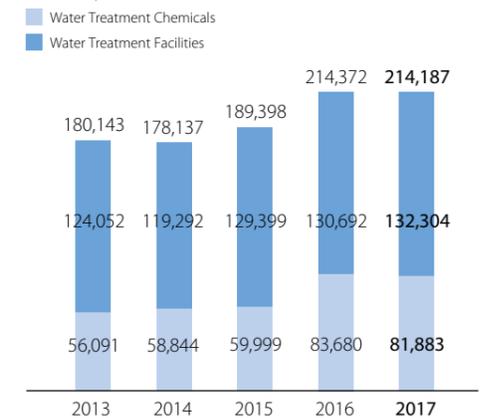
### Orders by Segment

Years ended March 31  
(Millions of yen)



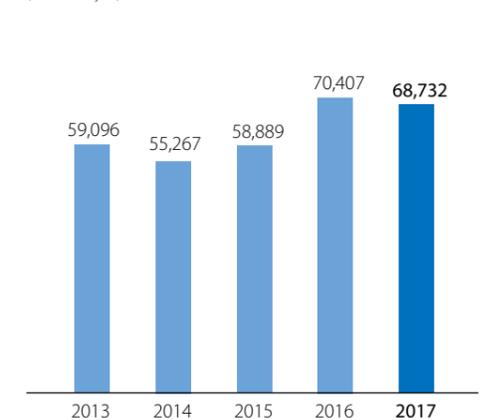
### Sales by Segment

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, consolidated operating income totaled ¥19,452 million, down 1.9% compared with ¥19,833 million in the previous fiscal year. The operating margin fell to 9.1%, from 9.3% in the previous fiscal year.

**f) Results by Business Segment**

**Water Treatment Chemicals**

**Orders and Sales**

In Japan, in addition to customer factories' rate of operation recovering, through problem-solving proposals that make use of new products and services, there was a shift to an increase in sales of boiler water treatment chemicals, cooling water treatment chemicals, and process treatment chemicals for iron and steel.

Overseas, despite the accounting period of businesses consolidated in Europe being increased by one month over the previous fiscal year for consolidation purposes, orders and sales of overseas subsidiaries fell in yen terms because of yen appreciation, and the amount of orders and amount of sales also decreased.

As a result, segment orders decreased to ¥82,118 million, a 1.6% reduction over the previous fiscal year, and segment sales declined to ¥81,883 million, a 2.1% reduction over the previous fiscal year.

**Operating Income**

Segment operating income was up 11.8%, to ¥7,231 million, because temporary expenses that arose in the previous fiscal year in association with a review of the initial allocation of the cost of the business acquisition in Europe were eliminated.

**Water Treatment Facilities**

**Orders and Sales**

Regarding orders and sales for the electronics industry sector, the amount of orders fell for overseas water treatment facilities, for which orders were favorable in the previous fiscal year. Nevertheless, sales increased, centered on large projects. In the ultrapure water supply business, although sales were recorded for new contracts, orders and sales declined due to contract periods ending and contract revisions with a customer.

Orders increased for the general industries sector because in addition to large orders being taken for water treatment facilities for thermal power plants and soil remediation, orders also increased for maintenance services. In the same sector, while sales decreased for water treatment facilities for electric power, sales increased for water treatment facilities otherwise and for maintenance services, resulting in an overall increase in revenue.

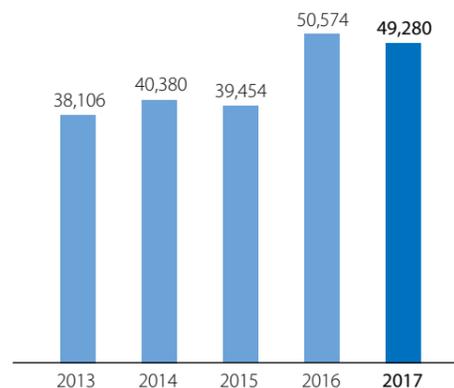
As a result, segment orders were ¥136,611 million, a 0.9% decrease over the previous fiscal year, and segment sales expanded to ¥132,304 million, a 1.2% increase over the previous fiscal year.

**Operating Income**

Profitability improved for water treatment facilities and maintenance services because sales increased and costs were thoroughly controlled.

**SG&A Expenses**

Years ended March 31 (Millions of yen)



**Operating Income by Segment**

Years ended March 31 (Millions of yen)

Water Treatment Chemicals  
Water Treatment Facilities



However, because of reduced income for our ultrapure water supply business, segment operating income decreased 8.6%, to ¥12,220 million.

**g) Overseas Sales**

**Sales by Region**

Overseas sales for the fiscal year under review were ¥64,199 million (an increase of 0.5% over the previous fiscal year). The overseas sales ratio within consolidated net sales increased to 30.0%, from 29.8% in the previous fiscal year.

**Regional Breakdown**

Asia: Up 5.6%, to ¥39,899 million; 62.1% of total overseas sales

North America: Down 22.5%, to ¥1,885 million; 2.9% of total overseas sales

EMEA\*: Down 4.5%, to ¥19,774 million; 30.8% of total overseas sales

Other regions: Down 11.1%, to ¥2,641 million; 4.1% of total overseas sales

\* EMEA includes Europe, the Middle East, and Africa.

**h) Other Income and Expenses**

Other income and expenses-net came to income of ¥1,013 million, compared with ¥578 million in the previous fiscal year.

The main reason was the elimination of a ¥176 million loss on liquidation of business recorded in the previous fiscal year and a ¥391 million gain on sales of investment securities that was not in the previous fiscal year.

**i) Income Before Income Taxes**

Income before income taxes increased 0.3%, to ¥20,465 million, compared with ¥20,411 million in the previous fiscal year.

The pretax profit margin increased to 9.6%, from 9.5% in the previous fiscal year.

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

After deducting income taxes and profit attributable to non-controlling interests from pretax profits, Kurita recorded consolidated net income attributable to owners of parent of ¥14,506 million for the fiscal year ended March 31, 2017, an increase of 15.3% compared with ¥12,577 million in the previous fiscal year. This was due to a reduced tax burden from a revision to the corporate tax rate.

Net income per share increased to ¥125.23, from ¥108.24 in the previous fiscal year. The net income margin rose to 6.8%, from 5.9%.

Return on equity (ROE) increased to 6.4%, from 5.6%.

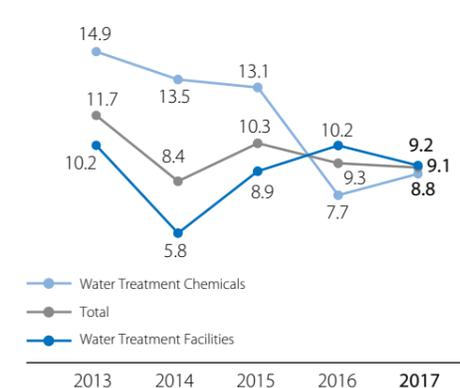
**k) Policies on Shareholder Returns**

Kurita's basic policy is to pay stable dividends on an ongoing basis.

Setting a payout ratio of 30-50% 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 for growth, after

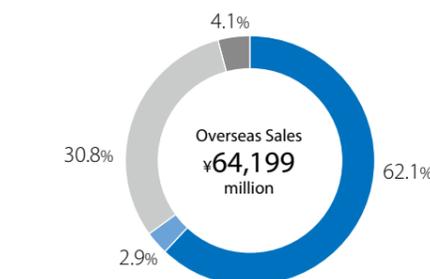
**Operating Margin by Segment**

Years ended March 31 (%)



**Overseas Sales by Region**

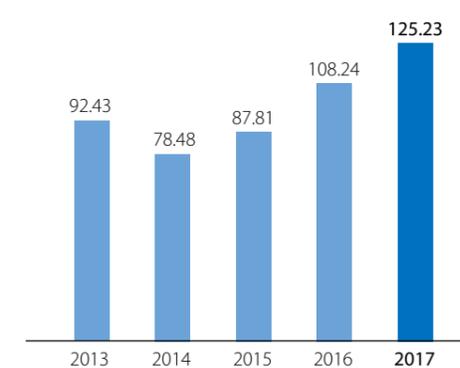
Fiscal year ended March 31, 2017



Asia ..... ¥39,899 million  
North America ..... ¥1,885 million  
EMEA ..... ¥19,774 million  
Other regions ..... ¥2,641 million

**Net Income per Share**

Years ended March 31 (Yen)



securing precautionary funds to prepare for working capital and rapid fluctuations in the operating environment. If excess funds remain, we consider a buyback of our own stock, taking the share price into consideration, and take steps to improve capital efficiency and return profits to shareholders.

During the fiscal year under review, the Company paid dividends of ¥50 per share, including an interim dividend of ¥25. This amount corresponds to a ¥2 increase from ¥48 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 enhancing competitiveness in response to intensified sales competition. In the fiscal year ended March 31, 2017, capital expenditures totaled ¥10,087 million, a decrease of ¥9,536 million compared with the previous fiscal year, mainly due to the acquisition of business facilities.

The Water Treatment Chemicals segment undertook capital expenditures totaling ¥2,175 million, mainly for upgrading water treatment chemicals production facilities. This represented a decrease of ¥259 million compared with the previous fiscal year.

The Water Treatment Facilities segment carried out capital expenditures totaling ¥7,911 million, mainly for the installation and expansion of facilities for the ultrapure water supply business. This represented a ¥9,277 million decrease compared with the previous fiscal year.

Depreciation and amortization increased 0.7%, to ¥15,857 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 technologies, as well as new materials development and other basic technologies. Furthermore, we are engaged in development to promote new ventures.

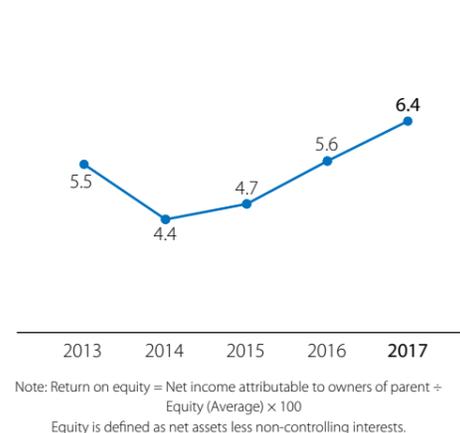
Going forward, we will proactively engage in product and technology development that meets the broad-ranging needs of industry and society from the perspectives of environmental burden reduction, resource recycling, and productivity improvement. We will also aggressively pursue research and development 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, 2017, Kurita's R&D expenses totaled ¥5,038 million, equivalent to 2.4% 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

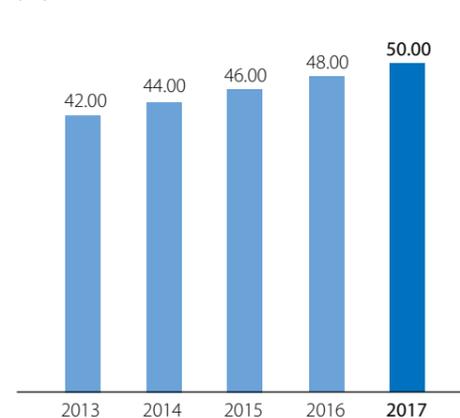
### Return on Equity

Years ended March 31 (%)



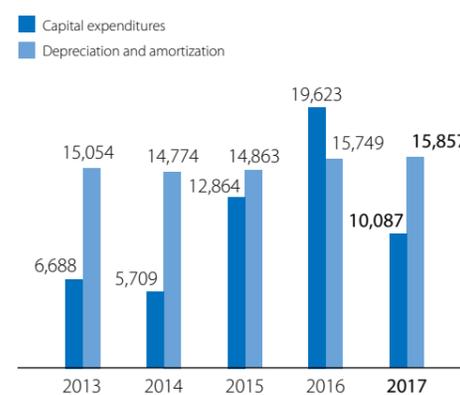
### Dividends per Share

Years ended March 31 (Yen)



### Capital Expenditures and Depreciation and Amortization

Years ended March 31 (Millions of yen)



savings, environmental burden reduction, and productivity enhancements. Other development activities include diagnostic technology for chemical effectiveness.

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

- Kurita developed a highly safe film-forming corrosion inhibitor as an alternative to the conventional oxygen absorber for medium- to high-pressure boilers, such as power boilers, which are increasing in use in Japan and abroad. It also developed a water treatment control support system to prevent trouble by detecting signs of boiler facility malfunction.
- Kurita developed solid cartridge-type water treatment chemicals that prevent the growth of Legionella bacteria and are effective for reducing the adhesion of dirt and inhibiting corrosion in small cooling towers over a long time just by placing the cartridge in the tower.
- Kurita developed a dehydrating agent that reduces the total slurry treatment cost in the slurry shield method used in tunnel construction work by increasing the performance of slurry dehydration and the filtration rate.

R&D expenses for the Water Treatment Chemicals segment for the fiscal year ended March 31, 2017, totaled ¥2,123 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 development in wastewater treatment to 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 reclamation and reuse technology, and sludge reduction technology.

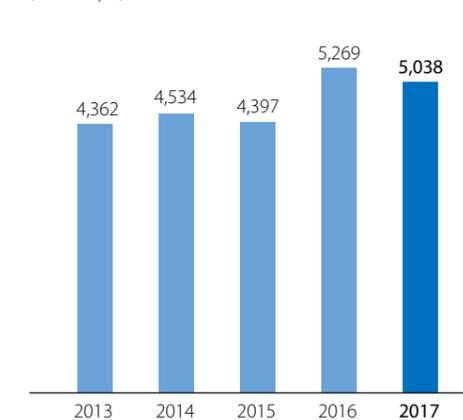
The segment's main achievements during the fiscal year were as follows.

- Kurita developed a space-saving, low-cost standardized wastewater reclamation system that is easy to design and install, as it consists mainly of membrane treatment units. Stable operation is achieved by combining Kurita's unique chemical treatment technologies.
- Kurita developed technology that is highly efficient at treating high-concentration nitrogen wastewater from methane fermentation. The technology is for facilities that conduct biogas power generation through methane fermentation of liquid waste from the food industry.
- By improving the performance of functional materials that make up the ultrapure water production system, revising the purifying method while still maintaining quality, Kurita was able to achieve cost reductions throughout the entire production system as well as maintain the water standards required by a major semiconductor manufacturing company.

R&D expenses for the Water Treatment Facilities segment for the fiscal year ended March 31, 2017, amounted to ¥2,914 million.

### R&D Expenses

Years ended March 31 (Millions of yen)



## Financial Position

### a) Assets

As of March 31, 2017, Kurita had total assets of ¥299,249 million, an increase of ¥1,142 million compared with ¥298,107 million as of March 31, 2016.

### Breakdown of Assets

#### Current Assets

Current assets as of March 31, 2017, totaled ¥155,930 million, an increase of ¥5,384 million compared with March 31, 2016. This rise was primarily attributable to an increase of ¥7,413 million in cash reserves—cash and time deposits and marketable securities—which outweighed a decrease of ¥2,734 million in notes and accounts receivable, trade due to the smooth collection of them.

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

As of March 31, 2017, investments and long-term receivables came to ¥43,972 million, a decrease of ¥998 million from ¥44,970 million as of March 31, 2016.

Property, plant and equipment, net as of March 31, 2017, amounted to ¥74,036 million, a decrease of ¥4,352 million compared with ¥78,388 million as of March 31, 2016.

Intangible assets as of March 31, 2017, were ¥25,308 million, up ¥1,106 million compared with ¥24,202 million as of March 31, 2016.

The decrease in investments and long-term receivables was mainly due to lower unrealized gains on investment securities due to drops in the market prices of the shares held by the Group.

The decrease in property, plant and equipment was attributable chiefly to the recorded amount of depreciation of facilities for the ultrapure water supply being greater than the amount of capital investment.

The increase in intangible assets chiefly reflected the fact that while we posted ¥2,609 million in amortization of intangible fixed assets including mainly amortization of goodwill, with the acquisition of Fremont Industries of the United States during the fiscal year under review we posted goodwill of ¥2,096 million and customer-related assets of ¥1,983 million.

### b) Liabilities

As of March 31, 2017, liabilities totaled ¥70,490 million, an increase of ¥1,348 million compared with ¥69,142 million as of March 31, 2016.

#### Current Liabilities

Current liabilities as of March 31, 2017, amounted to ¥44,410 million, an increase of just ¥3 million from ¥44,407 million as of March 31, 2016.

#### Long-Term Liabilities

Long-term liabilities were ¥26,080 million as of March 31, 2017, an increase of ¥1,345 million from ¥24,735 million as of March 31, 2016. This was mainly due to a ¥1,213 million rise in other long-term

liabilities due to the recording of long-term debt of overseas consolidated subsidiaries.

### c) Net Assets

Net assets totaled ¥228,758 million as of March 31, 2017, a decrease of ¥206 million from ¥228,964 million as of March 31, 2016.

This was primarily due to an increase of ¥3,602 million in shareholders' equity and a decrease of ¥3,875 million in accumulated other comprehensive income. The main factors behind the increase in shareholders' equity were an increase of ¥8,797 million in retained earnings, mainly due to net income attributable to owners of parent of ¥14,506 million for the fiscal year under review, which exceeded dividend payments of ¥5,693 million—the sum of year-end dividends for the previous fiscal year and interim dividends for the fiscal year under review—and a ¥5,195 million rise in treasury stock (net assets fell) mainly through market purchases due to a resolution of the Board of Directors dated February 28, 2017, and acquisitions accompanying the introduction of a performance-linked stock compensation system for directors. Accumulated other comprehensive income declined, chiefly reflecting a ¥2,975 million decline in foreign currency translation adjustments due to the stronger yen, and a decrease of ¥1,269 million in unrealized gains on available-for-sale securities associated with a decline in unrealized capital gains for investment securities.

As a result, total liabilities and net assets amounted to ¥299,249 million as of March 31, 2017, an increase of ¥1,142 million compared with ¥298,107 million as of March 31, 2016. Kurita's equity ratio was 76.1%, down 0.3 percentage point from 76.4% a year earlier. Net assets per share as of March 31, 2017, were ¥1,991.91, an increase of ¥30.61 compared with ¥1,961.30 as of March 31, 2016.

Note: Equity is defined as net assets less non-controlling interests.

### Cash Flows

#### Cash Flows from Operating Activities

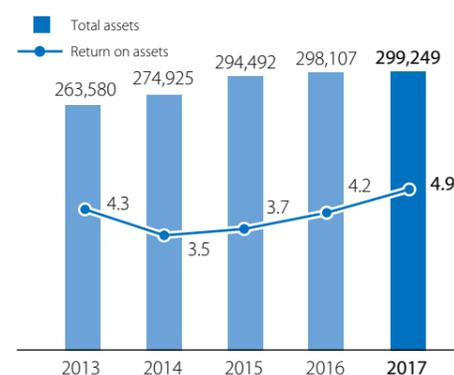
Net cash provided by operating activities during the fiscal year ended March 31, 2017, totaled ¥33,941 million, an increase of ¥7,359 million from the previous fiscal year. Inflows from income before income taxes of ¥20,465 million, depreciation and amortization of ¥15,857 million including goodwill amortization, a decrease of ¥2,030 million in trade receivables, and an increase in trade payables of ¥1,525 million were partially offset by an increase of ¥866 million in other assets and income taxes paid of ¥6,893 million.

#### Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥1,119 million, a decline of ¥32,053 million from the previous fiscal year. Net cash decreased mainly because an increase in time deposits, net of ¥13,959 million was offset by payments for purchase of property, plant and equipment totaling ¥10,156 million, including capital expenditures for the ultrapure water supply business; and payments for acquisition of business of ¥4,506 million (after deducting cash and cash equivalents included in acquired assets).

### Total Assets and Return on Assets

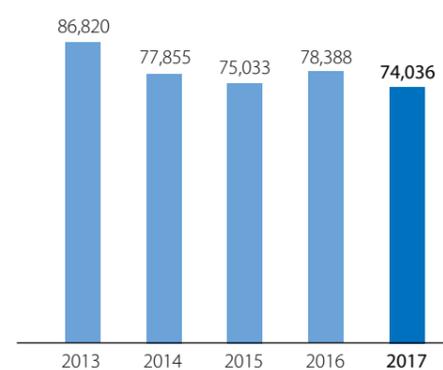
Years ended March 31  
(Millions of yen) (%)



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

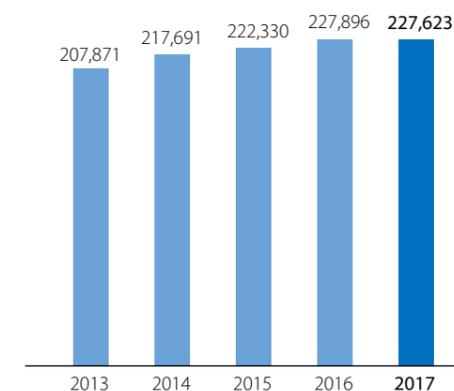
### Property, Plant and Equipment, Net

Years ended March 31  
(Millions of yen)



### Equity

Years ended March 31  
(Millions of yen)



### Cash Flows from Financing Activities

Net cash used in financing activities came to ¥10,154 million, an increase of ¥4,447 million from the previous fiscal year. The main cash outflows were cash dividends paid of ¥5,694 million, payments for purchase of treasury stock, net of ¥5,195 million and a decrease in short-term borrowings, net of ¥665 million, which were partially offset by proceeds from long-term loans payable of ¥2,329 million.

### Cash and Cash Equivalents at End of Year

As of March 31, 2017, Kurita had cash and cash equivalents totaling ¥65,438 million, an increase of ¥21,846 million compared with ¥43,591 million as of March 31, 2016.

### 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, 2017.

#### 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.

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

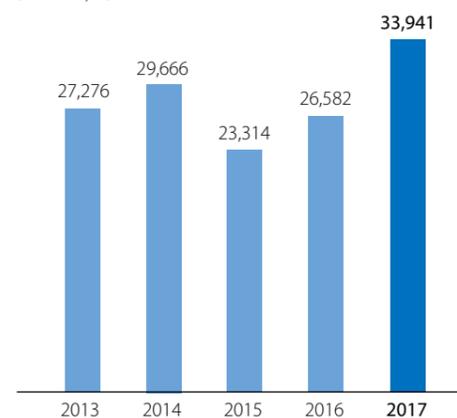
The Group procures raw materials and parts from outside the Group for the manufacture of products and fabrication of facilities. The prices of raw materials and parts fluctuate based on changes in market conditions, and this may affect the Group's financial results.

#### 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.

### Cash Flows from Operating Activities

Years ended March 31  
(Millions of yen)



### 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, 2017 and 2016

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>Current assets:</b>			
Cash and time deposits (Notes 3, 4 and 6)	¥ 72,750	¥ 58,374	\$ 649,553
Notes and accounts receivable, trade (Note 4)	68,282	71,016	609,660
Allowance for doubtful accounts	(246)	(185)	(2,196)
Marketable securities (Notes 4 and 5)	603	7,566	5,383
Inventories (Note 7)	9,525	9,254	85,044
Deferred tax assets (Note 9)	1,568	1,652	14,000
Other current assets	3,447	2,866	30,776
Total current assets	155,930	150,546	1,392,232
<b>Investments and long-term receivables:</b>			
Investment securities (Notes 4 and 5)	32,157	34,324	287,116
Investments in unconsolidated subsidiaries and affiliates (Note 4)	2,687	2,739	23,991
Deferred tax assets (Note 9)	4,275	4,232	38,169
Other investments	5,042	3,879	45,017
Allowance for doubtful accounts	(189)	(204)	(1,687)
Total investments and long-term receivables	43,972	44,970	392,607
<b>Property, plant and equipment, at cost (Note 15):</b>			
Land (Note 12)	13,881	13,941	123,937
Buildings and structures	62,093	61,278	554,401
Machinery and equipment	121,311	109,735	1,083,133
Construction in progress	2,852	8,586	25,464
Other facilities	13,755	13,105	122,812
Leased assets	8,352	8,315	74,571
Total	222,247	214,964	1,984,348
Accumulated depreciation	(148,210)	(136,575)	(1,323,303)
Property, plant and equipment, net	74,036	78,388	661,035
<b>Intangible assets:</b>			
Goodwill	15,049	15,114	134,366
Other intangible assets	10,259	9,088	91,598
Total intangible assets	25,308	24,202	225,964
Total assets	¥299,249	¥298,107	\$2,671,866

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>Current liabilities:</b>			
Short-term borrowings and current portion of long-term debt (Note 8)	¥ 1,646	¥ 2,300	\$ 14,696
Notes and accounts payable, trade (Note 4)	23,426	22,780	209,160
Accounts payable, other	8,019	6,897	71,598
Income taxes payable	2,875	3,705	25,669
Advances received	1,934	1,496	17,267
Accrued employees' bonuses	2,361	2,365	21,080
Provision for product warranties	801	768	7,151
Provision for loss on construction contracts	81	284	723
Other current liabilities	3,263	3,809	29,133
Total current liabilities	44,410	44,407	396,517
<b>Long-term liabilities:</b>			
Long-term debt (Note 8)	4,339	4,763	38,741
Net defined benefit liability (Note 10)	16,054	15,467	143,339
Accrued retirement benefits for directors and corporate auditors	25	57	223
Deferred tax liabilities on revaluation of land (Note 12)	1,119	1,119	9,991
Other long-term liabilities (Note 8)	4,540	3,327	40,535
Total long-term liabilities	26,080	24,735	232,857
Total liabilities	70,490	69,142	629,375
<b>Net assets:</b>			
<b>Shareholders' equity (Note 11):</b>			
Common stock, 2017 and 2016			
Authorized: 531,000,000 shares			
Issued: 119,164,594 shares	13,450	13,450	120,089
Capital surplus	10,993	10,993	98,151
Retained earnings	205,586	196,788	1,835,589
Treasury stock, at cost			
2017—4,890,513 shares	(13,891)	(8,695)	(124,026)
2016—2,967,674 shares			
Total shareholders' equity	216,138	212,536	1,929,803
<b>Accumulated other comprehensive income:</b>			
Unrealized gains on available-for-sale securities	14,792	16,061	132,071
Deferred gains or losses on hedges	670	398	5,982
Revaluation reserve for land (Note 12)	(380)	(380)	(3,392)
Foreign currency translation adjustments	(3,593)	(618)	(32,080)
Remeasurements of defined benefit plans (Note 10)	(3)	(101)	(26)
Total accumulated other comprehensive income	11,484	15,360	102,535
<b>Non-controlling interests</b>	1,135	1,067	10,133
Total net assets	228,758	228,964	2,042,482
Total liabilities and net assets	¥299,249	¥298,107	\$2,671,866

## CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2017 and 2016

### CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>Net sales</b> (Note 18)	¥214,187	¥214,372	\$1,912,383
<b>Cost of sales</b> (Note 13)	145,455	143,964	1,298,705
Gross profit	68,732	70,407	613,678
<b>Selling, general and administrative expenses</b> (Note 14)	49,280	50,574	440,000
Operating income (Note 18)	19,452	19,833	173,678
<b>Other income (expenses):</b>			
Interest and dividend income	671	710	5,991
Foreign exchange losses	(39)	(102)	(348)
Interest expense	(187)	(276)	(1,669)
Equity in earnings of unconsolidated subsidiaries and affiliates	175	145	1,562
Gain on sales of properties (Note 15)	—	148	—
Gain on sales of investment securities	391	—	3,491
Acquisition-related costs	(259)	(221)	(2,312)
Loss on liquidation of business	—	(176)	—
Other, net	260	348	2,321
Other income, net	1,013	578	9,044
<b>Income before income taxes</b>	20,465	20,411	182,723
<b>Income taxes</b> (Note 9):			
Current	5,996	7,027	53,535
Deferred	(193)	626	(1,723)
Total income taxes	5,803	7,654	51,812
<b>Net income</b>	14,661	12,757	130,901
<b>Net income attributable to non-controlling interests</b>	155	180	1,383
<b>Net income attributable to owners of parent</b>	¥ 14,506	¥ 12,577	\$ 129,517

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>Net income</b>	¥14,661	¥12,757	\$130,901
<b>Other comprehensive income</b> (Note 16):			
Unrealized gains or losses on available-for-sale securities	(1,263)	1,293	(11,276)
Deferred gains or losses on hedges	271	332	2,419
Revaluation reserve for land	—	62	—
Foreign currency translation adjustments	(2,897)	(2,113)	(25,866)
Remeasurements of defined benefit plans	97	(109)	866
Share of other comprehensive income of entities accounted for using equity method	(83)	(86)	(741)
Total other comprehensive income	(3,876)	(621)	(34,607)
<b>Comprehensive income</b>	¥10,784	¥12,136	\$ 96,285
<b>Comprehensive income attributable to:</b>			
Comprehensive income attributable to owners of parent	¥10,649	¥11,997	\$ 95,080
Comprehensive income attributable to non-controlling interests	134	138	1,196

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
<b>Per share of common stock</b> (Note 20):			
Net income	¥125.23	¥108.24	\$1.12
Cash dividends applicable to the year	50.00	48.00	0.45

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, 2017 and 2016

	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, 2015	¥13,450	¥10,980	¥189,693	¥ (7,705)	¥206,419	¥14,768	¥ 66	¥(442)	¥ 1,510	¥ 8	¥ 15,911	¥1,147	¥223,478
Changes during the year													
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
Changes during the year													
Cash dividends paid			(5,693)		(5,693)								(5,693)
Net income attributable to owners of parent			14,506		14,506								14,506
Acquisition of treasury stock				(5,195)	(5,195)								(5,195)
Changes in equity interest in consolidated subsidiaries													
Other			(15)		(15)								(15)
Net changes of net assets other than shareholders' equity						(1,269)	271	—	(2,975)	97	(3,875)	67	(3,807)
Total changes during the year	—	—	8,797	(5,195)	3,602	(1,269)	271	—	(2,975)	97	(3,875)	67	(205)
Balance as of March 31, 2017	¥13,450	¥10,993	¥205,586	¥(13,891)	¥216,138	¥14,792	¥670	¥(380)	¥(3,593)	¥ (3)	¥11,484	¥1,135	¥228,758

	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, 2016	\$120,089	\$98,151	\$1,757,035	\$ (77,633)	\$1,897,642	\$143,401	\$3,553	\$(3,392)	\$(5,517)	\$(901)	\$137,142	\$ 9,526	\$2,044,321
Changes during the year													
Cash dividends paid			(50,830)		(50,830)								(50,830)
Net income attributable to owners of parent			129,517		129,517								129,517
Acquisition of treasury stock				(46,383)	(46,383)								(46,383)
Changes in equity interest in consolidated subsidiaries													
Other			(133)		(133)								(133)
Net changes of net assets other than shareholders' equity						(11,330)	2,419	—	(26,562)	866	(34,598)	598	(33,991)
Total changes during the year	—	—	78,544	(46,383)	32,160	(11,330)	2,419	—	(26,562)	866	(34,598)	598	(1,830)
Balance as of March 31, 2017	\$120,089	\$98,151	\$1,835,589	\$(124,026)	\$1,929,803	\$132,071	\$5,982	\$(3,392)	\$(32,080)	\$(26)	\$102,535	\$10,133	\$2,042,482

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>I. Cash flows from operating activities</b>			
Income before income taxes	¥20,465	¥20,411	\$182,723
Depreciation and amortization	15,857	15,749	141,580
Increase in net defined benefit liability	646	1,587	5,767
Decrease in other allowances	(143)	(842)	(1,276)
Equity in earnings of unconsolidated subsidiaries and affiliates	(175)	(145)	(1,562)
Interest and dividend income	(671)	(710)	(5,991)
Interest expense	187	276	1,669
Loss (gain) on sales and disposal of properties	26	(74)	232
Gain on sales of investment securities	(391)	(23)	(3,491)
Loss on valuation of investment securities	—	20	—
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	2,030	(4,473)	18,125
Increase in inventories	(144)	(249)	(1,285)
Decrease (increase) in other assets	(866)	282	(7,732)
Increase in trade payables	1,525	2,293	13,616
Increase (decrease) in other liabilities	1,890	(274)	16,875
Others, net	60	360	535
	40,297	34,189	359,794
Interest and dividends received	835	710	7,455
Interest paid	(325)	(276)	(2,901)
Income taxes paid	(6,893)	(8,264)	(61,544)
Others, net	27	223	241
Net cash provided by operating activities	33,941	26,582	303,044
<b>II. Cash flows from investing activities</b>			
Increase (decrease) in time deposits, net	13,959	(10,138)	124,633
Payments for purchase of property, plant and equipment	(10,156)	(17,693)	(90,678)
Proceeds from sales of property, plant and equipment	30	156	267
Payments for purchase of intangible assets	(791)	(772)	(7,062)
Payments for purchase of marketable securities and investment securities	(240)	(9,585)	(2,142)
Proceeds from sales and redemption of marketable securities and investment securities	1,380	9,027	12,321
Payments for acquisition of business (Note 3)	(4,506)	(3,857)	(40,232)
Others, net	(795)	(309)	(7,098)
Net cash used in investing activities	(1,119)	(33,172)	(9,991)
<b>III. Cash flows from financing activities</b>			
Increase (decrease) in short-term borrowings, net	(665)	339	(5,937)
Proceeds from long-term loans payable	2,329	1,256	20,794
Repayment of long-term loans payable	(223)	(15)	(1,991)
Cash dividends paid	(5,694)	(5,474)	(50,839)
Cash dividends paid to non-controlling shareholders of consolidated subsidiaries	(67)	(77)	(598)
Payments for lease obligations	(637)	(626)	(5,687)
Payments for purchase of treasury stock, net	(5,195)	(990)	(46,383)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(119)	—
Net cash used in financing activities	(10,154)	(5,707)	(90,660)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	(821)	154	(7,330)
<b>V. Net increase (decrease) in cash and cash equivalents</b>	21,846	(12,143)	195,053
<b>VI. Cash and cash equivalents at beginning of year</b>	43,591	55,675	389,205
<b>VII. Increase in cash and cash equivalents from newly consolidated subsidiary</b>	—	59	—
<b>VIII. Cash and cash equivalents at end of year (Note 3)</b>	¥65,438	¥43,591	\$584,267

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 2016 financial statements to conform to the classification used in 2017.

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, 2017 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 ¥112 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2017. 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, 2017 and 2016, 49 and 45 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 intercompany transactions and balances have been eliminated in consolidation.

##### Names of principal consolidated subsidiaries:

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

From the year ended March 31, 2017, Kurita Polska SP. z o. o., Kuritz Hokuriku Co., Ltd., Kurita America Holdings Inc. and Kurita-GK Vietnam Co., Ltd. were newly included in the scope of consolidation due to incorporation, and Fremont Industries, LLC was also included due to acquisition.

Kurita Europe GmbH was excluded from the scope of consolidation due to absorption by Kurita Europe APW GmbH, a consolidated subsidiary. Kurita Europe APW GmbH changed its name to Kurita Europe GmbH.

#### 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, 2017 and 2016, 5 and 5 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, building equipment and structures acquired on and after April 1, 2016 and ultrapure water supply equipment 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

(Change in accounting policies)

Effective from the year ended March 31, 2017, due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (Accounting Standards Board of Japan ("ASBJ") Practice Issue Task Force No. 32, June 17, 2016) and changed the depreciation method for building equipment and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on profit and loss for the year ended March 31, 2017 was immaterial.

#### (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) 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

**(12) 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.

**(13) 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.

**(14) Consumption taxes**

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

**(15) 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.

**(16) 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.

**(17) 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.

**(18) 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.

**(19) Additional information**

**Implementation Guidance on Recoverability of Deferred Tax Assets**

Effective from the year ended March 31, 2017, the Company and its domestic subsidiaries adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

**Performance-linked Stock Compensation Plan for Directors**

The shareholders' meeting of the Company held on June 29, 2016 resolved to introduce a performance-linked stock compensation plan for directors (excluding outside directors; the same shall apply hereinafter) to increase motivation to work toward the Group's continued medium- to long-term growth as well as to contribute to increasing the value of the Company. The plan was implemented as proposed.

(1) Outline of the plan

The plan is a performance-linked compensation plan whereby the Company will grant points to directors according to their position and performance and, at the time of their retirement, will distribute to them such number of shares of the Company's stock as would be equivalent to the cumulative number of points granted to them.

In introducing the plan, the Company adopted a structure of a Stock Distribution Trust for Officers (the "Trust") that is created with money the Company contributes.

(2) The Company's stock remaining in the Trust

The Company's stock remaining in the Trust is presented as treasury stock in net assets on the consolidated balance sheets. The carrying value and the number of shares of the Company's stock held by the Trust are ¥779 million (\$6,955 thousand) and 339 thousand shares at March 31, 2017.

**(20) Reclassifications**

Certain reclassifications have been made in the 2016 consolidated financial statements to conform to the 2017 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)
	2017	2016	2017
Cash and time deposits	¥72,750	¥58,374	\$649,553
Time deposits with original maturity of more than three months	(7,915)	(21,783)	(70,669)
Certificates of deposits included in marketable securities, excluding deposits maturing over three months	603	7,000	5,383
Commercial paper included in marketable securities, excluding paper maturing over three months	—	—	—
Cash and cash equivalents	¥65,438	¥43,591	\$584,267

(2) The details of assets and liabilities of a newly consolidated subsidiary due to acquisition of shares

For the year ended March 31, 2017

The details of assets and liabilities in relation to acquisition of Fremont Industries, LLC, a manufacturer and distributor of water treatment chemicals, and reconciliation between acquisition costs of Fremont Industries, LLC and net payment for the acquisition are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 880	\$ 7,857
Non-current assets	2,133	19,044
Goodwill	2,096	18,714
Current liabilities	(350)	(3,125)
Non-current liabilities	—	—
Total acquisition costs	4,760	42,500
Accounts payable, other in relation to the acquisition of business	(136)	(1,214)
Cash and cash equivalents	(171)	(1,526)
Net payment for the acquisition of business	¥4,451	\$39,741

#### 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. With respect to customers' credit risk of notes and accounts receivable, trade, the Company is making efforts to prevent them from damages and to improve the soundness of the transactions by monitoring of the level of transaction within the predetermined transaction limit and regular collection of credit information based on the Credit Control Policy and Manual. Investment securities are primarily comprised of stocks and the fair value of listed stocks are reviewed on a quarterly basis. With respect to derivatives, forward foreign currency contracts are used only for actual demand, 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 12 years (13 in 2016) 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, 2017 and 2016 were as follows (financial instruments whose fair values cannot be reliably determined are not included in the following tables):

At March 31, 2017	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 72,750	¥ 72,750	¥—
Notes and accounts receivable, trade	68,282	68,282	—
Marketable securities and investment securities Available-for-sale securities	32,448	32,448	—
Total assets	¥173,481	¥173,481	¥—
Notes and accounts payable, trade	¥ 23,426	¥ 23,426	¥—
Total liabilities	¥ 23,426	¥ 23,426	¥—
Derivatives	¥ 1,042	¥ 1,042	¥—

At March 31, 2017	Thousands of U.S. dollars (Note 1)		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 649,553	\$ 649,553	\$—
Notes and accounts receivable, trade	609,660	609,660	—
Marketable securities and investment securities Available-for-sale securities	289,714	289,714	—
Total assets	\$1,548,937	\$1,548,937	\$—
Notes and accounts payable, trade	\$ 209,160	\$ 209,160	\$—
Total liabilities	\$ 209,160	\$ 209,160	\$—
Derivatives	\$ 9,303	\$ 9,303	\$—

	Millions of yen		
	Carrying amount	Fair value	Difference
At March 31, 2016			
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	¥—

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 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)
	2017	2016	2017
Unlisted equity securities (Unlisted shares)	¥ 321	¥ 90	\$ 2,785
Investments in capital	585	410	5,223
Shares of unconsolidated subsidiaries and affiliates	2,687	2,739	23,991

These securities are not included in "Marketable securities and investment securities" above 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, 2017				
Deposits	¥ 72,719	¥—	¥—	¥—
Notes and accounts receivable, trade	68,282	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Certificates of deposits)	—	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Money trusts)	603	—	—	—
Total	¥141,605	¥—	¥—	¥—

	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, 2017				
Deposits	\$ 649,276	\$—	\$—	\$—
Notes and accounts receivable, trade	609,660	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Certificates of deposits)	—	—	—	—
Marketable securities and investment securities Available-for-sale securities with maturities (Money trusts)	5,383	—	—	—
Total	\$1,264,330	\$—	\$—	\$—

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

(1) Available-for-sale securities with fair value at March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		
	Carrying amount	Acquisition cost	Difference
At March 31, 2017			
Carrying amount exceeding acquisition cost:			
Stocks	¥31,844	¥11,574	¥20,270
Bonds	—	—	—
Other	—	—	—
Subtotal	31,844	11,574	20,270
Carrying amount not exceeding acquisition cost:			
Stocks	—	—	—
Bonds	—	—	—
Other	—	—	—
Subtotal	—	—	—
Total	¥31,844	¥11,574	¥20,270

	Thousands of U.S. dollars (Note 1)		
	Carrying amount	Acquisition cost	Difference
At March 31, 2017			
Carrying amount exceeding acquisition cost:			
Stocks	\$284,321	\$103,339	\$180,982
Bonds	—	—	—
Other	—	—	—
Subtotal	284,321	103,339	180,982
Carrying amount not exceeding acquisition cost:			
Stocks	—	—	—
Bonds	—	—	—
Other	—	—	—
Subtotal	—	—	—
Total	\$284,321	\$103,339	\$180,982

Note: The above table does not include unlisted shares (value on consolidated balance sheets: ¥312 million (US\$2,785 thousand)), investments in unaffiliated companies (value on consolidated balance sheets: ¥585 million (US\$5,223 thousand)) and money trusts (value on consolidated balance sheets: ¥603 million (US\$5,383 thousand)).

At March 31, 2016	Millions of yen		
	Carrying amount	Acquisition cost	Difference
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

Note: 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).

(2) Available-for-sale securities sold during the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Sales amount	¥863	¥27	\$7,705
Total gains on sales	391	23	3,491
Total losses on sales	—	—	—

## 6. Derivatives

Derivatives for which hedge accounting was not applied at March 31, 2017 and 2016 are as follows:

### Currency related

At March 31, 2017	Hedging instrument	Millions of yen			Unrealized gains (losses)
		Contract amount	Due after one year	Fair value	
	Currency swaps:				
	Receive Yen, Pay Korean Won	¥2,913	¥2,099	¥111	¥111

At March 31, 2017	Hedging instrument	Thousands of U.S. dollars (Note 1)			Unrealized gains (losses)
		Contract amount	Due after one year	Fair value	
	Currency swaps:				
	Receive Yen, Pay Korean Won	\$26,008	\$18,741	\$991	\$991

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

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

Derivatives for which hedge accounting was applied at March 31, 2017 and 2016 are as follows:

### Currency related

At March 31, 2017	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	¥11,011	¥ 9,635	¥1,111
	Receive Yen, Pay Korean Won	Forecasted transactions denominated in foreign currencies	2,799	2,574	(180)
	Total		¥13,810	¥12,209	¥ 931

At March 31, 2017	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	\$ 98,312	\$ 86,026	\$9,919
	Receive Yen, Pay Korean Won	Forecasted transactions denominated in foreign currencies	24,991	22,982	(1,607)
	Total		\$123,303	\$109,008	\$8,312

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
	Total		¥12,388	¥11,011	¥537

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

## 7. Inventories

Inventories at March 31, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Finished products	¥3,114	¥3,130	\$27,803
Raw materials	2,229	2,433	19,901
Work in process	4,181	3,690	37,330
Total	¥9,525	¥9,254	\$85,044

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, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Short-term borrowings	¥ 650	¥1,617	\$ 5,803
Current portion of long-term borrowings	403	61	3,598
Current portion of lease obligations	592	621	5,285
Total	¥1,646	¥2,300	\$14,696

The weighted-average annual interest rate of short-term borrowings for the years ended March 31, 2017 and 2016 were 3.92% and 4.51%, respectively.

### (2) Long-term debt

Long-term debt at March 31, 2017 and 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Long-term borrowings	¥3,279	¥1,081	\$29,276
Less current portion of long-term borrowings	(403)	(61)	(3,598)
Long-term borrowings (Excluding current portion)	¥2,876	¥1,019	\$25,678
Lease obligations	¥4,931	¥5,384	\$44,026
Less current portion of lease obligations	(592)	(621)	(5,285)
Lease obligations (Excluding current portion)	¥4,339	¥4,763	\$38,741

The weighted-average annual interest rate of long-term borrowings for the years ended March 31, 2017 and 2016 were 3.24% and 0.98%, respectively.

Annual maturities of long-term borrowings at March 31, 2017 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥403	\$3,598
2019	300	2,678
2020	462	4,125
2021	462	4,125
2022	428	3,821

Annual maturities of lease obligations at March 31, 2017 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥592	\$5,285
2019	542	4,839
2020	510	4,553
2021	434	3,875
2022	389	3,473

### (3) Other long-term liabilities

Other than the short-term borrowings, long-term borrowings and lease obligations described above, ¥701 million (US\$6,258 thousand) and ¥682 million of interest-bearing long-term deposits received were included in other long-term liabilities as of March 31, 2017 and 2016, respectively.

The weighted-average annual interest rates for such deposits received for the years ended March 31, 2017 and 2016 were 0.36%.

## 9. Income taxes .....

Significant components of the deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Deferred tax assets:			
Excess depreciation of property, plant and equipment	¥ 5,914	¥ 5,778	\$ 52,803
Net defined benefit liability	4,697	4,431	41,937
Loss on revaluation of investment securities	834	1,008	7,446
Excess provision for accrued bonuses to employees	724	693	6,464
Tax loss carry-forward of consolidated subsidiaries	145	316	1,294
Accrued enterprise taxes not deductible	191	286	1,705
Impairment loss	247	233	2,205
Unrealized gains on sales of property, plant and equipment	250	264	2,232
Excess provision of allowance for product warranty	230	211	2,053
Other	1,647	1,836	14,705
Subtotal	14,885	15,060	132,901
Valuation allowance	(1,218)	(1,244)	(10,875)
Total deferred tax assets	13,667	13,816	122,026
Deferred tax liabilities:			
Unrealized losses on available-for-sale securities	(5,471)	(6,113)	(48,848)
Tangible and intangible assets identified due to business combinations	(631)	(1,096)	(5,633)
Estimated income taxes pertaining to retained earnings of foreign consolidated subsidiaries	(777)	(712)	(6,937)
Capital gains on properties deferred for tax purposes	(538)	(539)	(4,803)
Other	(433)	(166)	(3,866)
Total deferred tax liabilities	(7,851)	(8,628)	(70,098)
Deferred tax assets, net	¥ 5,816	¥ 5,187	\$ 51,928

A reconciliation between the normal effective statutory tax rate and the effective tax rate as a percentage of income before income taxes for the years ended March 31, 2017 and 2016 was as follows:

	2017	2016
Normal effective statutory tax rate	30.9%	33.1%
Non-deductible loss on valuation of marketable securities	(0.2)	(0.7)
Expenses not deductible for income tax purposes	0.3	0.3
Withholding tax withheld from foreign subsidiaries' dividends	0.2	0.4
R&D expense tax credit	(1.5)	(1.5)
Reversal of deferred tax liabilities on retained earnings of foreign consolidated subsidiaries	(0.1)	0.1
Dividend income not taxable for income tax purposes	(0.3)	0.1
Difference in statutory tax rates of foreign subsidiaries	(0.8)	(0.7)
Reduction of deferred tax assets due to tax rate change	—	3.5
Per capita inhabitant taxes	0.5	0.5
Other	(0.6)	2.4
Effective tax rate	28.4%	37.5%

## 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 the simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Balance at beginning of year	¥13,931	¥12,364	\$124,383
Service cost	798	695	7,125
Interest cost	65	132	580
Actuarial differences incurred	283	1,125	2,526
Benefits paid	(501)	(365)	(4,473)
Other	(72)	(20)	(642)
Balance at end of year	¥14,503	¥13,931	\$129,491

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Balance at beginning of year	¥1,536	¥1,385	\$13,714
Net periodic benefit costs	200	214	1,785
Benefits paid	(186)	(161)	(1,660)
Increase due to newly consolidated subsidiaries	—	98	—
Balance at end of year	¥1,550	¥1,536	\$13,839

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Retirement benefit obligations	¥16,054	¥15,467	\$143,339
Net liability on the consolidated balance sheet	¥16,054	¥15,467	\$143,339
Net defined benefit liability	¥16,054	¥15,467	\$143,339
Net liability on the consolidated balance sheet	¥16,054	¥15,467	\$143,339

#### (4) Net periodic benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Service cost	¥ 798	¥ 695	\$ 7,125
Interest cost	65	132	580
Amortization of actuarial differences	424	966	3,785
Net periodic benefit costs computed by simplified method	200	214	1,785
Other	18	17	160
Net periodic benefit costs	¥1,507	¥2,026	\$13,455

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Actuarial differences	¥140	¥(158)	\$1,250
Total	¥140	¥(158)	\$1,250

#### (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)
	2017	2016	2017
Unrecognized actuarial differences	¥(5)	¥(146)	\$(44)
Total	¥(5)	¥(146)	\$(44)

#### (7) Assumptions for actuarial calculation

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

#### Defined contribution pension plans

The amount to be contributed to the defined contribution pension plans by the Company and its consolidated subsidiaries was ¥851 million (US\$7,598 thousand) and ¥852 million for the years ended March 31, 2017 and 2016, 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' meeting. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

The number of treasury stock at March 31, 2017 includes treasury stock of 339 thousand shares (entrusted for the performance-linked stock compensation for directors) held by the trust account of Japan Trustee Services Bank, Ltd.

## 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 ¥(202) million (US\$(1,803) thousand) and ¥(728) million for the years ended March 31, 2017 and 2016, respectively.

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

Selling, general and administrative expenses for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Salaries and allowances	¥19,160	¥19,021	\$171,071
Provision for employees' bonuses	1,334	1,318	11,910
Retirement benefit expenses	1,440	2,001	12,857
Travel expenses	2,767	3,023	24,705
Research and development expenses	5,038	5,269	44,982
Other	19,537	19,939	174,437
Total	¥49,280	¥50,574	\$440,000

## 15. Other income (expenses) .....

Gain on sales of properties for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Buildings and structures	¥—	¥ 29	\$—
Machinery and equipment	—	108	—
Leased assets	—	6	—
Other (Tools, furniture and fixtures, etc.)	—	3	—
Total	¥—	¥148	\$—

## 16. Comprehensive income

The components of other comprehensive income for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Unrealized gains or losses on available-for-sale securities:			
Amount arising during the year	¥(1,512)	¥1,852	\$(13,500)
Reclassification adjustments to profit or loss	(391)	38	(3,491)
Amount before income tax effect	(1,903)	1,891	(16,991)
Income tax effect	639	(597)	5,705
Subtotal	(1,263)	1,293	(11,276)
Deferred gains or losses on hedges:			
Amount arising during the year	390	465	3,482
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	390	465	3,482
Income tax effect	(119)	(132)	(1,062)
Subtotal	271	332	2,419
Revaluation reserve for land:			
Income tax effect	—	62	—
Foreign currency translation adjustments:			
Amount arising during the year	(2,897)	(2,113)	(25,866)
Remeasurements of defined benefit plans:			
Amount arising during the year	(5)	(146)	(44)
Reclassification adjustments to profit or loss	146	(12)	1,303
Amount before income tax effect	140	(158)	1,250
Income tax effect	(42)	48	(375)
Subtotal	97	(109)	866
Share of other comprehensive income of entities for accounted using equity method:			
Amount arising during the year	(83)	(86)	(741)
Reclassification adjustments to profit or loss	0	0	0
Subtotal	(83)	(86)	(741)
Total	¥(3,876)	¥ (621)	\$(34,607)

## 17. Business combinations

### Business combination through acquisition

#### 1. Overview of business combination

- Name and description of the business of the acquired companies  
 Name: Fremont Industries, LLC ("Fremont")  
 Description of the business: Business related to the manufacturing and sales of water treatment chemicals
- Main reasons for the business combination  
 Fremont is a water treatment chemicals manufacturing and sales company that provides various types of water treatment chemicals in a broad range of areas including hospitals and office building air-conditioning, mainly in markets with growth potential such as biofuels and the food industry. Fremont has built local area-centric operating bases and systems in the Midwest Region of the U.S.A. Kurita expects to expand sales of products and technologies of the Kurita Group and to develop new markets by taking advantage of the customer base and sales network of Fremont.
- Date of the business combination  
 January 3, 2017
- Legal form of the business combination  
 Acquisition of business with cash as consideration
- Company name after the business combination  
 Fremont Industries, LLC
- Ratio of voting rights acquired  
 100%
- Main grounds to determine the acquirer  
 The Group acquired the business with cash as consideration

#### 2. The period of business results of the acquired companies included in the consolidated financial statements

Only the balance sheet as of January 4, 2017 was considered for the year ended March 31, 2017.

#### 3. Acquisition cost of the business acquired

	Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration for acquisition Cash	¥4,760	\$42,500
Acquisition cost	¥4,760	\$42,500

#### 4. Major acquisition-related cost

	Millions of yen	Thousands of U.S. dollars (Note 1)
Advisory fees, etc.	¥123	\$1,098

**5. Amount, cause, amortization method and amortization period of goodwill recognized**

- (1) Amount  
¥2,096 million (US\$18,714 thousand)
- (2) Cause  
Due to an excess earnings capability expected in the future
- (3) Amortization method and amortization period  
Straight-line method over 15 years

**6. Major components of assets acquired and liabilities assumed on the business combination date**

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 880	\$ 7,857
Non-current assets	2,133	19,044
Total assets	¥3,013	\$26,901
Current liabilities	¥ 350	\$ 3,125
Non-current liabilities	—	—
Total liabilities	¥ 350	\$ 3,125

**7. Estimated amount and method of calculation of the impact of the acquisition of business on the consolidated statement of income for the year ended March 31, 2017 on the assumption that the acquisition of business had been completed on April 1, 2016**

Not stated as it is difficult to calculate the estimated amount.

**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**

Millions of yen

Year ended March 31, 2017	Water Treatment Chemicals	Water Treatment Facilities	Total	Adjustments	Consolidated
Sales					
1) Sales to outside customers	¥81,883	¥132,304	¥214,187	¥ —	¥214,187
2) Intersegment sales	242	191	434	(434)	—
Total	¥82,126	¥132,495	¥214,621	¥ (434)	¥214,187
Segment income	¥ 7,231	¥ 12,220	¥ 19,451	¥ 0	¥ 19,452
Segment assets	80,120	134,623	214,744	84,504	299,249
Segment liabilities	24,759	45,786	70,545	(54)	70,490
Other items					
Depreciation and amortization	2,926	11,950	14,877	—	14,877
Impairment loss	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	2,175	7,911	10,087	—	10,087

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2017	Water Treatment Chemicals	Water Treatment Facilities	Total	Adjustments	Consolidated
Sales					
1) Sales to outside customers	\$731,098	\$1,181,285	\$1,912,383	\$ —	\$1,912,383
2) Intersegment sales	2,160	1,705	3,875	(3,875)	—
Total	\$733,267	\$1,182,991	\$1,916,258	\$ (3,875)	\$1,912,383
Segment income	\$ 64,562	\$ 109,107	\$ 173,669	\$ 0	\$ 173,678
Segment assets	715,357	1,201,991	1,917,357	754,500	2,671,866
Segment liabilities	221,062	408,803	629,866	(482)	629,375
Other items					
Depreciation and amortization	26,125	106,696	132,830	—	132,830
Impairment loss	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	19,419	70,633	90,062	—	90,062

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

Notes:

"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 ¥84,550 million (US\$754,910 thousand) and ¥76,237 million as of March 31, 2017 and 2016, 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, 2017	Millions of yen					
	Japan	Asia	North America	EMEA	Other	Total
Sales	¥149,988	¥39,899	¥1,885	¥19,774	¥2,641	¥214,187

Year ended March 31, 2017	Thousands of U.S. dollars (Note 1)					
	Japan	Asia	North America	EMEA	Other	Total
Sales	\$1,339,178	\$356,241	\$16,830	\$176,553	\$23,580	\$1,912,383

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

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.

(2) Property, plant and equipment

Year ended March 31, 2017	Millions of yen					
	Japan	Asia	North America	EMEA	Other	Total
Sales	¥62,387	¥8,881	¥147	¥1,939	¥682	¥74,036

Year ended March 31, 2017	Thousands of U.S. dollars (Note 1)					
	Japan	Asia	North America	EMEA	Other	Total
Sales	\$557,026	\$79,294	\$1,312	\$17,312	\$6,089	\$661,035

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

(Information by major customer)

Year ended March 31, 2016	Millions of yen	Reportable segment
Sales to:		
Sharp Corporation	¥23,097	Water Treatment Facilities

For the year ended March 31, 2017, information by major customer is omitted because there are no outside customers individually accounting for 10% or more of net sales reported on the consolidated statement of income.

Information about amortization and unamortized balance of goodwill

Year ended March 31, 2017	Millions of yen				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Corporate/ Elimination	Total
Amortization	¥ 980	¥—	¥ 980	¥—	¥ 980
Unamortized balance	15,049	—	15,049	—	15,049

Year ended March 31, 2017	Thousands of U.S. dollars (Note 1)				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Corporate/ Elimination	Total
Amortization	\$ 8,750	\$—	\$ 8,750	\$—	\$ 8,750
Unamortized balance	134,366	—	134,366	—	134,366

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

## 19. Subsequent events

### Appropriation of retained earnings

The following appropriation of retained earnings for the year ended March 31, 2017 was approved at the ordinary general meeting of shareholders of the Company held on June 29, 2017.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (year-end dividends)	¥2,865	\$25,580

Note: The total amount of dividend approved at the ordinary general meeting of shareholders of the Company held on June 29, 2017 includes dividends of ¥8 million (\$71 thousand) to treasury stock of 339 thousand shares (for performance-linked stock compensation trust for directors) held by the trust account of Japan Trustee Services Bank, Ltd.

### Cancellation of treasury stock

The Company acquired 2,963,900 shares of treasury stock by resolution of the Board of Directors' meeting held on January 30, 2015. The resolution also determined that disposal of treasury stock would not be decided for the time being in preparation for using as consideration of future M&A and the final decision would be made by March 31, 2017. The Board of Directors' meeting held on March 30, 2017 resolved that the Company will cancel the treasury stock.

- Type of shares to be cancelled  
Common stock of the Company
- Book value  
¥8,525 million (US\$76,116 thousand)
- Number of shares to be cancelled  
2,963,900 shares
- Date of cancellation  
April 6, 2017

## 20. Per share information

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Net assets per share	¥1,991.91	¥1,961.30	\$17.78
Net income per share (EPS)	125.23	108.24	1.12

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net assets	¥ 228,758	¥ 228,964	\$2,042,482
Amounts excluded from net assets (Non-controlling interests on the above)	1,135 (1,135)	1,067 (1,067)	10,133 (10,133)
Net assets attributable to common shareholders of parent	227,623	227,896	2,032,348
Number of common stock at the year-end used for the calculation of net assets per share	114,274,081	116,196,920	

The basis of calculation for EPS is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income attributable to owners of parent	¥ 14,506	¥ 12,577	\$129,517
Net income attributable to common shareholders of parent	14,506	12,577	129,517
Average number of shares outstanding	115,837,837	116,197,479	

Note: The number of treasury stock, which is deducted from the average number of shares outstanding for calculation of per share information for the year ended March 31, 2017, includes common stock of 339 thousand shares held by a trust account of Japan Trustee Services Bank, Ltd. (entrusted for performance-linked stock compensation for directors).

(The Company has no dilutive shares.)

# Report of Independent Certified Public Accountants



Grant Thornton Taiyo LLC

## 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, 2017, 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, 2017, 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, 2017 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*

August 4, 2017  
Tokyo, Japan

Member of Grant Thornton International Ltd

# 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, 2017)

**Number of Shareholders** 25,995 (As of March 31, 2017)

**Independent Auditor** Grant Thornton Taiyo LLC  
 NMF Aoyama 1-chome Bldg. 5F, 8-1-22, Akasaka, Minato-ku, Tokyo 107-0052, Japan

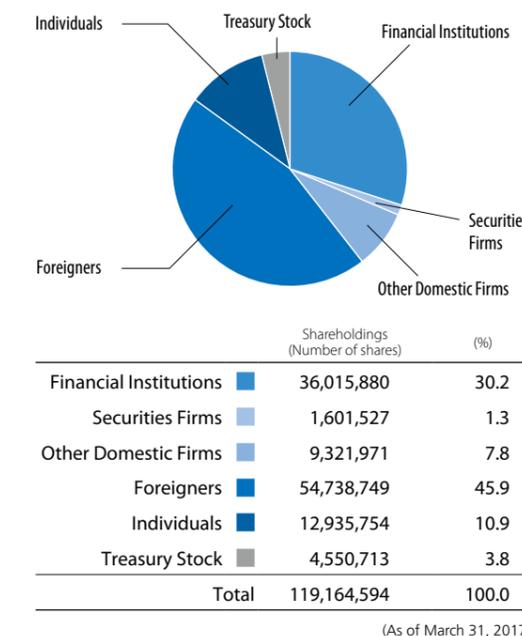
**Transfer Agent** Sumitomo Mitsui Trust Bank, Ltd.  
 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

### Major Shareholders

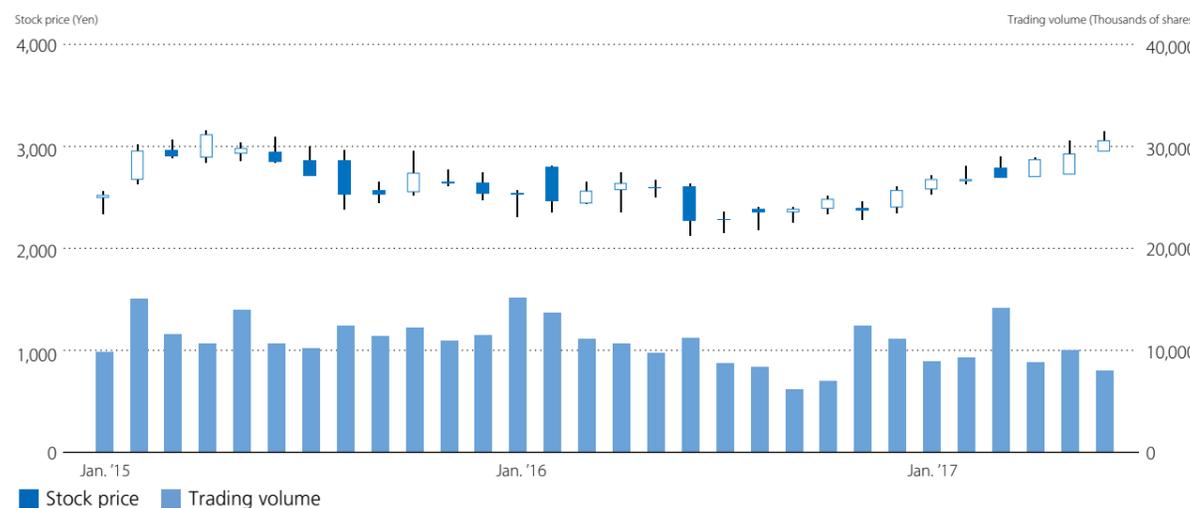
	Shareholdings (Number of shares)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	6,355,300	5.33
Nippon Life Insurance Company	5,979,883	5.01
Kurita Water Industries Ltd.	4,550,713	3.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,124,700	3.46
BNYMSANV AS AGENT / CLIENTS LUX UCITS NON TREATY 1	2,788,900	2.34
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,542,900	2.13
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,175,000	1.82
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 SSD00	1,827,674	1.53

(As of March 31, 2017)

### Distribution of Shares



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



## 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** 5,654 (on a consolidated basis); 1,536 (parent company)  
 (As of March 31, 2017)

**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

### Overseas Office

**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

### Main Domestic Consolidated Group Companies (As of March 31, 2017)

#### Water Treatment Chemicals

##### ■ Sale of water treatment chemicals

- Kurita Buil-Tech Co., Ltd.
- Kurita BMS Co., Ltd.
- Kurita Chemicals Hokkaido Ltd.
- Kurita Chemicals Kantou Co., Ltd.
- Kurita Chemicals Tokai Ltd.
- Kurita Chemicals Hokuriku Ltd.
- Kurita Chemicals Kansai Ltd.
- Kurita Chemicals Sanyo Ltd.
- Kurita Chemicals West Japan Ltd.
- Kurita Chemicals Oita Ltd.
- Kurita Chemicals Kumamoto Ltd.

##### ■ Manufacture of water treatment chemicals

- Kurita Chemical Manufacturing Ltd.

##### ■ Other

- Kurita Analysis Service Co. Ltd.

#### Water Treatment Facilities

##### ■ Operation & maintenance of systems and facilities

- Kurita Co., Ltd.

##### ■ Soil remediation services

- Land Solution Inc.

##### ■ Chemical cleaning services

- Kurita Engineering Co., Ltd.
- Miyoshi Industries Co., Ltd.

##### ■ Tool cleaning services

- Kuritec Service Co. Ltd.
- San-ei Industries Co., Ltd.
- Nippon Fine Co., Ltd.
- Sun Kako Co., Ltd.
- Aoi Industries Co., Ltd.

##### ■ Other

- Kurita Meiki Ltd.
- Kurita Creation Co., Ltd.
- Kurita Analysis Service Co. Ltd.

### Main Overseas Group Companies (As of March 31, 2017)

Overseas Consolidated Subsidiaries and Affiliated Companies	Year of Establishment	Paid-in Capital (Millions)	Equity Ownership (%)
<b>Water Treatment Chemicals</b>			
1 Kurita Water Industries (Dalian) Co., Ltd.	1995	¥550	90.1
4 Kurita Water Industries (Jiangyin) Co., Ltd.	2015	US\$16	100.0
5 Angang Kurita Water Treatment Co., Ltd.	2015	RMB55	50.0
6 Hansu Co., Ltd.	1974	W2,500	33.2
8 Kurita (Taiwan) Co., Ltd.	1987	NT\$20	100.0
9 Kurita (Singapore) Pte. Ltd.	1978	S\$11	100.0
10 Kurita-GK Chemical Co., Ltd.	1989	BAHT204	85.0
11 Kurita-GK Vietnam Co., Ltd.	2016	US\$0.5	85.0
12 P.T. Kurita Indonesia	1986	US\$2	92.5
13 Kurita Water (Malaysia) Sdn. Bhd.	1994	RM\$0.6	100.0
14 Kurita Europe GmbH	2014	EUR20	100.0
15 Kurita France S.A.S.	2015	EUR5	100.0
16 Kurita Iberica SL	2015	EURO.003	100.0
17 Kurita Turkey Kimya A.S.	2015	TRY5.7	100.0
18 Kurita Sverige AB	2015	SEK0.1	100.0
19 Kurita Polska SP.z.o.o.	2016	EUR3.2	100.0
20 Kurita Middle East FZE	2016	AED2	100.0
21 Kurita America, Inc.	1996	US\$3	100.0
22 Fremont Industries, LLC	2017	US\$0.01	100.0
23 Kurita do Brasil LTDA.	1975	R\$6.9	100.0

#### Water Treatment Facilities

2 Kuritec (Shanghai) Co., Ltd.	2001	¥30	100.0
3 Kurita Water Industries (Suzhou) Ltd.	2004	¥530	100.0
7 Hansu Technical Service Ltd.	1988	W26,400	100.0
9 Kurita (Singapore) Pte. Ltd.	1978	S\$11	100.0
12 P.T. Kurita Indonesia	1986	US\$2	92.5
13 Kurita Water (Malaysia) Sdn. Bhd.	1994	RM\$0.6	100.0
21 Kurita America, Inc.	1996	US\$3	100.0

