Management Indicators

For the year ended March 31

(Millions of Yen)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Orders	195,065	175,162	181,951	197,256	186,741	173,463	181,282	221,273	218,730	**251,447**
Net Sales	199,706	178,520	181,234	193,792	180,143	178,137	189,398	214,372	214,187	**236,815**
Operating Income	27,935	26,358	27,131	29,382	20,989	14,886	19,435	19,833	19,452	**22,475**
Operating Income Margin (%)	14.0	14.8	15.0	15.2	11.7	8.4	10.3	9.3	9.1	**9.5**
Net Income Attributable to Owners of Parent Note 1	16,299	17,288	17,138	16,548	11,476	9,352	10,434	12,577	14,506	**17,897**
Net Income Margin (%) Note 2	8.2	9.7	9.5	8.5	6.4	5.2	5.5	5.9	6.8	**7.6**
Total Assets (At Fiscal Year End)	245,406	251,620	253,298	271,141	263,580	274,925	294,492	298,107	299,249	**323,046**
Total Assets Turnover (Times) Note 3	0.84	0.72	0.72	0.74	0.67	0.66	0.67	0.72	0.72	**0.76**
Equity (At Fiscal Year End) Note 4	177,291	192,588	198,042	208,891	207,871	217,691	222,330	227,896	227,623	**238,803**
Equity Ratio (%) Note 5	72.2	76.5	78.2	77.0	78.9	79.2	75.5	76.4	76.1	**73.9**
Return on Assets (%) Note 6	6.8	7.0	6.8	6.3	4.3	3.5	3.7	4.2	4.9	**5.8**
Return on Equity (%) Note 7	9.4	9.3	8.8	8.1	5.5	4.4	4.7	5.6	6.4	**7.7**
Capital Expenditures (Excluding Intangibles)	55,734	7,525	5,469	7,721	6,108	5,268	8,489	18,818	9,289	**22,070**
Depreciation	10,916	14,840	15,375	15,410	14,493	14,250	14,378	13,409	13,248	**13,507**
R&D Expenses	4,363	3,990	4,225	4,232	4,362	4,534	4,397	5,269	5,038	**5,258**

(Yen)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Income per Share Note 8	126.69	134.38	134.02	130.65	92.43	78.48	87.81	108.24	125.23	**159.37**
Net Assets per Share Note 9	1,378.04	1,496.98	1,563.57	1,649.24	1,744.41	1,826.84	1,907.80	1,961.30	1,991.91	**2,126.96**
Dividends per Share	34.0	36.0	38.0	40.0	42.0	44.0	46.0	48.0	50.0	**52.0**
Dividend Payout Ratio (%)	26.8	26.8	28.4	30.6	45.4	56.1	52.4	44.3	39.9	**32.6**
Number of Employees	4,404	4,445	4,490	4,555	4,640	4,635	5,222	5,481	5,654	**6,011**

Notes: 1. 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.
2. Net income margin = Net Income attributable to owners of parent ÷ Net sales
3. Total assets turnover = Net sales ÷ Total assets (Average)
4. "Equity" represents Net assets less non-controlling interests (hereinafter, the same).
5. Equity ratio = Equity ÷ Total assets × 100
6. Return on assets = Profit attributable to owners of parent ÷ Total assets (Average) × 100
7. Return on equity = Profit attributable to owners of parent ÷ Equity (Average) × 100
8. Calculation of Net income per share is based on average number of shares outstanding (excluding treasury stock).
9. Calculation of Net assets per share is based on the number of shares at year-end (excluding treasury stock).

Segment Information

For the year ended March 31

(Millions of Yen)

		2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Orders	Water treatment chemicals	58,470	53,370	56,714	56,748	56,040	59,413	59,353	83,440	82,118	**90,358**
	Water treatment facilities	136,595	121,791	125,237	140,507	130,700	114,049	121,928	137,832	136,611	**161,088**
	Total	195,065	175,162	181,951	197,256	186,741	173,463	181,282	221,273	218,730	**251,447**
Net Sales	Water treatment chemicals	58,331	53,743	56,735	56,443	56,091	58,844	59,999	83,680	81,883	**90,361**
	Water treatment facilities	141,374	124,777	124,499	137,348	124,052	119,292	129,399	130,692	132,304	**146,453**
	Total	199,706	178,520	181,234	193,792	180,143	178,137	189,398	214,372	214,187	**236,815**
Operating Income	Water treatment chemicals	8,417	8,177	10,099	9,268	8,334	7,954	7,877	6,467	7,231	**7,180**
	Water treatment facilities	19,517	18,181	17,032	20,127	12,641	6,934	11,560	13,366	12,220	**15,312**
	Adjustment	0	—	0	(13)	13	(2)	(2)	(0)	0	**(18)**
	Total	27,935	26,358	27,131	29,382	20,989	14,886	19,435	19,833	19,452	**22,475**
Segment Assets	Water treatment chemicals	34,476	35,194	36,444	36,580	34,647	37,310	79,790	79,365	80,120	**95,589**
	Water treatment facilities	180,626	168,119	158,414	161,750	143,772	133,620	136,391	142,564	134,623	**158,631**
	Total	215,102	203,314	194,859	198,330	178,419	170,931	216,182	221,930	214,744	**254,220**
Capital Expenditures	Water treatment chemicals	1,432	1,151	1,183	1,463	1,458	1,792	5,378	2,434	2,175	**3,162**
	Water treatment facilities	54,889	6,932	4,781	6,641	5,230	3,917	7,486	17,188	7,911	**19,805**
	Total	56,322	8,083	5,965	8,105	6,688	5,709	12,864	19,623	10,087	**22,967**
Depreciation and Amortization	Water treatment chemicals	1,745	1,662	1,539	1,485	1,369	1,386	1,406	2,613	2,926	**3,593**
	Water treatment facilities	9,970	13,860	14,527	14,550	13,684	13,387	13,457	12,068	11,950	**12,083**
	Total	11,716	15,523	16,066	16,035	15,054	14,774	14,863	14,682	14,877	**15,677**
R&D Expenses	Water treatment chemicals	1,233	1,114	1,285	1,335	1,367	1,556	1,485	2,129	2,123	**2,066**
	Water treatment facilities	3,130	2,875	2,940	2,897	2,994	2,978	2,911	3,139	2,914	**3,192**
	Total	4,363	3,990	4,225	4,232	4,362	4,534	4,397	5,269	5,038	**5,258**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

During the fiscal year ended March 31, 2018, the global economy remained firm overall, reflecting the steady recovery of the U.S. and European economies and the picking up of the Chinese economy and other emerging economies in Asia. The Japanese economy continued to enjoy a recovery trend, with consumer spending picking up and corporate earnings improving with the strengthening of overseas economies. Looking at the market environment surrounding the Kurita Group, in Japan, upward momentum continued in the production activities of the manufacturing industry due to a recovery in exports and strengthening of demand, and capital expenditure also remained solid. Overseas, capital expenditure picked up, mainly in the electronics industry in East Asia.

In this environment, the Group focused on enhancing the foundation of overseas operations and developing the service business to improve profitability under the basic policy of "improve customer intimacy by providing customers with the best solutions."

To enhance the foundation of overseas operations, in the United States, Fremont Industries, LLC, which recently became a member of the Kurita Group, and Kurita America, Inc., an existing U.S. subsidiary, cooperated to proceed with initiatives to exercise synergies. In Europe, to increase the production capacity of process treatment chemicals for paper and pulp of Kurita Europe GmbH, the Group acquired a production base from Akzo Nobel in France. In Asia, the Group converted Hansu Co., Ltd., an equity method affiliate, into a consolidated subsidiary by acquiring additional shares to strengthen the power to provide solutions in South Korea.

To develop the service business, the Group sought to develop a business model using the Reclaimed Water System with a combination of the fundamental technologies of water treatment facilities and water treatment chemicals of the Company. The Group also continued to work on competitive products and services that utilize IT and sensing technology, while developing a market for these products and services. In addition, the Group focused on proposal sales that will contribute to the solution of customer issues, such as the reduction of the environmental impact, energy saving and productivity improvement.

Operating Results

a) Orders

In the Water Treatment Chemicals segment, as capacity utilization at customers' plants in Japan recovered, orders increased for almost all industries. Orders increased overseas, as well, mainly reflecting the impact of new consolidations.

In the Water Treatment Facilities segment, for the electronics industry in Japan, overall order volume increased due to the receipt of orders for large-scale facility projects for semiconductors, electronic components, and wafers, although orders decreased in the ultrapure water supply business due to changes in certain contracts. For general industry in Japan, overall order volume decreased due to a decrease in orders for facilities for the electric power industry and a drop in orders following efforts to narrow down orders for facilities for general industries, although orders for soil remediation remained strong and orders for maintenance services increased due to demand for response to aging customer facilities and reinforcement. Overseas, flat panel displays and semiconductors in China and orders for semiconductors in South Korea all experienced surging demand, and the Group acquired far more orders than initially envisaged. At the same time, as a result of steadily expanding the maintenance and ultra-pure water supply business, the overall amount of orders received increased significantly overseas.

As a result, total consolidated orders were ¥251,447 million, an increase of 15.0% compared with the previous fiscal year.

b) Net Sales

Sales of water treatment chemicals grew in Japan and overseas, while sales of water treatment facilities increased significantly atop steady construction progress on water treatment facilities and growth in maintenance services. The impact on net sales of new consolidations of North American and South Korean subsidiaries in the water treatment chemicals business was around ¥4.4 billion.

As a result, total net sales amounted to ¥236,815 million, an increase of 10.6% compared with the previous fiscal year.

c) Cost of Sales and Gross Profit

Cost of sales increased 10.3%, from ¥145,455 million in the previous fiscal year, to ¥160,476 million. Cost of sales as a percentage of sales came to 67.7%, compared with 67.9% in the previous fiscal year.

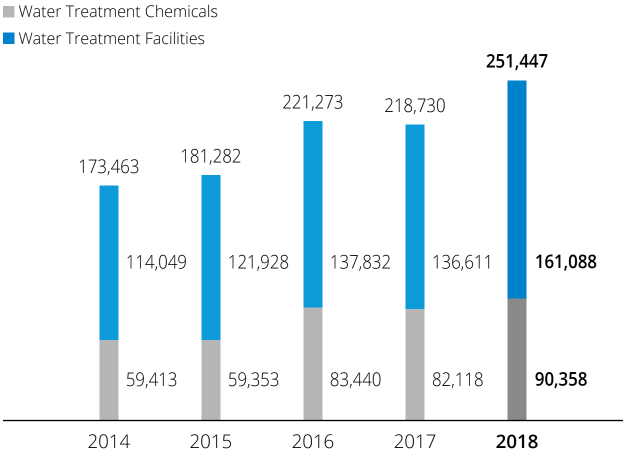
d) Selling, General and Administrative (SG&A) Expenses

SG&A expenses were ¥53,863 million, up 9.3% from the previous fiscal year's ¥49,280 million. As salaries and bonuses increased, retirement benefit expenses decreased.

Orders by Segment

Years ended March 31

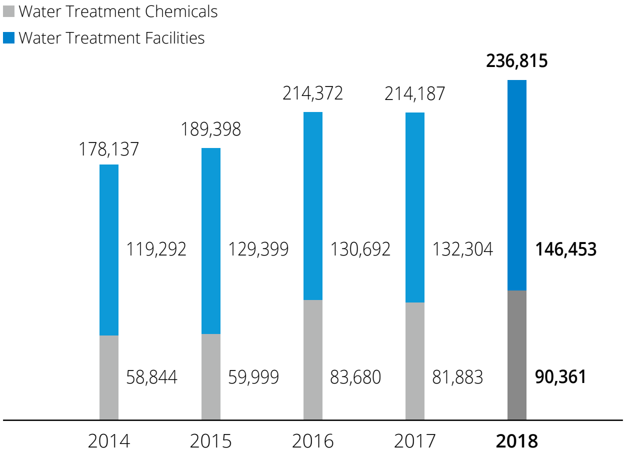
(Millions of yen)



Sales by Segment

Years ended March 31

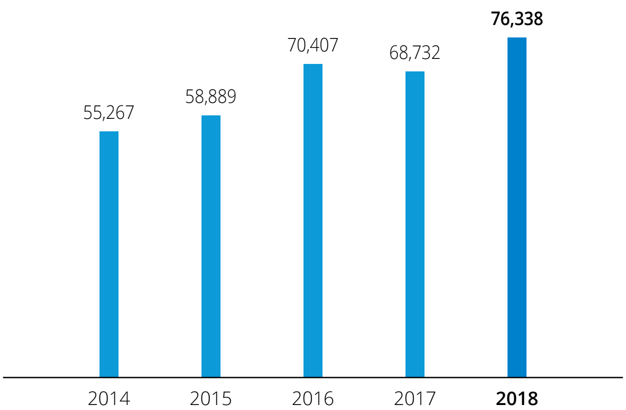
(Millions of yen)



Gross Profit

Years ended March 31

(Millions of yen)



e) Operating Income

Owing to the factors mentioned above, consolidated operating income totaled ¥22,475 million, up 15.5% compared with ¥19,452 million in the previous fiscal year. The operating income margin rose to 9.5% from 9.1% in the previous fiscal year.

f) Results by Business Segment

Water Treatment Chemicals

Orders and Sales

In Japan, in addition to customer plants' capacity utilization recovering, through problem-solving proposals that make use of new products and services, sales of our core products, namely boiler water treatment chemicals and cooling water treatment chemicals, increased. Process treatment chemicals for paper and pulp and for iron and steel also grew. As a result, both orders and sales increased in Japan.

Overseas, both orders and sales increased, reflecting the consolidation of results at the acquired subsidiary based in the United States from the first quarter of this fiscal year and the conversion of an equity method affiliate in South Korea into a consolidated subsidiary in the fourth quarter, in addition to higher sales in each geographical area. Overseas sales growth excluding these factors was around 8% in yen terms, 4% in local-currency terms.

As a result, segment orders increased to ¥90,358 million, a 10.0% increase over the previous fiscal year, and segment sales increased to ¥90,361 million, a 10.4% increase over the previous fiscal year.

Operating Income

Segment operating income was down 0.7% year on year, to ¥7,180 million, reflecting an increase in selling, general and administrative expenses caused by increases in personnel expenses due to the active development of overseas businesses and IT-related expenses, despite the effect of the increase in sales.

Water Treatment Facilities

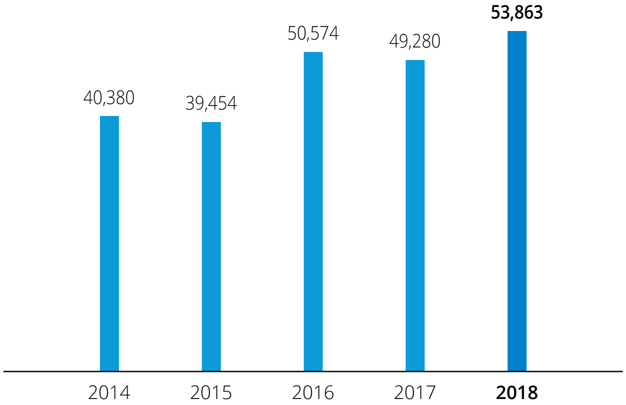
Orders and Sales

Regarding orders and sales in Japan, in the electronics industry, both orders and sales in the water treatment facilities increased significantly due to orders for large-scale projects and progress in construction work. In maintenance services, both orders and sales also increased due to orders associated with expansion and remodeling projects against a backdrop of a rise in capacity utilization at customers' plants. In general industries, orders for water treatment facilities declined, but sales increased. Orders in maintenance services increased, mainly due to demand for the renewal and expansion of facilities at customers' plants, but sales declined slightly. Orders for water treatment facilities for electric power declined, but sales increased. Orders in soil remediation remained at about the same high level, but sales declined in a fallback from the posting of sales of large projects in the previous fiscal year. Overseas, orders rose significantly on orders for large-scale projects in China and South Korea. Sales also increased, reflecting progress in construction work for projects whose orders were received in the fiscal year under review. Sales in the ultrapure water supply business declined, partly due to a fall in sales attributable to changes in contracts with a customer

SG&A Expenses

Years ended March 31

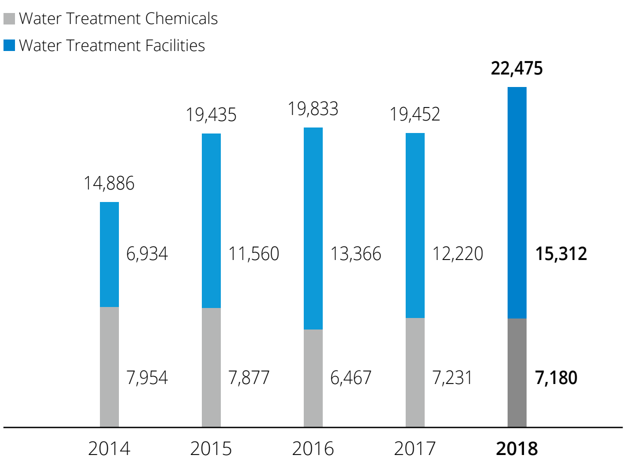
(Millions of yen)



Operating Income by Segment

Years ended March 31

(Millions of yen)



in the previous fiscal year, although revenues were posted for projects for the expansion of facilities.

As a result, segment orders were ¥161,088 million, a 17.9% increase over the previous fiscal year, and segment sales expanded to ¥146,453 million, a 10.7% increase over the previous fiscal year.

Operating Income

Segment operating income was up 25.3% year on year, to ¥15,312 million, because of the increase in sales and improved profitability due to rigorous process and cost management on construction projects.

g) Overseas Sales

Sales by Region

Overseas sales for the fiscal year under review were ¥78,582 million (an increase of 22.4% over the previous fiscal year). The overseas sales ratio within consolidated net sales increased to 33.1%, from 30.0% in the previous fiscal year.

Regional Breakdown

Asia: Up 22.6%, to ¥48,911 million; 62.2% of total overseas sales
North America: Up 174.7%, to ¥5,178 million; 6.6% of total overseas sales
EMEA*: Up 8.0%, to ¥21,350 million; 27.2% of total overseas sales
Other regions: Up 18.9%, to ¥3,142 million; 4.0% of total overseas sales

* EMEA comprises Europe, the Middle East, and Africa.

h) Other Income and Expenses

Other income and expenses–net came to income of ¥3,060 million, compared with ¥1,013 million in the previous fiscal year.

The main reasons were an increase in gain on sales of investment securities and the recording of a gain on step acquisitions that was absent in the previous fiscal year.

i) Income Before Income Taxes

Income before income taxes increased 24.8%, to ¥25,535 million, compared with ¥20,465 million in the previous fiscal year.

The pretax profit margin increased to10.8%, from 9.6% in the previous fiscal year.

j) Net Income Attributable to Owners of Parent

After deducting income taxes and net income attributable to non-controlling interests from pretax profits, Kurita recorded consolidated net income attributable to owners of parent of ¥17,897 million for the fiscal year ended March 31, 2018, an increase of 23.4% compared with ¥14,506 million in the previous fiscal year.

Net income per share increased to ¥159.37, from ¥125.23 in the previous fiscal year. The net income margin rose to 7.6%, from 6.8%.

Return on equity (ROE) increased to 7.7%, from 6.4%.

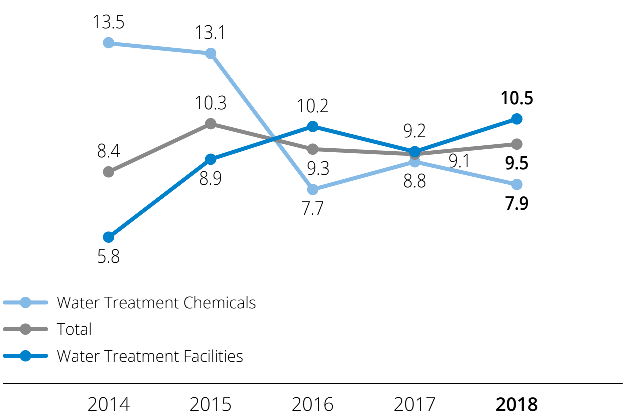
k) Policies on Shareholder Returns

Kurita's basic policy is to pay stable dividends on an ongoing basis. Setting a payout ratio of 30–50% as our target, Kurita will continuously work to increase dividends, making decisions based on the

Operating Income Margin by Segment

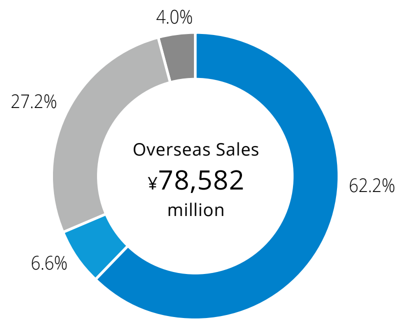
Years ended March 31

(%)



Overseas Sales by Region

Fiscal year ended March 31, 2018

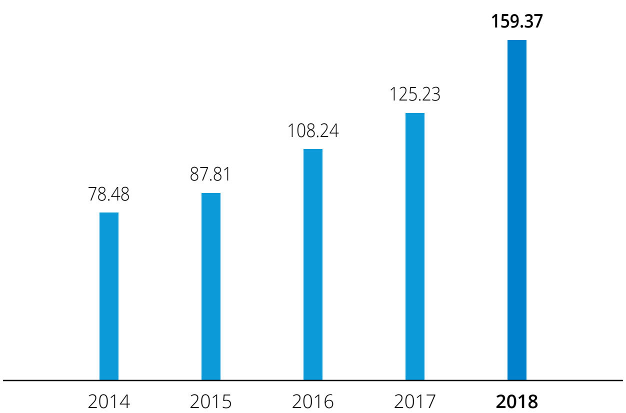


Asia .... ¥48,911 million
North America .... ¥5,178 million
EMEA .... ¥21,350 million
Other regions .... ¥3,142 million

Net Income per Share

Years ended March 31

(Yen)



payout ratios for the most recent five years to respond flexibly to fluctuations in business performance each year. With regard to the use of internal reserves, the Company prioritizes business investment for growth, after securing precautionary funds to prepare for working capital. If excess funds remain, the Company will consider buying back its 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 ¥52 per share, including an interim dividend of ¥26 for a dividend payout ratio of 45.6%. The dividend takes the Company's plans for future business development into consideration, as well as the support that it has received from shareholders.

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, 2018, capital expenditures totaled ¥22,967 million, an increase of ¥12,880 million compared with the previous fiscal year, mainly due to the acquisition of business facilities. The capital expenditure includes the amount of lease assets related to finance leases that do not transfer ownership.

The Water Treatment Chemicals segment undertook capital expenditures totaling ¥3,162 million, mainly for expanding and upgrading water treatment chemicals production facilities. This represented an increase of ¥987 million compared with the previous fiscal year.

The Water Treatment Facilities segment carried out capital expenditures totaling ¥19,805 million, mainly for the installation and expansion of facilities for the ultrapure water supply business. This represented an ¥11,894 million increase compared with the previous fiscal year.

There were no disposals or sales of important facilities during the fiscal year under review.

Depreciation and amortization increased 6.3%, to ¥16,861 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. The Group also strives to deepen its understanding of the assay and analysis technologies that underpin our technologies, as well as new materials development and other basic technologies. Furthermore, the Group is engaged in development to promote new businesses.

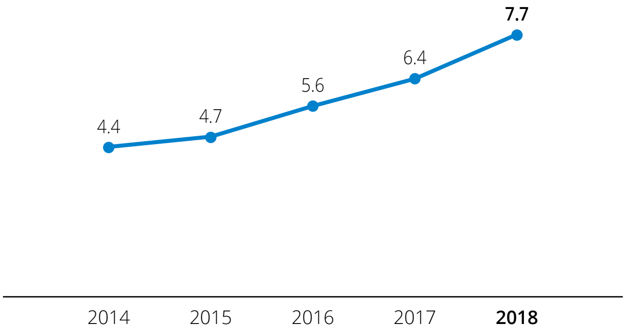
Going forward, the Group's development centers in Japan, German and Singapore will work together, proactively engaging in product and technology development that meets the broad-ranging needs of industry and society.

The Kurita Group's R&D activities are performed mainly by the Research and Development Division of Kurita Water Industries

Return on Equity

Years ended March 31

(%)



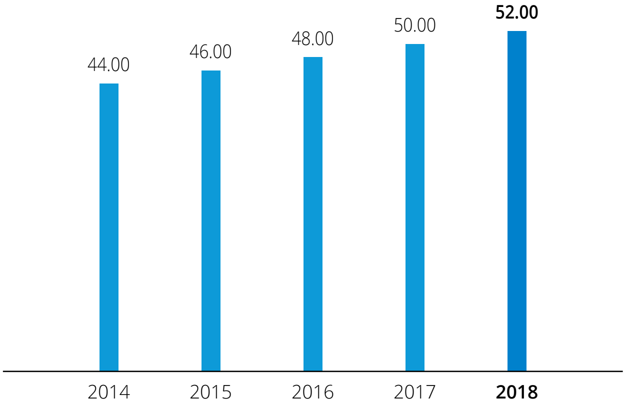
Note: Return on equity = Net income attributable to owners of parent ÷ Equity (Average) × 100

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

Dividends per Share

Years ended March 31

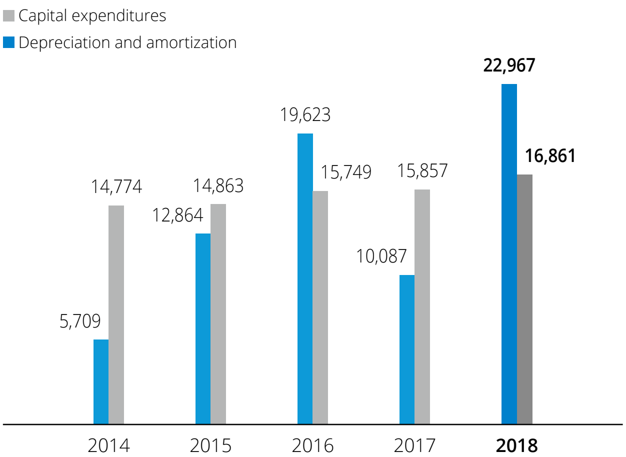
(Yen)



Capital Expenditures and Depreciation and Amortization

Years ended March 31

(Millions of yen)



Ltd. R&D staff number approximately 180, accounting for 3.0% of overall Group employees. In the fiscal year ended March 31, 2018, Kurita's R&D expenses totaled ¥5,258 million, equivalent to 2.2% of net sales.

In the Water Treatment Chemicals segment, the Kurita Group is engaged in the development of chemicals for water treatment, environmental improvement, and production processes, which contribute to customers' energy savings, environmental burden reduction, and productivity enhancements. Other development activities include diagnostic technology for chemical treatment effectiveness. R&D expenses for the segment for the fiscal year ended March 31, 2018 totaled ¥2,066 million.

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

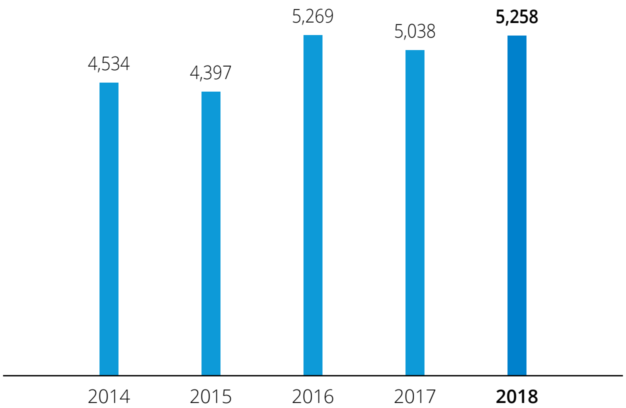
- Kurita used Singapore-based Kurita R&D Asia Pte. Ltd. to promote development of seawater desalination and wastewater reclamation technologies targeting overseas markets and developed technologies capable of preventing the clogging of the reverse osmosis (RO) membranes used at these facilities at low cost.
- To comply with tightening of environmental regulations in Japan and overseas, Kurita's Japanese and German R&D centers jointly examined and developed low phosphorous, non-zinc chemicals for cooling water.
- Kurita Europe GmbH's process treatment chemicals for paper and pulp were matched with needs in the Asia region and developed to produce treatment chemicals that contribute to better product quality, for example by preventing the bleeding of ink in the printing process. These were added to enhance the Group's global lineup of paper and pulp process treatment chemicals.

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 the electronics industry. The Group is also pursuing development in wastewater treatment to stay ahead of the curve regarding 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. R&D expenses for the segment for the fiscal year ended March 31, 2018 amounted to ¥3,192 million.

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

- Kurita developed mobile high-speed coagulation and sedimentation system with a view to proposing a temporary facility rental business in response to temporary treatment needs associated with concentrated heavy rainfall and repair and renewal demand for aging facilities among steel works, electric power plants, and so forth.
- In the energy field, Kurita developed technologies to contribute to the realization of a society with distributed energy sources in the future. Examples include a selenium removal system that uses microbial treatment to improve stable operation and cost competitiveness for coal-fired power plants and a compact water

R&D Expenses
Years ended March 31
(Millions of yen)



treatment system that uses membrane-type processing for Gas Turbine Combined Cycle power generation using LNG fuel.

- With strong demand expected in the semiconductor market for realization of an ICT society, Kurita worked with a global semiconductor research organization to develop a cleaning and surface modification technology for materials used in next-generation semiconductors.
- Kurita developed operation support technologies utilizing IoT and AI for optimal control mainly of facilities in the ultrapure water supply business.

Financial Position

a) Assets

As of March 31, 2018, Kurita had total assets of ¥323,046 million, an increase of ¥23,797 million compared with ¥299,249 million as of March 31, 2017.

Breakdown of Assets

Current Assets

Current assets as of March 31, 2018 totaled ¥162,004 million, an increase of ¥6,074 million compared with March 31, 2017. This rise was primarily attributable to an increase of ¥18,583 million in notes and accounts receivable associated with the increase in revenue in the Water Treatment Facilities business during the second half of the fiscal year, which outweighed a decrease of ¥12,264 million in cash reserves—cash and time deposits and marketable securities.

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

As of March 31, 2018, investments and long-term receivables came to ¥44,010 million, an increase of ¥38 million from ¥43,972 million as of March 31, 2017.

Property, plant and equipment, net as of March 31, 2018 amounted to ¥86,028 million, an increase of ¥11,992 million compared with ¥74,036 million as of March 31, 2017.

Intangible assets as of March 31, 2018 were ¥31,003 million, up ¥5,695 million compared with ¥25,308 million as of March 31, 2017.

The increase in investments and long-term receivables was mainly due to higher unrealized gains on investment securities due to a rise in the market prices of the shares held by the Group.

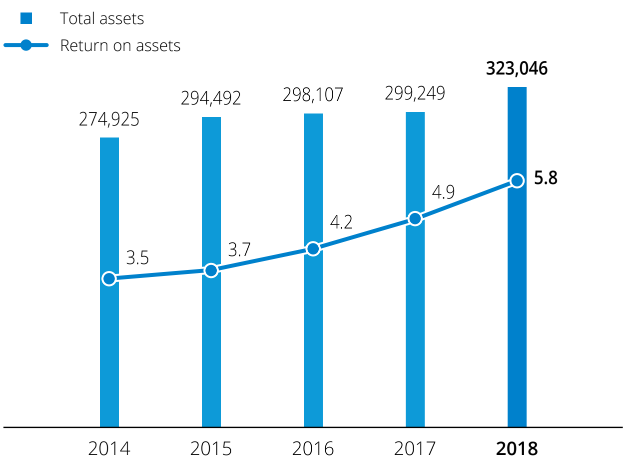
The increase in property, plant and equipment was mainly caused by capital investments in the ultrapure water supply business (Water Treatment Facilities business), which significantly outweighed depreciation expense for existing facilities.

The increase in intangible assets was mainly caused by recording goodwill of ¥5,155 million and customer-related assets of ¥733 million associated with the additional purchase of shares of the South Korean former equity-method-affiliate Hansu Co., Ltd. (Water Treatment Chemicals business).

Total Assets and Return on Assets

Years ended March 31

(Millions of yen) (%)

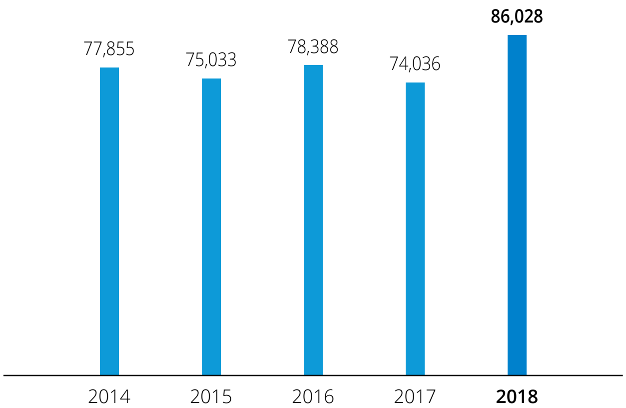


Note: Return on assets = Net income attributable to owners of parent ÷ Total assets (Average) × 100

Property, Plant and Equipment, Net

Years ended March 31

(Millions of yen)



b) Liabilities

As of March 31, 2018, liabilities totaled ¥82,193 million, an increase of ¥11,703 million compared with ¥70,490 million as of March 31, 2017.

Current Liabilities

Current liabilities as of March 31, 2018 amounted to ¥56,149 million, an increase of ¥11,739 million from March 31, 2017. This mainly reflects increases in notes and accounts payable, trade of ¥5,499 million and accounts payable, other of ¥2,976 million.

Long-Term Liabilities

Long-term liabilities were ¥26,044 million as of March 31, 2018, a slight decrease of ¥36 million from March 31, 2017.

c) Net Assets

Net assets totaled ¥240,853 million as of March 31, 2018, an increase of ¥12,095 million from ¥228,758 million as of March 31, 2017.

This was primarily due to an increase of ¥6,477 million in shareholders' equity and an increase of ¥4,703 million in accumulated other comprehensive income. The main factors behind the increase in shareholders' equity were an increase of ¥3,563 million in retained earnings and a decrease of ¥2,948 million in treasury stock (net assets increase). As part of a flexible policy in response to the management environment, the Company conducted a purchase and cancellation of treasury stock during the fiscal year under review. Accumulated other comprehensive income increased, chiefly reflecting an increase of ¥3,599 million in foreign currency translation adjustments due to the weaker yen, and an increase of ¥1,766 million in unrealized gains on available-for-sale securities associated with an increase in unrealized capital gains for investment securities.

As a result, total liabilities and net assets amounted to ¥323,046 million as of March 31, 2018, an increase of ¥23,797 million compared with ¥299,249 million as of March 31, 2017. Kurita's equity ratio was 73.9%, down 2.2 percentage points from 76.1% a year earlier. Net assets per share as of March 31, 2018 were ¥2,126.96, an increase of ¥135.05 compared with ¥1,991.91 as of March 31, 2017.

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, 2018 totaled ¥21,408 million, a decrease of ¥12,533 million from the previous fiscal year. Inflows from income before income taxes of ¥25,535 million and depreciation and amortization of ¥16,861 million including goodwill amortization were partially offset by an increase of ¥16,332 million in trade receivables and income taxes paid of ¥6,170 million.

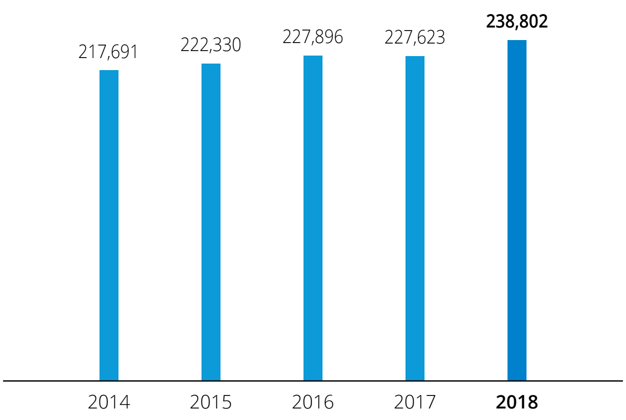
Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥15,928 million, an increase of ¥14,809 million from the previous fiscal year. Net cash increased mainly because of a decrease in time deposits,

Equity

Years ended March 31

(Millions of yen)



net of ¥5,787 million. This was offset by payments for purchase of property, plant and equipment totaling ¥17,924 million, including capital expenditures for the ultrapure water supply business, and payments for investments in unconsolidated subsidiaries and affiliates of ¥4,012 million associated with the additional purchase of shares of the South Korean former equity-method-affiliate Hansu Co., Ltd.

Cash Flows from Financing Activities

Net cash used in financing activities came to ¥12,419 million, an increase of ¥2,265 million from the previous fiscal year. The main cash outflows were cash dividends paid of ¥5,753 million and payments for purchase of treasury stock, net of ¥5,592 million.

Cash and Cash Equivalents at End of Year

As of March 31, 2018, Kurita had cash and cash equivalents totaling ¥58,917 million, a decrease of ¥6,521 million from March 31, 2017.

Commitment Line

The Kurita Group's basic policy is to secure a stable source of liquidity and funds required for managing its business. The Group basically uses its own funds to meet short-term operating requirements, and also envisages basically using its own funds for capital investments and other investments in growth fields, while procuring bank loans as required. As of the end of the fiscal year under review, the Group has concluded commitment line agreements with four transacting financial institutions, with executed borrowings of ¥- million and an unused available balance of ¥70,600 million.

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, 2018.

1. Economic and Market Conditions

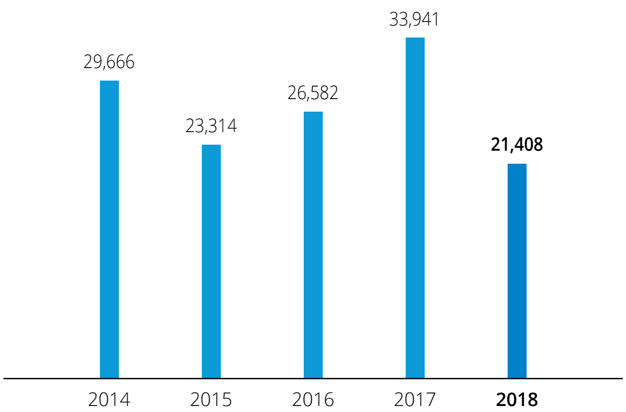
The Group's Water Treatment Chemicals and Water Treatment Facilities businesses are affected by economic conditions in Japan and countries and regions outside Japan where the Group operates. Demand in the Water Treatment Chemicals business fluctuates in response to factory capacity utilization rates 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 expenditures 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.

Cash Flows from Operating Activities

Years ended March 31

(Millions of yen)



2. Materials and Parts Procurement

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

3. Overseas Business Development

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

4. New Product Development

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

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

5. Intellectual Property

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

6. Dependence on Information Systems

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

7. Large-Scale Natural Disasters

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

CONSOLIDATED BALANCE SHEETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2018**	2017	**2018**
Current assets:			
Cash and time deposits (Notes 3 and 5)	**¥ 61,086**	¥ 72,750	**$ 576,283**
Notes and accounts receivable, trade (Notes 4 and 5)	**86,865**	68,282	**819,481**
Allowance for doubtful accounts	**(464)**	(246)	**(4,377)**
Marketable securities (Notes 5 and 6)	**3**	603	**28**
Inventories (Note 8)	**10,390**	9,525	**98,018**
Deferred tax assets (Note 10)	**1,595**	1,568	**15,047**
Other current assets	**2,528**	3,447	**23,849**
Total current assets	**162,004**	155,930	**1,528,339**
Investments and long-term receivables:			
Investment securities (Notes 5 and 6)	**34,535**	32,157	**325,801**
Investments in unconsolidated subsidiaries and affiliates (Note 5)	**1,147**	2,687	**10,820**
Deferred tax assets (Note 10)	**3,265**	4,275	**30,801**
Other investments	**5,238**	5,042	**49,415**
Allowance for doubtful accounts	**(176)**	(189)	**(1,660)**
Total investments and long-term receivables	**44,010**	43,972	**415,188**
Property, plant and equipment, at cost (Note 16)**:**			
Land (Note 13)	**15,596**	13,881	**147,132**
Buildings and structures	**63,191**	62,093	**596,141**
Machinery and equipment	**137,176**	121,311	**1,294,113**
Construction in progress	**7,880**	2,852	**74,339**
Other facilities	**15,292**	13,755	**144,264**
Leased assets	**8,256**	8,352	**77,886**
Total	**247,393**	222,247	**2,333,896**
Accumulated depreciation	**(161,365)**	(148,210)	**(1,522,311)**
Property, plant and equipment, net	**86,028**	74,036	**811,584**
Intangible assets:			
Goodwill	**20,362**	15,049	**192,094**
Other intangible assets	**10,641**	10,259	**100,386**
Total intangible assets	**31,003**	25,308	**292,481**
Total assets	**¥ 323,046**	¥ 299,249	**$ 3,047,603**

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 9)	¥ 1,973	¥ 1,646	$ 18,613
Notes and accounts payable, trade (Notes 4 and 5)	28,875	23,426	272,405
Accounts payable, other	10,995	8,019	103,726
Income taxes payable	4,806	2,875	45,339
Advances received	2,065	1,934	19,481
Accrued employees' bonuses	2,420	2,361	22,830
Accrued bonuses for directors and corporate auditors	145	—	1,367
Provision for product warranties	455	801	4,292
Provision for loss on construction contracts	94	81	886
Other current liabilities	4,317	3,263	40,726
Total current liabilities	56,149	44,410	529,707
Long-term liabilities:			
Lease obligations (Note 9)	4,038	4,339	38,094
Net defined benefit liability (Note 11)	16,610	16,054	156,698
Accrued retirement benefits for directors and corporate auditors	7	25	66
Provision for directors' stock benefits	183	—	1,726
Deferred tax liabilities on revaluation of land (Note 13)	1,119	1,119	10,556
Other long-term liabilities (Note 9)	4,084	4,540	38,528
Total long-term liabilities	26,044	26,080	245,698
Total liabilities	82,193	70,490	775,405
Net assets:			
Shareholders' equity (Note 12)**:**			
Common stock, 2018 and 2017			
Authorized: 531,000,000 shares			
Issued: 116,200,694 shares in 2018 and 119,164,594 shares in 2017	13,450	13,450	126,886
Capital surplus	10,959	10,993	103,386
Retained earnings	209,149	205,586	1,973,103
Treasury stock, at cost			
2018—3,926,398 shares			
2017—4,890,513 shares	(10,943)	(13,891)	(103,235)
Total shareholders' equity	222,615	216,138	2,100,141
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities	16,558	14,792	156,207
Deferred gains or losses on hedges	(1)	670	(9)
Revaluation reserve for land (Note 13)	(380)	(380)	(3,584)
Foreign currency translation adjustments	6	(3,593)	56
Remeasurements of defined benefit plans	3	(3)	28
Total accumulated other comprehensive income	16,187	11,484	152,707
Non-controlling interests	2,049	1,135	19,330
Total net assets	240,853	228,758	2,272,198
Total liabilities and net assets	¥323,046	¥299,249	$3,047,603

CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 20)	¥236,815	¥214,187	$2,234,103
Cost of sales (Note 14)	160,476	145,455	1,513,924
Gross profit	76,338	68,732	720,169
Selling, general and administrative expenses (Note 15)	53,863	49,280	508,141
Operating income (Note 20)	22,475	19,452	212,028
Other income (expenses):			
Interest and dividend income	737	671	6,952
Foreign exchange losses	(192)	(39)	(1,811)
Interest expense	(352)	(187)	(3,320)
Equity in earnings of unconsolidated subsidiaries and affiliates	73	175	688
Commitment fee	(250)	—	(2,358)
Acquisition-related costs	(732)	(259)	(6,905)
Gain on sales of investment securities	1,720	391	16,226
Gain on step acquisitions	2,443	—	23,047
Impairment loss (Note 16)	(413)	—	(3,896)
Provision for building demolition expenses (Note 17)	(320)	—	(3,018)
Other, net	345	260	3,254
Other income, net	3,060	1,013	28,867
Income before income taxes	25,535	20,465	240,896
Income taxes (Note 10)**:**			
Current	7,906	5,996	74,584
Deferred	(408)	(193)	(3,849)
Total income taxes	7,498	5,803	70,735
Net income	18,037	14,661	170,160
Net income attributable to non-controlling interests	139	155	1,311
Net income attributable to owners of parent	¥ 17,897	¥ 14,506	$ 168,839

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	¥18,037	¥14,661	$170,160
Other comprehensive income (Note 18)**:**			
Unrealized gains or losses on available-for-sale securities	1,739	(1,263)	16,405
Deferred gains or losses on hedges	(671)	271	(6,330)
Revaluation reserve for land	0	—	0
Foreign currency translation adjustments	3,219	(2,897)	30,367
Remeasurements of defined benefit plans	7	97	66
Share of other comprehensive income of entities accounted for using equity method	93	(83)	877
Total other comprehensive income	4,389	(3,876)	41,405
Comprehensive income	¥22,426	¥10,784	$211,566
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥22,255	¥10,649	$209,952
Comprehensive income attributable to non-controlling interests	170	134	1,603

	Yen		U.S. dollars (Note 1)
	2018	2017	2018
Per share of common stock (Note 22)**:**			
Net income	¥159.37	¥125.23	$1.50
Cash dividends applicable to the year	52.00	50.00	0.49

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, 2018 and 2017

	Millions of yen												
	Shareholders' equity					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	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	¥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)
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
Changes during the year													
Cash dividends paid			(5,793)		(5,793)								(5,793)
Net income attributable to owners of parent			17,897		17,897								17,897
Acquisition of treasury stock				(5,592)	(5,592)								(5,592)
Disposal of treasury stock				14	14								14
Retirement of treasury stock			(8,525)	8,525	—								—
Reversal of revaluation reserve for land			(0)		(0)								(0)
Changes in equity interest in consolidated subsidiaries		(33)			(33)								(33)
Other			(15)		(15)								(15)
Net changes of net assets other than shareholders' equity					—	1,766	(671)	0	3,600	7	4,703	914	5,617
Total changes during the year	—	(33)	3,563	2,947	6,476	1,766	(671)	0	3,600	7	4,703	914	12,094
Balance as of March 31, 2018	¥13,450	¥10,959	¥209,149	¥(10,943)	¥222,615	¥16,558	¥ (1)	¥(380)	¥ 6	¥ 3	¥16,187	¥2,049	¥240,853

	Thousands of U.S. dollars (Note 1)												
	Shareholders' equity					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	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, 2017	$126,886	$103,707	$1,939,490	$(131,047)	$2,039,037	$139,547	$ 6,320	$(3,584)	$(33,896)	$(28)	$108,339	$10,707	$2,158,094
Changes during the year													
Cash dividends paid			(54,650)		(54,650)								(54,650)
Net income attributable to owners of parent			168,839		168,839								168,839
Acquisition of treasury stock				(52,754)	(52,754)								(52,754)
Disposal of treasury stock				132	132								132
Retirement of treasury stock			(80,424)	80,424	—								—
Reversal of revaluation reserve for land			(0)		(0)								(0)
Changes in equity interest in consolidated subsidiaries		(311)			(311)								(311)
Other			(141)		(141)								(141)
Net changes of net assets other than shareholders' equity					—	16,660	(6,330)	0	33,962	66	44,367	8,622	52,990
Total changes during the year	—	(311)	33,613	27,801	61,094	16,660	(6,330)	0	33,962	66	44,367	8,622	114,094
Balance as of March 31, 2018	$126,886	$103,386	$1,973,103	$(103,235)	$2,100,141	$156,207	$ (9)	$(3,584)	$ 56	$ 28	$152,707	$19,330	$2,272,198

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
I. Cash flows from operating activities			
Income before income taxes	¥ 25,535	¥ 20,465	$ 240,896
Depreciation and amortization	16,861	15,857	159,066
Increase in net defined benefit liability	387	646	3,650
Increase (decrease) in other allowances	6	(143)	56
Equity in earnings of unconsolidated subsidiaries and affiliates	(73)	(175)	(688)
Interest and dividend income	(737)	(671)	(6,952)
Interest expense	352	187	3,320
Gain on step acquisitions	(2,443)	—	(23,047)
Provision for building demolition expenses	320	—	3,018
Loss on sales and disposal of properties	54	26	509
Impairment loss	413	—	3,896
Gain on sales of investment securities	(1,720)	(391)	(16,226)
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	(16,332)	2,030	(154,075)
Increase in inventories	(29)	(144)	(273)
Decrease (increase) in other assets	1,073	(866)	10,122
Increase in trade payables	3,699	1,525	34,896
Increase in other liabilities	298	1,890	2,811
Other, net	431	60	4,066
	28,095	40,297	265,047
Interest and dividends received	897	835	8,462
Interest paid	(514)	(325)	(4,849)
Income taxes paid	(6,170)	(6,893)	(58,207)
Other, net	(899)	27	(8,481)
Net cash provided by operating activities	21,408	33,941	201,962
II. Cash flows from investing activities			
Decrease in time deposits, net	5,787	13,959	54,594
Payments for purchase of property, plant and equipment	(17,924)	(10,156)	(169,094)
Proceeds from sales of property, plant and equipment	15	30	141
Payments for purchase of intangible assets	(972)	(791)	(9,169)
Payments for purchase of marketable securities and investment securities	(6)	(240)	(56)
Proceeds from sales and redemption of marketable securities and investment securities	2,115	1,380	19,952
Payments for acquisition of business	(136)	(4,506)	(1,283)
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 3)	(4,012)	—	(37,849)
Other, net	(794)	(795)	(7,490)
Net cash used in investing activities	(15,928)	(1,119)	(150,264)
III. Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net	177	(665)	1,669
Proceeds from long-term loans payable	—	2,329	—
Repayment of long-term loans payable	(400)	(223)	(3,773)
Cash dividends paid	(5,753)	(5,694)	(54,273)
Cash dividends paid to non-controlling shareholders of consolidated subsidiaries	(66)	(67)	(622)
Payments for lease obligations	(610)	(637)	(5,754)
Payments for purchase of treasury stock, net	(5,592)	(5,195)	(52,754)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(173)	—	(1,632)
Net cash used in financing activities	(12,419)	(10,154)	(117,160)
IV. Effect of exchange rate changes on cash and cash equivalents	417	(821)	3,933
V. Net increase (decrease) in cash and cash equivalents	(6,521)	21,846	(61,518)
VI. Cash and cash equivalents at beginning of year	65,438	43,591	617,339
VII. Cash and cash equivalents at end of year (Note 3)	¥ 58,917	¥ 65,438	$ 555,820

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 2017 financial statements to conform to the classification used in 2018.

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, 2018 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 ¥106 to US$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2018. 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, 2018 and 2017, 52 and 49 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.
Kuritaz Co., Ltd.
Kurita Engineering Co., Ltd.
Kuritec Service Co. Ltd.
Kurita Chemical Manufacturing Ltd.
Hansu Co., Ltd.

From the year ended March 31, 2018, Kurita Middle East FZE, Kurita R&D Asia Pte. Ltd., Kurita Korea Co., Ltd. and Kurita Water Technology (Taiwan) Co., Ltd. were newly included in the scope of consolidation due to incorporation, and Hansu Co., Ltd., formerly accounted for by the equity method, was also included due to additional acquisition.

Kurita Chemicals Oita Ltd. and Kurita Chemicals Kumamoto Ltd. were excluded from the scope of consolidation due to absorption by Kurita Chemicals West Japan Ltd., a consolidated subsidiary.

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, 2018 and 2017, 4 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

(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) New accounting standards not yet applied

Accounting Standard for Revenue Recognition, etc.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue (ASBJ Guidance No. 30, March 30, 2018)

1) Overview

The International Accounting Standards Board (IASB) and the Federal Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition and in May 2014 announced "Revenue from Contract with Customers" (IFRS 15 of the IASB, Topic 606 of the FASB). IFRS 15 is applied to for fiscal years starting on or after January 1, 2018, and Topic 606 to fiscal years starting on or after December 15, 2017. In response, the Accounting Standards Board of Japan (ASBJ) developed a comprehensive accounting standard for revenue recognition, which it has announced together with implementation guidance. The basic policy for development of the ASBJ's accounting standard for revenue recognition was to start by incorporating the basic principle of IFRS 15 and determine the accounting standard from a perspective of comparability between financial statements, which is one of the advantages of compatibility with IFRS 15. Moreover, in cases where there are items to consider regarding the accounting practice that has conducted in Japan so far, alternative approaches have been added to the extent possible without compromising comparability.

2) Date of adoption
The new accounting standard and guidance will be adopted from the beginning of the year ending March 31, 2022.

3) Effect of adoption
The effect of adoption of the new accounting standard and guidance is under assessment.

Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.

- Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018).
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, February 16, 2018).

1) Overview
The treatment of future taxable temporary differences related to subsidiaries' shares in the non-consolidated financial statements has been revised, and treatment related to the recoverability of deferred tax assets of companies that meet Category 1 criteria has been clarified.

2) Date of adoption
The revised accounting standard and guidance will be adopted from the beginning of the year ending March 31, 2019.

3) Effect of adoption
The effect of adoption of the revised accounting standard and guidance is under assessment.

(20) Additional information

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.

The Company has adopted "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No.30, March 26, 2015).

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 of shares of the Company's stock held by the Trust are ¥765 million ($7,216 thousand) and 779 million at March 31, 2018 and 2017, respectively.

For the calculation of per share information, these numbers of shares are deducted from the number of shares outstanding at fiscal year-end and the average number of shares during the period.

The numbers of shares of the Company's stock held by the Trust at March 31, 2018 and 2017 are 333 thousand and 339 thousand, respectively.

The average numbers of shares of the Company's stock held by the Trust for the year ended March 31, 2018 and 2017 are 335 thousand and 226 thousand, respectively.

(21) Reclassifications

Certain reclassifications have been made in the 2017 consolidated financial statements to conform to the 2018 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)
	2018	2017	2018
Cash and time deposits	¥61,086	¥72,750	$576,283
Time deposits with original maturity of more than three months	(2,168)	(7,915)	(20,452)
Certificates of deposits included in marketable securities, excluding deposits maturing over three months	—	603	—
Cash and cash equivalents	¥58,917	¥65,438	$555,820

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

For the year ended March 31, 2018

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

Year ended March 31, 2018	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥4,225	$39,858
Non-current assets	4,092	38,603
Goodwill	5,155	48,632
Current liabilities	(1,523)	(14,367)
Non-current liabilities	(460)	(4,339)
Deferred tax liabilities on retained earnings recognized at the point of acquisition of control	(306)	(2,886)
Non-controlling interests	(950)	(8,962)
Subtotal	10,232	96,528
Equity-method valuation up to the point of acquisition of control	(1,547)	(14,594)
Gain on step acquisition	(2,443)	(23,047)
Acquisition cost of additional shares	6,241	58,877
Cash and cash equivalents	(2,229)	(21,028)
Net payment for investments in subsidiaries and affiliates	¥4,012	$37,849

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:

Year ended March 31, 2017	Millions of yen
Current assets	¥ 880
Non-current assets	2,133
Goodwill	2,096
Current liabilities	(350)
Non-current liabilities	—
Total acquisition costs	4,760
Accounts payable, other in relation to the acquisition of business	(136)
Cash and cash equivalents	(171)
Net payment for the acquisition of business	¥4,451

4. Trade notes with maturity on the balance sheet date

The following amount of trade notes had March 31, 2018 as their maturity date, which fell on a holiday of financial institutions. These trade notes were accounted for as if they had been cleared on their maturity date.

At March 31, 2018	Millions of yen	Thousands of U.S. dollars (Note 1)
Notes receivable	¥796	$7,509
Notes payable	192	1,811

5. 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 11 years (12 in 2017) 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, 2018 and 2017 were as follows (financial instruments whose fair values cannot be reliably determined are not included in the following tables):

	Millions of yen		
At March 31, 2018	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 61,086	¥ 61,086	¥—
Notes and accounts receivable, trade	86,865	86,865	—
Marketable securities and investment securities			
Available-for-sale securities	34,238	34,238	—
Total assets	¥182,190	¥182,190	¥—
Notes and accounts payable, trade	¥ 28,875	¥ 28,875	¥—
Total liabilities	¥ 28,875	¥ 28,875	¥—
Derivatives	¥ 93	¥ 93	¥—

At March 31, 2018	Thousands of U.S. dollars (Note 1) Carrying amount	Fair value	Difference
Cash and time deposits	$ 576,283	$ 576,283	$—
Notes and accounts receivable, trade	819,481	819,481	—
Marketable securities and investment securities			
Available-for-sale securities	323,000	323,000	—
Total assets	$1,718,773	$1,718,773	$—
Notes and accounts payable, trade	$ 272,405	$ 272,405	$—
Total liabilities	$ 272,405	$ 272,405	$—
Derivatives	$ 877	$ 877	$—

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	¥—

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 national bonds and others. 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 7.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unlisted equity securities (Unlisted shares)	¥ 300	¥ 312	$ 2,830
Investments in capital	786	585	7,415
Shares of unconsolidated subsidiaries and affiliates	1,147	2,687	10,820

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

At March 31, 2018	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
Deposits	¥ 61,068	¥—	¥—	¥—
Notes and accounts receivable, trade	86,865	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(National bonds, etc.)	3	7	—	—
Total	¥147,936	¥ 7	¥—	¥—

At March 31, 2018	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
Deposits	$ 576,113	$—	$—	$—
Notes and accounts receivable, trade	819,481	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(National bonds, etc.)	28	66	—	—
Total	$1,395,622	$66	$—	$—

6. Marketable securities and investment securities

(1) Available-for-sale securities with fair value at March 31, 2018 and 2017 are summarized as follows:

At March 31, 2018	Millions of yen Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks	¥34,157	¥11,038	¥23,118
Bonds	—	—	—
Other	—	—	—
Subtotal	34,157	11,038	23,118
Carrying amount not exceeding acquisition cost:			
Stocks	70	90	(20)
Bonds	10	10	—
Other	—	—	—
Subtotal	81	101	(20)
Total	¥34,238	¥11,140	¥23,098

At March 31, 2018	Thousands of U.S. dollars (Note 1) Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks	**$322,235**	**$104,132**	**$218,094**
Bonds	**—**	**—**	**—**
Other	**—**	**—**	**—**
Subtotal	**322,235**	**104,132**	**218,094**
Carrying amount not exceeding acquisition cost:			
Stocks	**660**	**849**	**(188)**
Bonds	**94**	**94**	**—**
Other	**—**	**—**	**—**
Subtotal	**764**	**952**	**(188)**
Total	**$323,000**	**$105,094**	**$217,905**

Note: The above table does not include unlisted shares whose fair values cannot be reliably determined (value on consolidated balance sheets: ¥300 million (US$2,830 thousand)) and investments in unaffiliated companies (value on consolidated balance sheets: ¥786 million (US$7,415 thousand)).

At March 31, 2017	Millions of yen Carrying amount	Acquisition cost	Difference
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

Note: The above table does not include unlisted shares (value on consolidated balance sheets: ¥312 million), investments in unaffiliated companies (value on consolidated balance sheets: ¥585 million) and money trusts (value on consolidated balance sheets: ¥603 million).

(2) Available-for-sale securities sold during the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Sales amount	**¥2,115**	¥863	**$19,952**
Total gains on sales	**1,720**	391	**16,226**
Total losses on sales	**—**	—	**—**

7. Derivatives

Derivatives for which hedge accounting was not applied at March 31, 2018 and 2017 are as follows:

Currency related

		Millions of yen			
At March 31, 2018	Hedging instrument	Contract amount	Due after one year	Fair value	Unrealized gains (losses)
	Currency swaps: Receive Yen, Pay Korean Won	¥2,099	¥1,339	¥94	¥94

		Thousands of U.S. dollars (Note 1)			
At March 31, 2018	Hedging instrument	Contract amount	Due after one year	Fair value	Unrealized gains (losses)
	Currency swaps: Receive Yen, Pay Korean Won	$19,801	$12,632	$886	$886

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

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

Derivatives for which hedge accounting was applied at March 31, 2018 and 2017 are as follows:

Currency related

			Millions of yen		
At March 31, 2018	Hedging instrument	Hedged item	Contract amount	Due after one year	Fair value
	Currency swap contracts:				
	Receive Yen, Pay Euro	Forecasted transactions denominated in foreign currencies	¥ 9,635	¥8,258	¥ 141
	Receive Yen, Pay Korean Won	Forecasted transactions denominated in foreign currencies	2,574	1,741	(130)
	Total		¥12,209	¥9,999	¥ 11

			Thousands of U.S. dollars (Note 1)		
At March 31, 2018	Hedging instrument	Hedged item	Contract amount	Due after one year	Fair value
	Currency swap contracts:				
	Receive Yen, Pay Euro	Forecasted transactions denominated in foreign currencies	$ 90,896	$77,905	$1,330
	Receive Yen, Pay Korean Won	Forecasted transactions denominated in foreign currencies	24,283	16,424	(1,226)
	Total		$115,179	$94,330	$ 103

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

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

8. Inventories

Inventories at March 31, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Finished products	**¥ 3,968**	¥3,114	**$37,433**
Raw materials	**2,800**	2,229	**26,415**
Work in process	**3,621**	4,181	**34,160**
Total	**¥10,390**	¥9,525	**$98,018**

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.

9. 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, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Short-term borrowings	**¥ 868**	¥ 650	**$ 8,188**
Current portion of long-term borrowings	**469**	403	**4,424**
Current portion of lease obligations	**635**	592	**5,990**
Total	**¥1,973**	¥1,646	**$18,613**

The weighted-average annual interest rate of short-term borrowings for the years ended March 31, 2018 and 2017 were 3.73% and 3.92%, respectively.

(2) Long-term debt

Long-term debt at March 31, 2018 and 2017 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Long-term borrowings	¥2,857	¥3,279	$26,952
Less current portion of long-term borrowings	(469)	(403)	(4,424)
Long-term borrowings (Excluding current portion)	¥2,388	¥2,876	$22,528
Lease obligations	¥4,674	¥4,931	$44,094
Less current portion of lease obligations	(635)	(592)	(5,990)
Lease obligations (Excluding current portion)	¥4,038	¥4,339	$38,094

The weighted-average annual interest rate of long-term borrowings for the years ended March 31, 2018 and 2017 were 3.27% and 3.24%, respectively.

Annual maturities of long-term borrowings at March 31, 2018 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	¥469	$4,424
2020	469	4,424
2021	469	4,424
2022	263	2,481
2023	226	2,132

Annual maturities of lease obligations at March 31, 2018 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	¥635	$5,990
2020	529	4,990
2021	464	4,377
2022	418	3,943
2023	379	3,575

(3) Other long-term liabilities

Other than the short-term borrowings, long-term borrowings and lease obligations described above, ¥725 million (US$6,839 thousand) and ¥701 million of interest-bearing long-term deposits received were included in other long-term liabilities as of March 31, 2018 and 2017, respectively.

The weighted-average annual interest rates for such deposits received for the years ended March 31, 2018 and 2017 were 0.36%.

(4) Commitment line

The Company has concluded the commitment line agreements with four counterparty financial institutions to efficiently fund. Information of the commitment line agreements was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Contract amounts	¥70,600	¥—	$666,037
Outstanding borrowing	—	—	—
Unused balance	¥70,600	¥—	$666,037

10. Income taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Deferred tax assets:			
Excess depreciation of property, plant and equipment	¥ 6,251	¥ 5,914	$ 58,971
Net defined benefit liability	4,811	4,697	45,386
Excess provision for accrued bonuses to employees	728	724	6,867
Loss on revaluation of investment securities	645	834	6,084
Accrued enterprise taxes not deductible	403	191	3,801
Impairment loss	424	247	4,000
Unrealized gains on sales of property, plant and equipment	239	250	2,254
Tax loss carry-forward of consolidated subsidiaries	167	145	1,575
Excess provision of allowance for product warranty	114	230	1,075
Other	1,489	1,647	14,047
Subtotal	15,275	14,885	144,103
Valuation allowance	(1,052)	(1,218)	(9,924)
Total deferred tax assets	14,223	13,667	134,179
Deferred tax liabilities:			
Unrealized losses on available-for-sale securities	(6,474)	(5,471)	(61,075)
Estimated income taxes pertaining to retained earnings of foreign consolidated subsidiaries	(1,314)	(777)	(12,396)
Tangible and intangible assets identified due to business combinations	(965)	(631)	(9,103)
Capital gains on properties deferred for tax purposes	(537)	(538)	(5,066)
Other	(76)	(433)	(716)
Total deferred tax liabilities	(9,367)	(7,851)	(88,367)
Deferred tax assets, net	¥ 4,855	¥ 5,816	$ 45,801

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, 2018 and 2017 was as follows:

	2018	2017
Normal effective statutory tax rate	30.9%	30.9%
Non-deductible loss on valuation of marketable securities	(0.8)	(0.2)
Expenses not deductible for income tax purposes	0.6	0.3
Withholding tax withheld from foreign subsidiaries' dividends	0.2	0.2
R&D expense tax credit	(1.3)	(1.5)
Dividend income and other not taxable for income tax purposes	0.0	(0.1)
Reversal of deferred tax liabilities on retained earnings of foreign consolidated subsidiaries	(0.9)	(0.3)
Difference in statutory tax rates of foreign subsidiaries	(1.1)	(0.8)
Per capita inhabitant taxes	0.4	0.5
Other	1.4	(0.6)
Effective tax rate	29.4%	28.4%

11. 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)
	2018	2017	2018
Balance at beginning of year	¥14,503	¥13,931	$136,820
Service cost	829	798	7,820
Interest cost	66	65	622
Actuarial differences incurred	152	283	1,433
Benefits paid	(678)	(501)	(6,396)
Other	585	(72)	5,518
Balance at end of year	¥15,459	¥14,503	$145,839

(2) Movement in plan assets, except plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Balance at beginning of year	¥ —	¥—	$ —
Expected return on plan assets	1	—	9
Actuarial differences incurred	0	—	0
Contribution from the employer	29	—	273
Benefits paid	0	—	0
Increase due to newly consolidated subsidiaries	328	—	3,094
Other	78	—	735
Balance at end of year	¥436	¥—	$4,113

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Balance at beginning of year	¥1,550	¥1,536	$14,622
Net periodic benefit costs	207	200	1,952
Benefits paid	(170)	(186)	(1,603)
Balance at end of year	¥1,587	¥1,550	$14,971

(4) Reconciliation between retirement benefit obligations and net defined benefit liability

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Retirement benefit obligations	¥17,047	¥16,054	$160,820
Plan assets	(436)	—	(4,113)
Net liability on the consolidated balance sheet	¥16,610	¥16,054	$156,698
Net defined benefit liability	¥16,610	¥16,054	$156,698
Net liability on the consolidated balance sheet	¥16,610	¥16,054	$156,698

(5) Net periodic benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Service cost	¥ 829	¥ 798	$ 7,820
Interest cost	66	65	622
Expected return on plan assets	(1)	—	(9)
Amortization of actuarial differences	164	424	1,547
Net periodic benefit costs computed by simplified method	207	200	1,952
Other	7	18	66
Net periodic benefit costs	¥1,274	¥1,507	$12,018

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Actuarial differences	¥11	¥140	$103
Total	¥11	¥140	$103

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unrecognized actuarial differences	¥5	¥(5)	$47
Total	¥5	¥(5)	$47

(8) Plan assets

1) Percentage by major category of plan assets

	2018	2017
Debt securities	2.2%	—
Equity securities	1.2	—
Cash and time deposits	89.1	—
Other	7.5	—
Total	100.0%	—

2) Determination procedure of long-term expected rate of plan assets

In determining long-term expected rate of plan assets, the Company considers the current and projected asset allocations, as well as current and future long-term rate of returns for various categories of the plan assets.

(9) 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 ¥1,078 million (US$10,169 thousand) and ¥851 million for the years ended March 31, 2018 and 2017, respectively.

12. 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 includes treasury stock of 333 thousand shares and 339 thousand shares (entrusted for the performance-linked stock compensation for directors) held by the trust account of Japan Trustee Services Bank, Ltd. at March 31, 2018 and 2017, respectively.

13. 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 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

14. Cost of sales

Provision for loss on construction contracts included in cost of sales were ¥13 million (US$122 thousand) and ¥(202) million for the years ended March 31, 2018 and 2017, respectively.

15. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Salaries and allowances	¥20,610	¥19,160	$194,433
Provision for employees' bonuses	1,411	1,334	13,311
Retirement benefit expenses	1,343	1,440	12,669
Travel expenses	2,906	2,767	27,415
Research and development expenses	5,258	5,038	49,603
Other	22,333	19,537	210,688
Total	¥53,863	¥49,280	$508,141

16. Impairment losses

For the purpose of impairment testing, assets of the Group are generally grouped based on business, however, idle assets and investment properties are grouped by individual property.

For the year ended March 31, 2018

For the year ended March 31, 2018, the Group recognized impairment losses of ¥413 million (US$3,896 thousand) on the following assets.

The Group has decided to begin demolishing the buildings and structures of the former aging Corporate Research & Development Center (Atsugi-shi, Kanagawa) starting in June 2018, and the recoverability is now no longer recognized. Therefore, the Group has recognized an impairment loss.

Part of the land of Yamaguchi Plant (Yamaguchi-shi, Yamaguchi) is not expected to be used for business, and the Group has made it land to be sold. Therefore, the Group has recognized an impairment loss up to the recoverable amount.

Manufacturing facilities for a certain customer in Ludwigshafen, Germany became idle, and the recoverability is now no longer recognized because the commissioned manufacturing contract with the customer was terminated at the end of January 2018. Therefore, the Group have recognized an impairment loss.

The details of impairment losses recognized for the year ended March 31, 2018 are as follows:

Year ended March 31, 2018		Millions of yen	Thousands of U.S. dollars (Note 1)
Idle assets:			
Buildings and structures, etc.	Atsugi-shi, Kanagawa	¥214	$2,018
Land	Yamaguchi-shi, Yamaguchi	113	1,066
Machinery and equipment	Ludwigshafen, Germany	85	801

The carrying value of these assets is written down to their fair value less costs to sell, of which buildings and structures, etc. and machine and equipment is estimated memorandum value of ¥1 because the carrying value of these assets may not be recoverable, and of which land is based on the public land prices.

17. Other income (expenses)

Provision for building demolition expenses

For the year ended March 31, 2018, the Company decided to demolish the buildings and structures of the former Corporate Research & Development Center (Atsugi-shi, Kanagawa) and posted a reasonably estimated amount for expenses to be incurred in the future as provision of allowance for building demolition expenses of ¥320 million (US$3,018 thousand) in other income (expenses).

18. Comprehensive income

The components of other comprehensive income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unrealized gains or losses on available-for-sale securities:			
Amount arising during the year	¥ 4,322	¥ (1,512)	$40,773
Reclassification adjustments to profit or loss	(1,565)	(391)	(14,764)
Amount before income tax effect	2,756	(1,903)	26,000
Income tax effect	(1,018)	639	(9,603)
Subtotal	1,739	(1,263)	16,405
Deferred gains or losses on hedges:			
Amount arising during the year	(956)	390	(9,018)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(956)	390	(9,018)
Income tax effect	285	(119)	2,688
Subtotal	(671)	271	(6,330)
Revaluation reserve for land:			
Income tax effect	0	—	0
Foreign currency translation adjustments:			
Amount arising during the year	3,332	(2,897)	31,433
Reclassification adjustments to profit or loss	(113)	—	(1,066)
Subtotal	3,219	(2,897)	30,367
Remeasurments of defined benefit plans:			
Amount arising during the year	5	(5)	47
Reclassification adjustments to profit or loss	5	146	47
Amount before income tax effect	11	140	103
Income tax effect	(3)	(42)	(28)
Subtotal	7	97	66
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the year	93	(83)	877
Reclassification adjustments to profit or loss	0	0	0
Subtotal	93	(83)	877
Total	¥ 4,389	¥(3,876)	$41,405

19. Business combinations

Business combination through acquisition

(1) Overview of business combination

1) Name and description of the business of the acquired companies

Name:	Hansu Co. Ltd.
Description of the business:	Business related to the manufacturing and sales of water treatment chemicals

2) Main reasons for the business combination

Hansu Co. Ltd. was established in 1974 as a joint venture company of the Company and has been developing the water treatment chemicals business in South Korea for more than 40 years. It has built community-based sales and service networks and customer base and has a number of staff with knowledge about water treatment in the electronics and other manufacturing industries. This time, the Group have acquired its shares for the purpose of strengthening its business base and promoting the unification of business strategies.

3) Date of the business combination

November 30, 2017

4) Legal form of the business combination

Acquisition of shares with cash as consideration

5) Company name after the business combination

The name will not change.

6) Ratio of voting rights acquired

Percentage of voting rights owned immediately before business combination	33.2%
Percentage of voting rights additionally acquired on the date of business combination	51.8%
Percentage of voting rights after acquisition	85.0%

Percentage of voting rights at March 31, 2018 was 87.1% because of acquiring additional shares from non-controlling shareholders after business combination.

7) Main grounds to determine the acquirer

The Group acquired the shares with cash as consideration

(2) The period of business results of the acquired companies included in the consolidated financial statements

From December 1, 2017 to December 31, 2017

Results from January 1, 2017 to November 30, 2017 are posted as equity in earnings of unconsolidated subsidiaries and affiliates.

(3) Acquisition cost of the business acquired

	Millions of yen	Thousands of U.S. dollars (Note 1)
Market value of equity of Hansu Co. Ltd. owned immediately before business combination on the date of business combination	¥ 3,991	$37,650
Cash spent for the acquisition of additional shares	6,241	58,877
Acquisition cost	¥10,232	$96,528

(4) Major acquisition-related cost

	Millions of yen	Thousands of U.S. dollars (Note 1)
Advisory fees, etc.	¥413	$3,896

(5) Difference between the acquisition cost of acquired business and the sum of acquisition costs for each transaction to arrive at the acquisition

	Millions of yen	Thousands of U.S. dollars (Note 1)
Gain on step acquisitions	¥2,443	$23,047

(6) Amount, cause, amortization method and amortization period of goodwill recognized

1) Amount

¥5,155 million (US$48,632 thousand)

In the third quarter of the fiscal year, we conducted provisional accounting for the allocation of the acquisition cost of Hansu Co. Ltd. based on reasonable information, etc. available at the time of preparing the consolidated financial statements for the quarter. However, the accounting was fixed in the fourth quarter of the fiscal year under review.

2) Cause

Due to an excess earnings capability expected in the future

3) Amortization method and amortization period

Straight-line method over 15 years

(7) 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	¥4,225	$39,858
Non-current assets	4,092	38,603
Total assets	¥8,317	$78,462
Current liabilities	¥1,523	$14,367
Non-current liabilities	460	4,339
Total liabilities	¥1,984	$18,716

(8) Amount allocated to intangible assets other than goodwill and its major breakdown by type and weighted average amortization period

1) Amount allocated to intangible assets: ¥733 million (US$6,915 thousand)

2) Major breakdown and amortization period

Customer-related assets: ¥733 million (US$6,915 thousand)

Amortization period: 7 years

(9) Estimated amount and method of calculation of the impact of the business combination on the consolidated statement of income for the year ended March 31, 2018 on the assumption that the business combination had been completed on April 1, 2017

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

20. 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, 2018	Water Treatment Chemicals	Water Treatment Facilities	Total	Adjustments	Consolidated
Sales					
1) Sales to outside customers	¥90,361	¥146,453	¥236,815	¥ —	¥236,815
2) Intersegment sales	431	298	729	(729)	—
Total	¥90,792	¥146,751	¥237,544	¥ (729)	¥236,815
Segment income	¥ 7,180	¥ 15,312	¥ 22,493	¥ (18)	¥ 22,475
Segment assets	95,589	158,631	254,220	68,826	323,046
Segment liabilities	29,198	53,167	82,366	(172)	82,193
Other items					
Depreciation and amortization	3,593	12,083	15,677	—	15,677
Impairment loss	85	—	85	327	413
Increase in property, plant and equipment and intangible assets	3,162	19,805	22,967	—	22,967

Year ended March 31, 2018	Thousands of U.S. dollars (Note 1)				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Adjustments	Consolidated
Sales					
1) Sales to outside customers	$852,462	$1,381,632	$2,234,103	$ —	$2,234,103
2) Intersegment sales	4,066	2,811	6,877	(6,877)	—
Total	$856,528	$1,384,443	$2,240,981	$ (6,877)	$2,234,103
Segment income	$ 67,735	$ 144,452	$ 212,198	$ (169)	$ 212,028
Segment assets	901,783	1,496,518	2,398,301	649,301	3,047,603
Segment liabilities	275,452	501,575	777,037	(1,622)	775,405
Other items					
Depreciation and amortization	33,896	113,990	147,896	—	147,896
Impairment loss	801	—	801	3,084	3,896
Increase in property, plant and equipment and intangible assets	29,830	186,839	216,669	—	216,669

Year ended March 31, 2017	Millions of yen				
	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

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 ¥68,890 million (US$649,905 thousand) and ¥84,550 million as of March 31, 2018 and 2017, 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
5. Details and information of impairment losses for the year ended March 31, 2018 are discussed in Note 16.

Related Information

(Information by geographic region)

(1) Net sales

Year ended March 31, 2018	Millions of yen					
	Japan	Asia	North America	EMEA	Other	Total
Sales	¥158,232	¥48,911	¥5,178	¥21,350	¥3,142	¥236,815

Year ended March 31, 2018	Thousands of U.S. dollars (Note 1)					
	Japan	Asia	North America	EMEA	Other	Total
Sales	$1,492,754	$461,424	$48,849	$201,415	$29,641	$2,234,103

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

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, 2018	Millions of yen					
	Japan	Asia	North America	EMEA	Other	Total
Property, plant and equipment	¥68,671	¥14,275	¥182	¥2,212	¥686	¥86,028

Year ended March 31, 2018	Thousands of U.S. dollars (Note 1)					
	Japan	Asia	North America	EMEA	Other	Total
Property, plant and equipment	$647,839	$134,669	$1,716	$20,867	$6,471	$811,584

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

(Information by major customer)

For the year ended March 31, 2018 and 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 statements of income.

Information about amortization and unamortized balance of goodwill

Year ended March 31, 2018	Millions of yen				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Corporate/ Elimination	Total
Amortization	¥ 1,184	¥—	¥ 1,184	¥—	¥ 1,184
Unamortized balance	20,362	—	20,362	—	20,362

Year ended March 31, 2018	Thousands of U.S. dollars (Note 1)				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Corporate/ Elimination	Total
Amortization	$ 11,169	$—	$ 11,169	$—	$ 11,169
Unamortized balance	192,094	—	192,094	—	192,094

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

21. Subsequent events

Appropriation of retained earnings

The following appropriation of retained earnings for the year ended March 31, 2018 was approved at the ordinary general meeting of shareholders of the Company held on June 28, 2018.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (year-end dividends)	¥2,927	$27,613

Note: The total amount of dividend approved at the ordinary general meeting of shareholders of the Company held on June 28, 2018 includes dividends of ¥8 million ($75 thousand) to treasury stock of 333 thousand shares (for performance-linked stock compensation trust for directors) held by the trust account of Japan Trustee Services Bank, Ltd.

Business combination

On May 29, 2018 the Company concluded an agreement to acquire 50.1% of the outstanding shares of Fracta, Inc. (hereinafter "Fracta"), U.S. software service company, completing the acquisition on May 31, 2018.

(1) Overview of the acquired companies

Name:	Fracta, Inc.
Location :	1870 Broadway, 2nd Floor Redwood City, California, U.S.A.
Name of representative:	Takeshi Kato, CEO
Capital stock:	US$7,402 thousand
Description of the business:	Business related to software services predicting water main degradations by applying Artificial Intelligence (AI) and Machine Learning (ML)

(2) Main reasons for the business combination

Fracta is a software service company headquartered in California, U.S.A. It provides a software service in the field of predicting the deterioration of underground water mains, which is viewed as a potential growth market. Through its investment in Fracta, the Group will achieve Fracta's leading-edge technologies and expertise in AI and ML and apply them to its water treatment technologies and services, thereby creating and expanding a new digital business that applies IoT/AI, in the field of water and the environment.

(3) Equity acquisition date

May 31, 2018

(4) Number of shares acquired, acquisition cost and ratio of shareholding after acquisition

Number of shares acquired:	7,676,117 shares
Acquisition cost:	¥3,968 million (US$37,433 thousand)
Ratio of shareholding after acquisition:	50.1%

(5) Procurement method and payment method of funds to be paid

Provided from own funds

22. Per share information

	Yen		U.S. dollars (Note 1)
	2018	2017	2018
Net assets per share	¥2,126.96	¥1,991.91	$20.07
Net income per share (EPS)	159.37	125.23	1.50

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net assets	¥240,853	¥228,758	$2,272,198
Amounts excluded from net assets	2,049	1,135	19,330
(Non-controlling interests on the above)	(2,049)	(1,135)	(19,330)
Net assets attributable to common shareholders of parent	228,803	227,623	2,158,518
Number of common stock at the year-end used for the calculation of net assets per share	112,274,296	114,274,081	

Note: The number of treasury stock, which is deducted from the number of common stock at the year-end used for the calculation of net assets per share, includes common stock of 333 thousand shares and 339 thousand shares held by the Trust at March 31, 2018 and 2017, respectively.

The basis of calculation for EPS is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income attributable to owners of parent	¥17,897	¥14,506	$168,839
Net income attributable to common shareholders of parent	17,897	14,506	168,839
Average number of shares outstanding	112,303,666	115,837,837	

Note: The average number of treasury stock, which is deducted from the average number of shares outstanding for calculation for EPS, includes common stock of 335 thousand shares and 226 thousand shares held by the Trust for the year ended March 31, 2018 and 2017, respectively.

Report of Independent Certified Public Accountants

GrantThornton

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, 2018, 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, 2018, and their consolidated financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter in the Financial Statements

We draw attention to Note 21 of the financial statements, which on May 29, 2018 the Company concluded an agreement to acquire 50.1% of the outstanding shares of Fracta, Inc. , U.S. software service company, completing the acquisition on May 31, 2018.
Our opinion is not qualified in respect of this matter.

Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 6, 2018
Tokyo, Japan