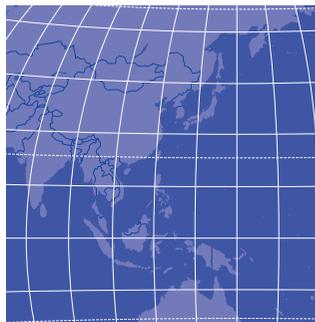




**Providing Comprehensive
Solutions Throughout
the World**



Annual Report 2013

For the year ended March 31, 2013

CORPORATE PHILOSOPHY

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

The Kurita Group will contribute to society by deeply and broadly studying the properties of water to discover new functions, creating value, and make the most effective use of this precious and limited resource.

CORPORATE VISION

Becoming an advanced water and environmental
management company

The starting point for the Kurita Group's wide ranging business activities is to provide our customers and society with solutions for their issues through water treatment systems. As customers face the urgent tasks of improving productivity and reducing their environmental impact, Kurita's mission is to provide solutions through comprehensive proposals concerning both water and the environment.

Based on the advanced technological capabilities in industrial water that we have developed since our founding, we will provide water of the required quality and volume, when and where it is needed, and provide solutions for its recycling and reuse. Moreover, we will develop these water management capabilities from a more global perspective, seeking to become an even more advanced water and environmental management company.

Kurita FACT BOOK 2013

Kurita Fact Book 2013 provides a wide range of long-term, historical data, including financial indicators and quantitative management data.

<http://ir.kurita.co.jp/en/reports/factbook/>



Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements regarding forecasts, plans, strategies and business performance in the future. These forward-looking statements represent judgments made by the Company based on information currently available to it and involve a variety of risks and uncertainties.

Actual results may be materially different from these forward-looking statements. Such risks and uncertainties include (but are not limited to) changes in the economic environment, business conditions, market, demand and currency exchange rates.

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and reduce the environmental impact of their activities

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PROFILE AND HISTORY

Kurita Water Industries Ltd. is a leader in the industrial water field. Kurita's globally unique business portfolio is a balanced combination of water treatment chemicals, water treatment facilities, and maintenance services. Moreover, since its establishment in 1949, Kurita has also accumulated a high level of technological expertise and know-how. Today, Kurita leverages these assets to provide customers across a wide range of industries with high-value-added products and services.

Group History

- **1951** Boiler Water Supply Laboratory established.
- **1959** K.K. Suzuki Shokai established as a chemical cleaning company (now Kurita Engineering Co., Ltd.).



- **1961** Kansai Kurita Seibi K.K. established as a maintenance company for water treatment facilities (predecessor of Kurita Technical Service Co., Ltd.).
- **1961** Listed stock on the Second Section of the Tokyo Stock Exchange and the Osaka Securities Exchange.
- **1962** Listed stock on the First Section of the Tokyo Stock Exchange and the Osaka Securities Exchange.
- **1975** Kurita Operation and Maintenance Services, Ltd. established as a water treatment facilities operation and maintenance company (now Kuritaz Co., Ltd.).
- **1975** Kurita do Brasil Ltda. established to manufacture and sell water treatment chemicals in Brazil.
- **1978** Kurita (Singapore) Pte. Ltd. established as Kurita's water treatment chemicals and water treatment facilities business base in Southeast Asia.

1941–60

Achievements and Development

- **1949** First steps taken in the water treatment chemicals business
Utilizing navy boiler technology, the company's founder (who had previously served in the navy) began a water treatment chemicals business (boiler water treatment chemicals).
- **1951** Entry into the water treatment facilities business
Capitalizing on sales of deionizers for the pretreatment of boiler water supplies, the Company moves into the water treatment facilities business.
- **1953** Start-up of chemical cleaning services
New expansion into chemical cleaning services, where boiler interiors are cleaned using chemical technology.
- **1958** Expansion of maintenance services
An organization specializing in maintenance services is established with a view to expanding after-sales services and maintenance operations for water treatment facilities.



1961–1980

- **1965** Expansion into process treatment chemicals
Develops chemicals that increase productivity in the pulp and paper, petrochemical and steel industries, where large volumes of water are used, as the Company broadens the scope of its business from water treatment chemicals to production process treatment chemicals.
- **1973** Entry into the electronics industry
As water of a higher degree of purity is demanded with increasing miniaturization in semiconductor manufacturing processes, ultrapure water production technology is developed.



As customers and society at large face the urgent tasks of improving productivity and reducing their environmental impact, Kurita is providing comprehensive water treatment solutions in line with its corporate philosophy, "Study the properties of water, master them, and we will create an environment in which nature and man are in harmony." Looking ahead, Kurita will continue seeking to become an advanced water and environmental management company from a global perspective. To this end, Kurita remains focused on working towards realizing a sustainable society.

- **1986** PT. Kurita Indonesia established to carry out the production and sale of water treatment chemicals in Indonesia.
- **1987** Kurita (Taiwan) Co., Ltd. established to conduct water treatment chemical manufacturing and sale in Taiwan.
- **1989** Goshu Chemical Co., Ltd. established to conduct water treatment chemical manufacturing and sale in Thailand (now Kurita-GK Chemical Co., Ltd.).
- **1989** Kurita Europe GmbH established in Germany as Kurita's base in Europe for water treatment chemical production and sale.
- **1995** Kurita Water Industries (Dalian) Co., Ltd. established as Kurita's base in China for water treatment chemical production and sales.
- **1996** Kurita America, Inc. established in the United States to conduct water treatment facilities sales and maintenance.
- **1997** Kurita Water Industries Ltd. merges with maintenance company Kurita Technical Service Co., Ltd.
- **1998** Acquires an equity stake in Hansu Technical Service Ltd., which is involved in the production, sale and maintenance of water treatment facilities in Korea.

- **2001** Land Solution Inc. established as a consulting company dealing in soil remediation.
- **2001** Kuritec (Shanghai) Co., Ltd. established as Kurita's base in China for import, sale and maintenance services of water treatment facilities.
- **2003** Analysis division split off to establish Kurita Analysis Service Co., Ltd.
- **2003** Integration of tool cleaning business units from Group companies and establishment of Kuritec Service Co. Ltd.
- **2004** Kurita Water Industries (Suzhou) Ltd. established as a water treatment facilities production and sales base in China.
- **2005** Kurita Global Technology Center established through the integration of research and development facilities.
- **2009** Kurita Chemical Manufacturing Ltd. established as a new subsidiary to manufacture water treatment chemicals.



1981–2000

- **1986** **Deployment of tool cleaning services**
Sales channels established for the electronics business and chemical cleaning technology developed to date are used for the Company's entry into cleaning services for tools and jigs used in semiconductor manufacturing devices.
- **1991** **Launch of soil remediation services**
Soil pollution was increasingly becoming a major social problem, and as a result, the Company commenced soil remediation service operations based on water treatment technology developed to date.



2001–

- **2001** **Start of consulting services for hedging soil pollution risks**
Start of business involving the hedging of pollution risks and schemes to facilitate the smooth liquidation of land that has been restored to a safe condition based on soil remediation successes to date.
- **2002** **Launch of ultrapure water supply business**
Launch of outsourcing business in which Kurita owns, operates and manages facilities for customers and supplies them with ultrapure water. A business model is developed that represents a fusion of technology, products and services developed to date across the chemicals, facilities and maintenance arms of the business.



MANAGEMENT INDICATORS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

Years ended March 31

	2004	2005	2006	2007	2008	2009	2010	2011	2012	Millions of Yen	Thousands of U.S. dollars ¹
										2013	2013
Orders	¥149,735	¥171,334	¥183,910	¥192,529	¥208,689	¥195,065	¥175,162	¥181,951	¥197,256	¥186,741	\$1,986,606
Net sales	146,819	160,896	173,683	197,146	204,875	199,706	178,520	181,234	193,792	180,143	1,916,420
Cost of sales	101,433	112,077	122,630	137,819	138,549	135,874	117,221	118,573	127,905	121,047	1,287,737
Selling, general and administrative expenses	31,895	32,867	33,741	35,050	35,857	35,896	34,941	35,528	36,503	38,106	405,392
Operating income	13,490	15,951	17,311	24,276	30,468	27,935	26,358	27,131	29,382	20,989	223,291
Operating income margin (%) ...	9.2	9.9	10.0	12.3	14.9	14.0	14.8	15.0	15.2	11.7	
Net income	8,444	9,383	10,519	14,207	18,297	16,299	17,288	17,138	16,548	11,476	122,086
Return on sales (%)	5.8	5.8	6.1	7.2	8.9	8.2	9.7	9.5	8.5	6.4	
Total assets	183,620	192,428	212,774	235,137	231,498	245,406	251,620	253,298	271,141	263,580	2,804,046
Total assets turnover (Times) ²	0.82	0.86	0.86	0.88	0.88	0.84	0.72	0.72	0.74	0.67	
Equity ³	128,676	136,366	145,366	156,772	169,402	177,291	192,588	198,042	208,891	207,871	2,211,402
Equity ratio (%) ⁴	70.1	70.9	68.3	66.7	73.2	72.2	76.5	78.2	77.0	78.9	
Return on assets (%) ⁵	4.7	5.0	5.2	6.3	7.8	6.8	7.0	6.8	6.3	4.3	
Return on equity (%) ⁶	6.8	7.1	7.5	9.4	11.2	9.4	9.3	8.8	8.1	5.5	
Capital expenditures	9,718	6,706	16,537	19,563	24,097	56,322	8,083	5,965	8,105	6,688	71,148
Depreciation and amortization ..	3,872	4,361	4,906	6,512	9,425	11,716	15,523	16,066	16,035	15,054	160,150
R&D Expenses	4,289	4,228	4,213	4,421	4,551	4,363	3,990	4,225	4,232	4,362	46,404
										Yen	U.S. dollars ¹
Net income per share ⁷	64.6	71.8	81.8	110.4	142.2	126.7	134.4	134.0	130.7	92.4	0.98
Equity per share ⁸	999.7	1,058.9	1,129.7	1,218.4	1,316.7	1,378.0	1,497.0	1,563.6	1,649.2	1,744.4	18.56
Dividends per share	16.0	18.0	22.0	28.0	32.0	34.0	36.0	38.0	40.0	42.0	0.45
Dividend payout ratio (%)	24.8	25.1	26.9	25.4	22.5	26.8	26.8	28.4	30.6	45.4	
Number of employees (persons)	3,383	3,382	3,668	3,992	4,249	4,404	4,445	4,490	4,555	4,640	

Notes: 1. The U.S. dollar amounts are given solely for convenience at the rate of ¥94 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2013.

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

3. "Equity" represents "Net assets less minority interests" (hereinafter, the same).

4. Equity ratio = Equity ÷ Total assets × 100

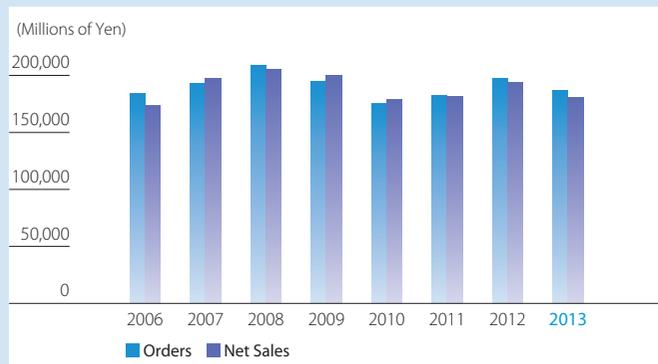
5. Return on assets = Net income ÷ Total assets (Average) × 100

6. Return on equity = Net income ÷ Equity (Average) × 100

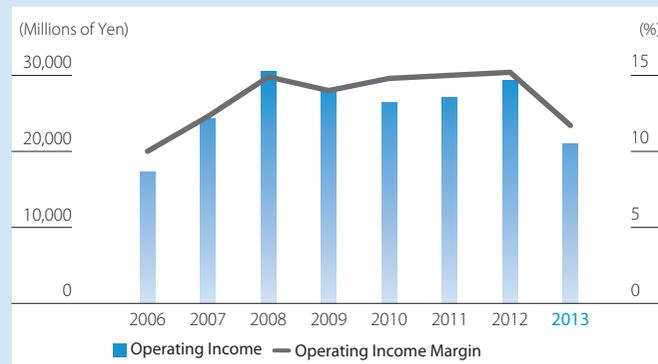
7. Calculation of net income per share is based on average number of shares outstanding (excluding treasury stock).

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

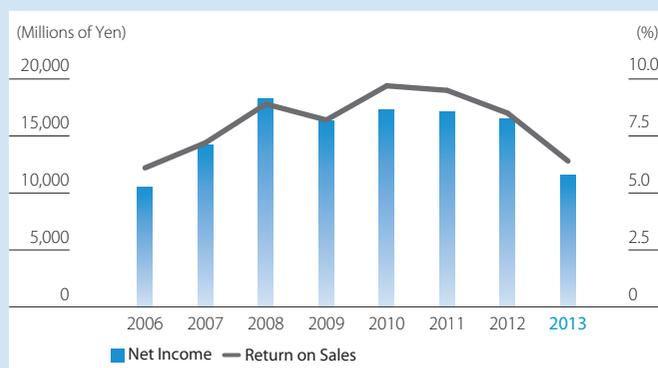
Orders and Net Sales



Operating Income and Operating Income Margin



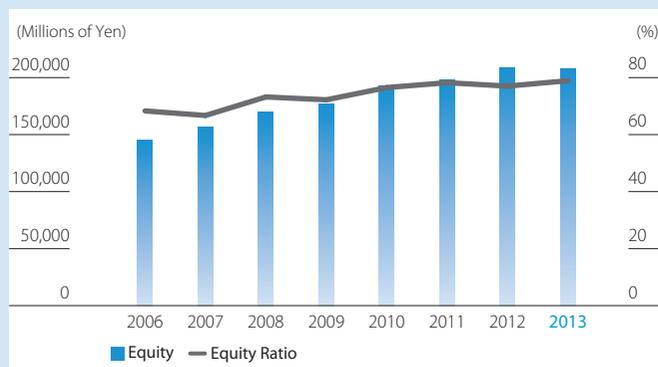
Net Income and Return on Sales



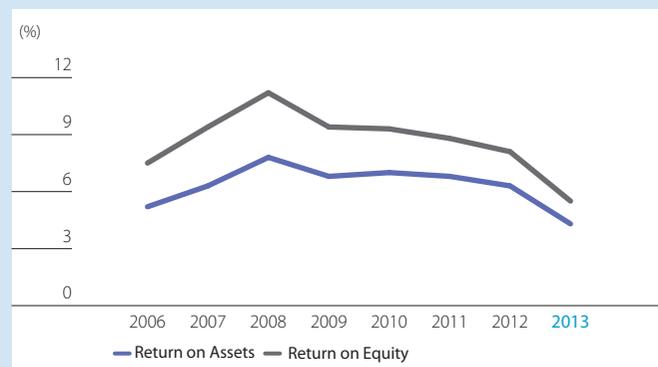
Total Assets and Total Assets Turnover



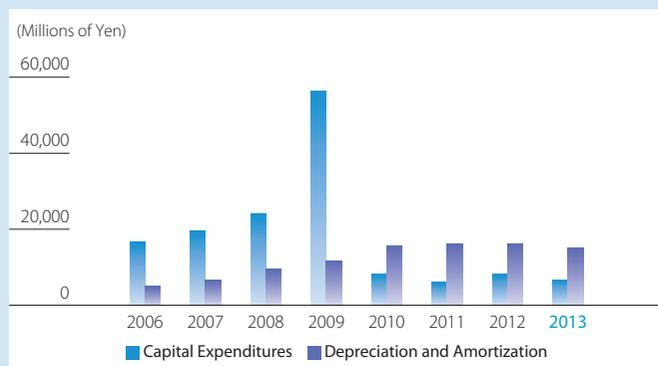
Equity and Equity Ratio



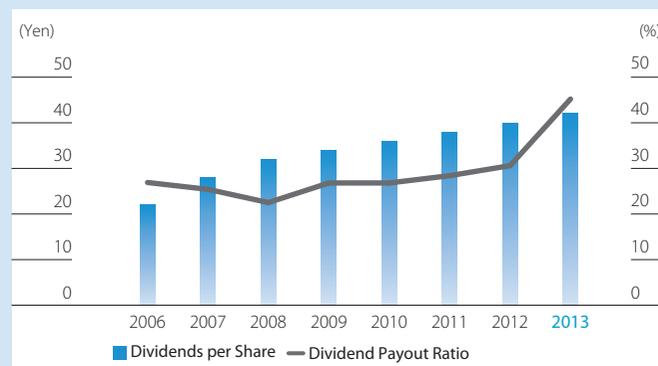
Return on Assets and Return on Equity



Capital Expenditures and Depreciation and Amortization



Dividends per Share and Dividend Payout Ratio



Focusing on Growth that Fosters Profitability, thereby Improving Corporate Value



The fiscal year ended March 31, 2013, was the first year of the three-year medium-term management plan Take Action 2014 (TA-14), which was launched in April 2012. During the year, the Kurita Group made progress on the key strategies of expanding overseas business, offering leading-edge products and services, and creating new products and businesses, all resting upon the basic strategy of demonstrating the Kurita Group's comprehensive strengths to win the trust of customers both in Japan and overseas.

Impacted by the adverse business environment, our operating results unfortunately did not meet our projections. On the other hand, we had a number of achievements in certain areas, including enhancing our overseas business base, building a new domestic business model, and cultivating core technologies with an eye to future development of new products. As a result, we were able to lay the foundation for future growth during the year.

In terms of returns to shareholders, this year marked the ninth consecutive year of increased dividends, while in November 2012 we executed a share buyback program in which we acquired 7.49 million of our own shares through a tender offer. Going forward, our focus will be on increasing capital efficiency and distributing profits to our shareholders.

The fiscal year ending March 31, 2014, is the second year of TA-14. We will return to the roots of our business, which is to leverage our technological strengths to solve the issues faced by our customers and society through water treatment, and work to help customers and society tackle the urgent tasks of improving productivity and reducing environmental impact. Also, in light of last year's operating results, we will implement strategies focused on growth that fosters profitability, thereby improving corporate value.

I ask for the ongoing support and understanding of all stakeholders, including our shareholders and other investors, for the Group's management direction.

August 2013

A handwritten signature in black ink that reads "T. Nakai".

Toshiyuki Nakai

President and Representative Director

INTERVIEW WITH THE PRESIDENT



How do you view the consolidated operating results for the fiscal year ended March 31, 2013? What were some of the issues?

Our consolidated operating results for the fiscal year ended March 31, 2013, fell short of our forecasts due to the impact of the challenging market environment. This was a disappointing outcome. Orders totaled ¥186,741 million, which was 5.3% less than the previous fiscal year. Net sales totaled ¥180,143 million, which represented a 7.0% decline from the previous year. On the income side, operating income fell 28.6% from the prior year to ¥20,989 million, while net income was ¥11,476 million, representing a 30.7% year-on-year decline. Net income per share fell to ¥92.43 per share, as compared to ¥130.65 per share in the previous fiscal year.

In Japan, capacity utilization at customers' plants remained low, and as a result there was a decline in sales in both water treatment chemicals and maintenance services. Sales of water treatment facilities also declined, primarily as a result of their sensitivity to capital investment coupled with a sharp pull back in investment in the electronics industry field. Meanwhile, in our overseas operations we saw an increase in revenues in both water treatment chemicals and water treatment facilities, but this was unable to make up for the revenue decline in Japan.

Profits declined more than revenues due to the drop in sales of highly profitable core products and services, in addition to the increase in costs associated with expanding the overseas business and relocation of our head office.

The Kurita Group is currently in a transition phase, as we continue to evolve into a truly global corporate group. We have bolstered our business base as part of our efforts to develop the strength we need as a Group to compete internationally. Going forward we must link this with tangible achievements and achieve growth accompanied by profitability. We will closely examine growing businesses and regions, and expand our high-profit products and services.

Profits declined more than revenues due to the drop in sales of highly profitable core products and services.



Please talk about the market environment as well as the business environment surrounding Kurita.

In terms of the market environment in Japan, capacity utilization at plants has fallen, and companies continue to curb capital investment, consolidate production sites, and relocate overseas. These trends were partly because restoration-related demand following the 2011 Great East Japan Earthquake has run its course, and they were also caused by a decline in personal consumption, the weakness of the European economy, as well as the leveling out of economic growth in emerging countries. There are hopes for a domestic economic upturn, and in fact there have been signs of an improvement in the export environment based on the correction of the historically strong yen, but I think that it will take time for this to translate into better earnings for the Kurita Group.

Looking overseas, however, we have seen strong demand relating to water treatment, especially in emerging countries. Japanese companies transferring their operations overseas have spurred fresh investment in water treatment facilities, and stimulated new demand for water treatment chemicals. When you add the growth of local companies on top of this, I feel that there are significant business opportunities for us in many countries. This includes China, where water shortages and environmental problems have emerged, South Korea and Taiwan, where capital investment in the electronics sector continues, and Southeast Asia, where continued economic growth is expected.

Looking overseas, we have seen strong demand relating to water treatment, especially in emerging countries.





Please tell us about the progress made during the fiscal year ended March 31, 2013, on the medium-term management plan Take Action 2014 (TA-14), which went into effect in April 2012.

In terms of progress on key initiatives of the TA-14 plan, our overseas business has continued to expand, especially in the electronics industry in Asia. During the fiscal year, we added approximately 80 overseas employees, most of whom were local staff, established a sales office in Malaysia, and built up a maintenance business platform in Singapore, as part of our efforts to strengthen our local service business base. In China, we launched a structure to oversee and manage three group companies that handle water treatment chemicals, water treatment facilities, and maintenance services, and this initiative is gradually yielding positive results. In the wastewater recycling business in China (a project to re-treat treated wastewater from industrial zones and sewage water and reuse it as water for industrial use) the Kurita Group is the only player in the market capable of supplying the optimal combination of wastewater reclamation equipment and the reverse osmosis (RO) membrane treatment chemicals used in this equipment.

In the domestic business, we began new initiatives to expand our market share and secure profitability. One example is to extend our scope beyond just providing water treatment facilities for customers' production plants, and to propose maintenance of various utilities used in these facilities, along with equipment diagnosis and operational monitoring, thereby offering both stable operation and a reduction of total operating costs. In these proposals, we provide customers with clear explanations to help them visualize the improvement measures and how they will benefit from them, and we work with each customer to solve their issues while having them understand the benefits. We will continue to use this approach to expand our maintenance services, including the revamping of water treatment facilities.

In light of the changes in the market environment and our operating results in the first year of the TA-14 plan, in April 2013 we made downward revisions to our performance targets for the fiscal year ending March 2015, the final year of TA-14. However, we will continue to maintain steady profitability, which is our strength. I am certain that we can maintain our high profitability by pushing through with one of our key strategies of providing superior products and services to help customers tackle issues. Our other key strategy of expanding the overseas business also remains unchanged. Specifically, we have kept our targets for operating income margin (approximately 15%) and overseas sales ratio (approximately 27%) for the fiscal year ending March 31, 2015.

I am certain that we can maintain our high profitability by pushing through with one of our key strategies of providing superior products and services to help customers tackle issues.



What are the focal points of TA-14 going into its second year in April 2013?

First, regarding our overseas business, we are focusing on expanding our business in Southeast Asia. This is in addition to South Korea, China, and Taiwan, where we have already been concentrating on expansion. In countries such as Indonesia, Malaysia, Singapore, and Thailand, we will target general industries, including food, beverage, chemical, and automobile industries. In Southeast Asia, we have group companies in these key countries, but rather than having them each function individually, we will view Southeast Asia as an entity, and build a platform to optimally supply customers by having these group companies share their specialty products, services, and technicians with one another.

In China and South Korea, we are now starting to see maintenance demand emerge for facilities projects that we won over the past few years. Going forward, we will aim to capture service demand by working steadily to localize advanced analysis and application testing capabilities.

The Kurita Group is the world's only water treatment company that offers water treatment chemicals, water treatment facilities, and maintenance services in a balanced manner. Our group companies will work together in regions throughout the world to provide comprehensive services. Meanwhile, in order to accelerate the growth of our overseas business, we will

continue to search for M&A and alliance opportunities targeting the U.S. and European markets, where the Kurita Group's presence and market share are relatively low.

Our group companies will work together in regions throughout the world to provide comprehensive services.



Next, in order to further solidify our domestic business base, we will work to expand our highly profitable core products and services as well as make sure that our sales are carried out based on the concept of helping customers resolve problems. Examples of this include comprehensive maintenance agreements that leverage our proprietary monitoring technologies, and water quality management systems that utilize sensing technologies and communications infrastructure.

Furthermore, to promote new business creation we will enhance our core technologies including membranes, polymers, and advanced analytics. We will swiftly develop new products and technologies matched to the needs of the domestic and overseas markets, while improving our cutting-edge technologies in areas including water for food, energy and space technology.



Please talk about your policy for shareholder returns, as well as specific strategies aimed at further raising shareholder value.

In order to foster sustainable growth, the Kurita Group will use capital to bolster its business base through capital investment, R&D, and M&As and alliances. At the same time, it is important to increase our capital efficiency and to distribute more profits to our shareholders.

Our basic policy is to pay stable dividends on an ongoing basis. We have strived to increase the dividend, while taking into consideration earnings performance and investment in our

We will strive to increase dividends as well as boost capital efficiency in a flexible and agile manner.

businesses. For the fiscal year ended March 31, 2013, we paid a year-end dividend of ¥21 per share, which combined with the interim dividend of ¥21 per share, resulted in an annual dividend of ¥42 per share. This represented an

increase of ¥2 per share versus the previous fiscal year, for a ninth consecutive fiscal year with a dividend increase.

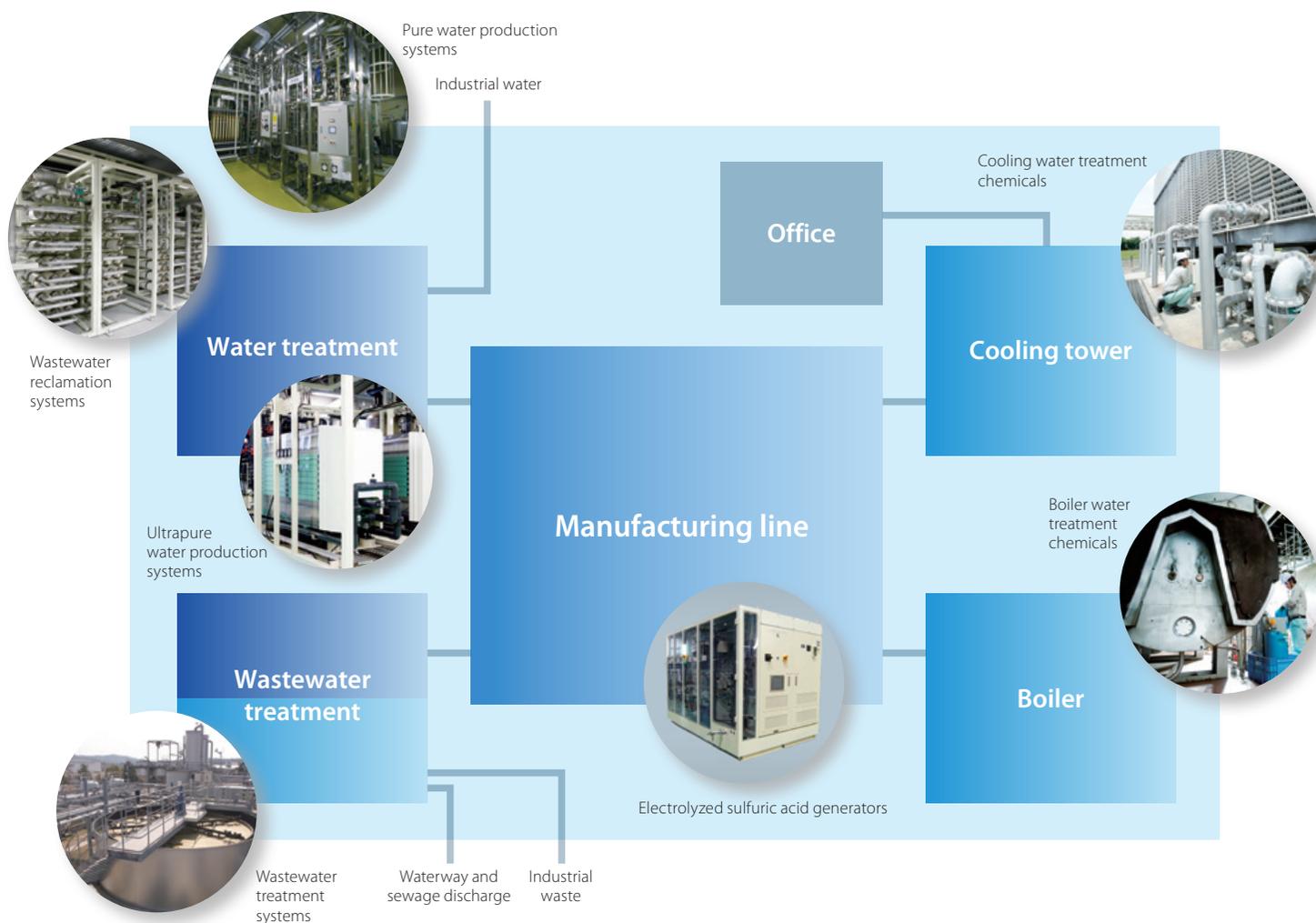
Also, in November 2012, we acquired 7.49 million shares (5.64% of total outstanding shares) of our own stock through a tender offer.

In August 2013 we cancelled 13.63 million shares of treasury stock (10.27% of issued shares).

Going forward, we will strive to increase dividends as well as boost capital efficiency in a flexible and agile manner, with the aim to further increase our shareholder value.

WHAT WE DO

When our customers need solutions involving water, they turn to us for products and services that boost their productivity and reduce the environmental impact of their activities. You'll find Kurita helping in many areas to realize a sustainable society.



■ Water treatment

Ultrapure water production systems

These systems remove ions, microscopic particles, and bacteria from water to produce ultrapure water that is as close as possible to theoretically pure H₂O.

Pure water production systems

These systems produce water for a variety of industrial uses including medical-grade water for injectable drugs and eye medications, drinking water for alcoholic beverages and soft drinks, and boiler water for the electric power and steel industries.

Wastewater reclamation systems

These systems reclaim wastewater discharged from manufacturing processes and treat it for reuse in plants as pure water or cooling water.

■ Cooling tower

Cooling water treatment chemicals

Cooling water treatment chemicals help keep cooling systems in factories and office buildings running smoothly to ensure efficient operation.

■ Boiler

Boiler water treatment chemicals

Kurita's boiler water treatment chemicals prevent boiler problems for customers in a wide range of industries, helping to promote safe operations and energy efficiency.

■ Manufacturing line

Electrolyzed sulfuric acid generators

These systems allow semiconductor manufacturers to significantly reduce consumption of processing liquids while ensuring higher efficiency for resist removal.

■ Wastewater treatment

Wastewater treatment systems

These systems treat many kinds of industrial wastewater to ensure that they do not affect the environment.

Wastewater treatment chemicals

Kurita's wastewater treatment chemicals help to reduce environmental impact by performing functions such as removal of suspended solids and deodorization.

Maintenance services

Kurita provides preventive maintenance services to ensure continued high performance of water treatment systems supplied to clients. Kurita also proposes modifications to help clients boost productivity and reduce their environmental impact.

Who Uses Our Products and Services?

Customers in general industries



Pulp & Paper



Steel



Food & Beverages



Oil Refining & Petrochemicals

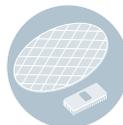


Pharmaceuticals

Customers in the electronics industry



LCDs



Semiconductors



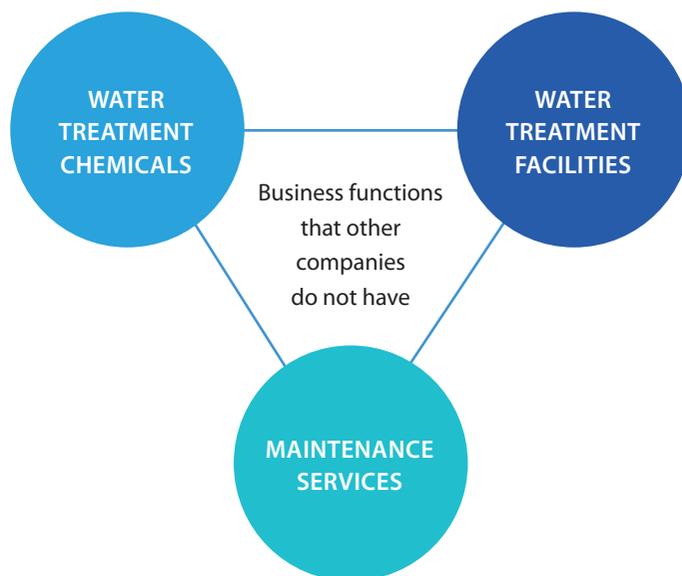
Electronic Components



Regional Heating / Cooling Centers

What is Our Strength?

The Kurita Group is the only water treatment company in the world to develop its business based on a good balance of three distinct functions: water treatment chemicals, water treatment facilities, and maintenance services.



WATER TREATMENT CHEMICALS

- Boiler water treatment chemicals
- Cooling water treatment chemicals
- Wastewater treatment chemicals
- Process treatment chemicals
- Incinerator chemicals
- Equipment and systems for water treatment chemicals
- Packaged water treatment management contracts
 - Cooling water / Boiler water supply contracts
 - Comprehensive wastewater treatment contracts

WATER TREATMENT FACILITIES

For the Electronics Industry

- Ultrapure water production systems
- Wastewater reclamation systems
- Wastewater treatment systems
- Electrolyzed sulfuric acid generators
- Tool cleaning services
- Maintenance services
- Ultrapure water supply business

For General Industries

- Pure water production systems
- Wastewater reclamation systems
- Wastewater treatment systems
- Soil remediation services
- Chemical cleaning services
- Maintenance services

BUSINESS REVIEW

SEGMENT HIGHLIGHTS

WATER TREATMENT CHEMICALS

PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2013

In the fiscal year ended March 31, 2013, in Japan, although certain products saw increased orders and sales, demand for mainstay cooling water treatment chemicals and wastewater treatment chemicals was down, mainly due to the elimination and consolidation of customers' plants, along with lower capacity utilization. As a result, domestic sales declined by 1.9% year on year.

Overseas sales, meanwhile, climbed 4.3% year on year. Both orders and sales declined in Europe, where the economy remained stagnant, but sales grew strongly in Asia, especially China and Thailand.

As a result, overall sales for the Water Treatment Chemicals segment edged down by 0.6% year on year.

Segment operating income declined 10.1% year on year due to deterioration in the composition of sales with the proportion of mainstay products decreasing, as well as higher selling, general and administrative (SG&A) expenses in line with an increase in employees for business expansion overseas and relocation of the head office. Rising prices for raw materials had a limited impact on costs.

OUTLOOK FOR THE FISCAL YEAR ENDING MARCH 31, 2014

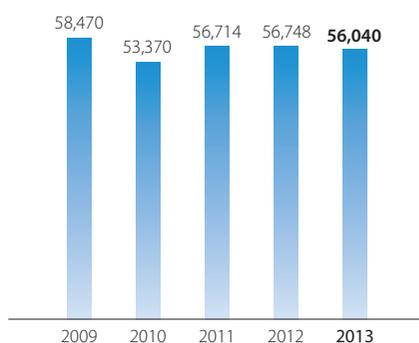
For the fiscal year ending March 31, 2014, the Kurita Group forecasts a gradual recovery in capacity utilization at customers' plants in Japan from the summer, centered on the export industry. Overseas, the Group anticipates continued firm demand for water treatment in emerging nations lead by Asia. We are targeting a year on year increase in overseas sales.

As a result, the Group projects an increase in sales in the Water Treatment Chemicals segment.

The Company also projects a year on year increase in segment operating income, based on the increase in sales and an improved sales composition, despite the continued increase in personnel and other expenses in line with an increase in employees for business expansion overseas. The operating margin is also expected to improve.

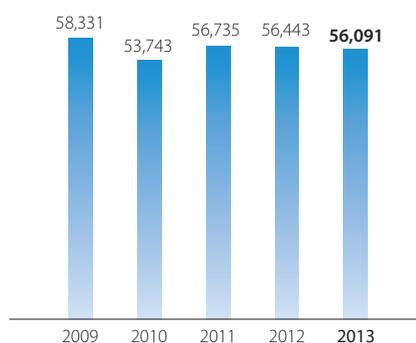
Orders

(Millions of yen)



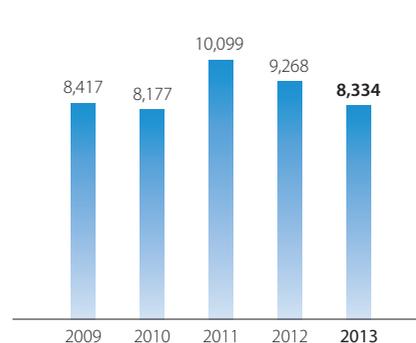
Sales

(Millions of yen)



Operating Income

(Millions of yen)



WATER TREATMENT FACILITIES

PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2013

During the fiscal year ended March 31, 2013, in the electronics industry both orders and sales declined for water treatment facilities and maintenance services in Japan. The decline reflected consolidation of manufacturing plants among major customers and lower capacity utilization rates. Moreover, the ultrapure water supply business also contracted with contract changes at a number of sites. Overseas, while some customers postponed or scaled back capital investments, sales of water treatment facilities for the semiconductor and LCD panel industries in Asia increased. Net sales in the electronics industry declined 7.9% year on year due to the decrease in Japan.

In general industries, although orders and sales of water treatment facilities for the steel and the food industries increased, orders and sales fell for water treatment facilities for the electric power industry due to a fall in earthquake recovery-related demand, and maintenance services declined because of lower capacity utilization at customers' plants. Sales in general industries decreased 12.1% year on year.

As a result, overall sales for the Water Treatment Facilities segment decreased by 9.7% year on year.

Segment operating income decreased by 37.2% year on year due to the decrease in net sales, the deterioration of the sales composition with a decrease in service business sales, and an increase in SG&A expenses.

OUTLOOK FOR THE FISCAL YEAR ENDING MARCH 31, 2014

For the full fiscal year ending March 31, 2014, in Japan the Kurita Group forecasts continued weak capital investment by customers, however, an early recovery in demand for maintenance services is anticipated from the start of autumn.

In the electronics industry, in Japan the Kurita Group expects to see year-on-year declines in the ultrapure water supply business, due to the lingering impact of contract changes implemented last fiscal year at a number of sites, and in the facilities businesses and maintenance services which still need time to recover. Overseas, however, we are targeting an increase in the facilities businesses and maintenance services despite varying capital investment by customers for each product and region.

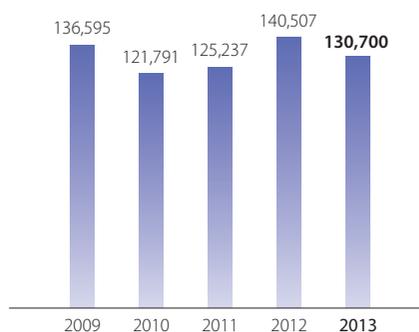
In general industries, in Japan we expect to see a progressive fall in earthquake recovery-related demand for electric power, but we are targeting an increase in water treatment facilities for general industries other than electric power together with maintenance services. Consequently, we expect net sales in general industries to be approximately the same year on year.

As a result, the Group projects an increase in sales in the Water Treatment Facilities segment.

As regards operating income for the segment, we forecast an increase year on year mainly due to the benefits of increased sales, despite the increase in SG&A expenses and the change in composition of sales. The operating margin is also expected to improve.

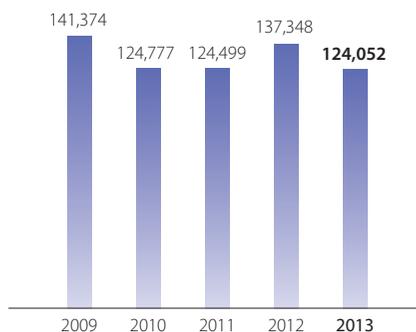
Orders

(Millions of yen)



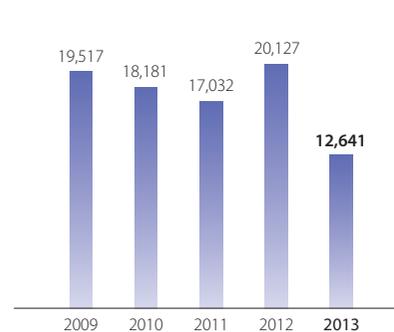
Sales

(Millions of yen)



Operating Income

(Millions of yen)



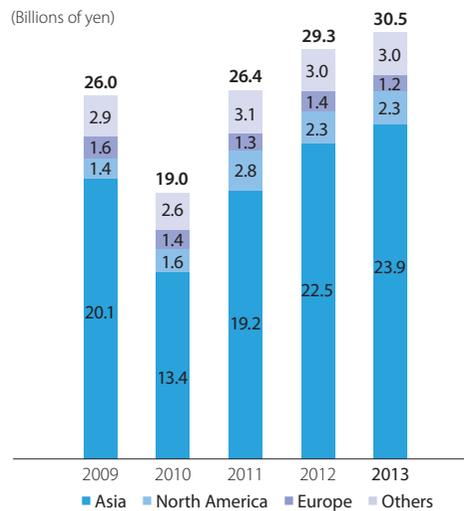
OVERSEAS OPERATIONS

Kurita Water Industries is conducting global business through consolidated group companies and one affiliated company.



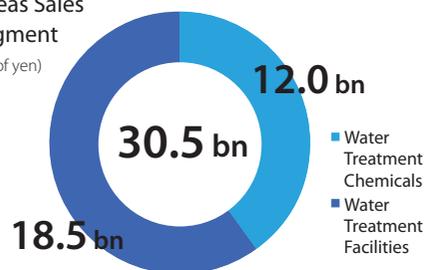
Overseas Sales by Region

(Billions of yen)



Overseas Sales by Segment

(Billions of yen)



Main Overseas Consolidated Group Companies and One Affiliated Company

Water Treatment Chemicals		Year of Establishment	Paid-in Capital (Millions)	Equity Ownership (%)
■ Manufacture & sale of water treatment chemicals				
1	Kurita do Brasil LTDA.	1975	R\$6.986	100.0
2	Kurita (Singapore) Pte. Ltd.	1978	S\$4	100.0
3	Kurita Water (Malaysia) Sdn. Bhd.	1994	RM\$0.6	83.3
4	Kurita Europe GmbH	1989	EUR2.301	95.0
5	Kurita (Taiwan) Co., Ltd.	1987	NT\$20	100.0
6	Kurita-GK Chemical Co., Ltd.	1989	BAHT92	85.0
7	Kurita Water Industries (Dalian) Co., Ltd.	1995	¥550	90.1
8	P.T. Kurita Indonesia	1986	US\$2	92.5
9	Hansu Ltd.	1974	W2,500	33.2
Water Treatment Facilities		Year of Establishment	Paid-in Capital (Millions)	Equity Ownership (%)
■ Manufacture, sale, operation and maintenance of water treatment systems and facilities				
2	Kurita (Singapore) Pte. Ltd.	1978	S\$4	100.0
10	Hansu Technical Service Ltd.	1988	W400	59.4
11	Kurita Water Industries (Suzhou) Ltd.	2004	¥530	100.0
12	Kurita America, Inc.	1996	US\$3	100.0
13	Kuritec (Shanghai) Co., Ltd.	2001	¥30	100.0

RESEARCH AND DEVELOPMENT

Kurita's Approach to R&D

As well as evolving and developing its core technologies for boiler and cooling water treatment, ultrapure water production, wastewater treatment, and water reclamation, the Kurita Group is also actively developing new products and technologies to broadly meet the needs of industry and society to improve productivity, reduce environmental impact, and create energy.

The Kurita Group's R&D is guided by a three-point focus on the "actual place," "actual part," and "actual situation." Besides conducting our research at the lab, we attach importance to verify performance of our developed products at customers' sites in the process of creating new products and services.

The Kurita Group employs a total of approximately 140 R&D



personnel, equivalent to 3.0% of its total workforce. In the year ended March 31, 2013, total R&D expenses were ¥4,362 million, equivalent to 2.4% of net sales.

Initiatives under the Medium-term Management Plan, Take Action 2014 (TA-14)

Under TA-14, we positioned strengthening of R&D functions as a key initiative. In particular, we are focused on the following points.

(1) Develop new products and technologies to contribute to overseas business expansion

An important key to overseas business expansion is to organically combine the three functions of water treatment chemicals, water treatment facilities, and maintenance services to provide optimal water treatment in each region. Overall, the world has a limited supply of water available for industrial use, and there are regional



differences in both water quality as well as legal and regulatory systems. While different regions have different cultures and approaches, we will leverage the wealth

of knowledge we have cultivated over many years to accurately anticipate overseas customers' needs, and quickly develop new products and technologies that match the needs of each region.

(2) Strengthen and cultivate core technologies

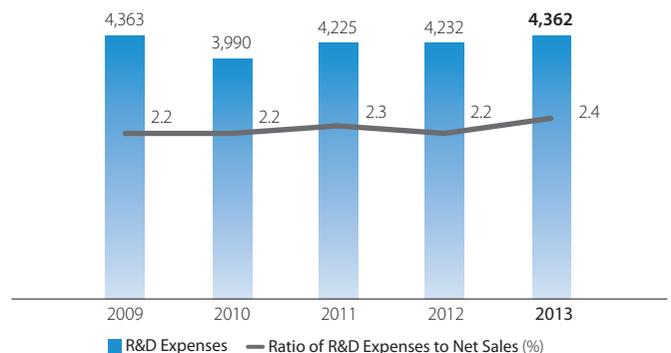
The Kurita Group has various core technologies necessary for water treatment including membrane separation, polymers, ion exchange, advanced analysis and sensing, slime control, and electronic device cleaning and surface treatment. In order to differentiate ourselves from our competitors in the future, we will work to further bolster our core technologies, which represent our strengths, and use these to develop innovative, creative products that are technologically superior to others in the field.

(3) Create new business areas

The Kurita Group believes that its mission is to find solutions for providing water, food, and energy, which are problems shared by all people. For example, concerning the issue of food, we have developed technologies using soil & water conditioning and microorganisms, to ensure food safety and security or to increase crop yields. In the energy field, we are working proactively to create new business areas, such as converting waste into energy. Meanwhile, we have launched a joint research project with the Japan Aerospace Exploration Agency (JAXA) to develop a future-type water recycling system for space stations.

R&D Expenses

(Millions of Yen)



CORPORATE GOVERNANCE

Basic Policy

The Kurita Group aims to contribute broadly to society and meet the expectations of its stakeholders, including shareholders and investors, customers, regional communities, business partners and employees. The Group does this through corporate activities in the fields of water and environment in accordance with the Kurita corporate philosophy, "Study the properties of water, master them, and we will create an environment in which nature and man are in harmony." To realize these aims, the Group has adopted a basic corporate governance policy with two main components. The first is establishing management systems that improve management transparency, efficiency, speed, and sustainably increase corporate value over the long term. The second is rigorous oversight of management and operational execution.

Internal Control System

In May 2006, the Kurita Group formulated the Fundamental Policy Regarding the Establishment of Internal Control Systems in accordance with the requirements of Japan's Companies Act, and has subsequently been improving its structures for risk management and internal controls in line with this basic policy. The Fundamental Policy Regarding the Establishment of Internal Control Systems has been revised by a Board of Directors' resolution. To ensure that the Kurita Group's financial reporting is

conducted properly, Kurita established its Internal Control Reporting System in accordance with the Japanese Financial Instruments and Exchange Act, and confirms the effectiveness of and implements continuous improvements to this system.

Corporate Governance Structure

As of June 27, 2013, Kurita's Board of Directors comprised nine directors, including one external director. The Board of Directors' meetings are held at least once per month in principle. At the meetings, the directors set management policy and make other important management decisions, and monitor and oversee directors' execution of their duties.

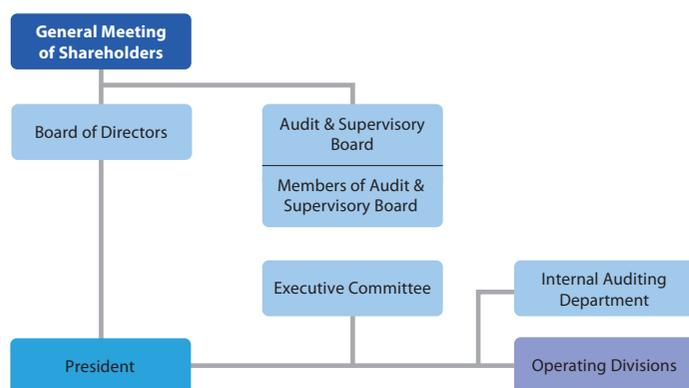
The Board of Directors' meetings are chaired by the president and in principle held monthly on a regularly scheduled basis and whenever necessary on an ad hoc basis. An external director is appointed to supervise management in the Board of Directors' meetings, and to provide an objective perspective from outside the Company. The members of the Audit & Supervisory Board also attend the Board of Directors' meetings to oversee and monitor the directors' execution of duties.

In 2013 following a partial revision of the Company's Articles of Incorporation, the appointment period for directors was shortened from two years to one year. This change is intended to increase the Company's responsiveness to changes in the market environment, foster a greater sense of tension among directors with regard to management, and facilitate flexible and timely revisions of the management structure as needed.

The Board of Directors has also established an authorization protocol based on authorization and review regulations to complement its decision-making.

In terms of operational execution, Kurita has an Executive Committee to ensure that operations are executed smoothly in accordance with management policies decided at the Board of Directors' meetings. The committee comprises five directors, including representative directors. The committee

Corporate Governance Structure



meets twice monthly as a general rule.

Kurita has employed an executive officer system since June 2005 with the aim of strengthening operational execution capabilities. Kurita currently has nine executive officers.

Audit & Supervisory System

Kurita employs an audit & supervisory system. As of June 27, 2013, the Audit & Supervisory Board comprised three members, including two external members. The Audit and Supervisory Board decides on audit policies for the fiscal year, the allocation of duties to each of its members, specific items to be performed, schedules, and other items for executing audits. Based on this framework, each member of the Audit & Supervisory Board then conducts audits.

The members of the Audit & Supervisory Board attend Board of Directors' meetings, Executive Committee meetings, and other important company meetings and monitor the directors' execution of duties and the Board of Directors' fulfillment of its oversight responsibilities. Other responsibilities of the members of the Audit & Supervisory Board include conducting asset status surveys of the entire Group, including subsidiaries, and auditing the development and operation status of internal control systems implemented by the directors. They also confirm the accounting auditors' independence and fulfillment of duties, and meet with the accounting auditor regularly and as otherwise necessary to discuss the accounting audit and exchange opinions.

The Internal Auditing Department, which reports directly to the president, is tasked with strengthening internal audits. As of June 27, 2013, the head of the department and eight subordinate staff members conduct internal audits of the Company and other Group companies to ascertain any issues or problems arising in the execution of duties. The department then recommends

measures for improvement to the president. From the fiscal year beginning April 1, 2008, the department has been responsible for monitoring the status of internal controls and recommending and supporting improvements in response to the introduction of the internal controls reporting system for financial reporting mandated by the Japanese Financial Instruments and Exchange Act. The department also monitors the Group's implementation and improvement of risk management.

The members of the Audit & Supervisory Board discuss the Internal Auditing Department's audit plan and exchange opinions regarding the results of audits, the assessment of internal control over financial reporting, and the assessment of risk management.

Kurita has appointed Grant Thornton Taiyo ASG LLC as its accounting auditor, in accordance with the law, to implement and enhance the Company's accounting audits.

External Director and External Members of the Audit & Supervisory Board

Kurita appoints an external director to supervise management in the Board of Directors' meetings, and to provide an objective perspective from outside the Company. Kurita has one external director and two external members of the Audit & Supervisory Board. Regarding the independence of the external director and members of the Audit & Supervisory Board, Kurita judges that there is no possibility of a conflict of interest with shareholders given their financial record and background.

The external director voices opinions from an independent position at Board of Directors' meetings. This ensures a multilateral perspective and greater objectivity in directors' decisions on business execution. The external members of the Audit & Supervisory Board make use of their specialized wisdom to conduct audits from an independent position. This increases the objectivity of manage-

ment supervision.

Mr. Seiji Nakamura, Kurita's part-time external director, has served as executive vice president and representative director of Mitsui O.S.K. Lines, Ltd., president and representative director of MOL Ferry Co., Ltd., and as a member of the Policy Board of Bank of Japan. None of these have any special interests in Kurita. Mr. Chiaki Kuzuu, Kurita's full-time external member of the Audit & Supervisory Board, is a former employee of ITOCHU Corporation. ITOCHU has no special interests in Kurita. Mr. Tamio Uda, a part-time external member of the Audit & Supervisory Board, is an attorney and has no special interests in Kurita.

Mr. Seiji Nakamura, the part-time external director, attended Board of Directors' meetings and voiced highly independent opinions appropriately as required on the proposals and deliberations at the meetings. In addition to conducting regular audits, Mr. Chiaki Kuzuu, the full-time external member of the Audit & Supervisory Board, attended Board of Directors' meetings, Audit & Supervisory Board meetings and other important meetings to offer a specialist financial and accounting perspective on matters, as well as appropriately exchanging opinions with the accounting auditors and the Internal Auditing Department as described above. Mr. Tamio Uda, the part-time external member of the Audit & Supervisory Board, attended Board of Directors' meetings and Audit & Supervisory Board meetings to offer opinions appropriately as required, mainly from a specialist legal expert's perspective.

In 2013, Kurita enabled the conclusion of a limited liability agreement with external directors and external members of the Audit & Supervisory Board. This was done to facilitate the use of outside human resources with an emphasis on greater independence, with the aim of respecting shareholder profits and increasing management transparency. However, in practice the agreement shall apply only to part-time external directors

and part-time external members of the Audit & Supervisory Board. Kurita concluded a limited liability agreement with Mr. Seiji Nakamura, the part-time external director, and Mr. Tamio Uda, the part-time external member of the Audit & Supervisory Board, to limit their liability for damages to a certain degree pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, with the total maximum liability under the said agreement to be the amount provided for in Article 423, Paragraph 1 of the same act.

Kurita has registered the external director and the two external members of the Audit & Supervisory Board as independent officers in accordance with the Tokyo Stock Exchange's listing regulations.

Remuneration Paid to Directors and Members of the Audit & Supervisory Board

Kurita's system for compensating directors and members of the Audit & Supervisory Board is intended to create incentives to continuously work to increase the Company's enterprise value and business results. To this end, the remuneration packages comprise two components: a basic annual salary and a performance-linked component that reflects the Company's business results. Specifically, for directors the basic annual salary is set separately for each office, while for members of the Audit & Supervisory Board the basic annual salary reflects the full-time or part-time status of the officer. The performance-linked amount is variable and dependent on achievement of performance targets for the fiscal year. To incentivize improved business performance over the medium-to-long term, a certain proportion of the basic annual salary is paid to the Directors' and Audit & Supervisory Board Members' Shareholding Scheme and allocated for purchasing the Company's shares. Based on this policy, the remuneration for each director is decided by the Board of Directors and the remuneration for each member of the Audit & Supervisory Board is decided through deliberation by all of

the members of the Audit & Supervisory Board within the total limit set by the General Meeting of Shareholders.

Compliance

The Kurita Group regards compliance activities as entailing more than simple law abidance. Rather, compliance activities are conceived as ethical practices aimed at realizing five values: fairness, transparency, integrity, safety, and coexistence. These values are set forth in the Code of Ethical Conduct, established in 2000. Kurita then prescribed its Basic Principles and Compliance Guidelines to Practice Ethical Conduct to ensure rigorous compliance with laws, regulations and social ethics in Kurita's daily business activities.

Kurita has established a Compliance Committee, chaired by the executive senior managing director (representative director), and a Group Compliance Committee, also chaired by the same executive senior managing director, comprising representatives from Group companies in Japan. The Kurita Group determines policies and priority measures related to compliance activities in these committees, which it implements thoroughly for all executives and employees through subcommittees

in place at each headquarters, business division, and Group company division.

Further, Kurita has instituted whistleblower protection regulations and set up whistleblowing desks, while at the same time providing an internal consultation desk and a consultation desk through an external organization.

Risk Management

The Managing Director and General Manager of the Corporate Planning Division is designated as the officer to promote risk management for the Kurita Group. In this role, the officer regularly conducts risk analysis and evaluation, and takes steps to minimize risks where possible. As described above, monitoring of the execution status and improvement status of risk management is conducted by the Internal Auditing Department.

Among serious risks, those related to compliance are the responsibility of the Compliance Committee head, and their management is strengthened by the Compliance Committee. Those related to labor, health, and safety are the responsibility of the Headquarters Health and Safety Committee head, and their management is strengthened by the Headquarters Health and Safety Committee.

For more information on risks, please refer to page 38.

Remuneration Paid to Directors and Members of the Audit & Supervisory Board for the Fiscal Year Ended March 31, 2013

Classification	Total remuneration paid (Millions of yen)	Total remuneration paid by type (Millions of yen)				Number of recipients (Persons)
		Basic remuneration	Stock options	Bonus	Retirement package	
Directors (Excluding external directors)	431	431	-	-	-	11
Members of the Audit & Supervisory Board (Excluding external members of the Audit & Supervisory Board)	32	32	-	-	-	2
External members of the Audit & Supervisory Board	45	45	-	-	-	2

Total Remuneration Paid by Type to Directors for the Fiscal Year Ended March 31, 2013

Name	Total consolidated remuneration paid (Millions of yen)	Classification	Division	Total consolidated remuneration paid by type (Millions of yen)			
				Basic remuneration	Stock options	Bonus	Retirement package
Toshiyuki Nakai	100	Director	Company	100	-	-	-

Only directors whose total remuneration exceeded ¥100 million for the fiscal year ended March 31, 2013.

Information Disclosure and Investor Relations (IR) Activities

Kurita builds fair and transparent relationships with stakeholders through all its business activities.

The General Manager of the Corporate Planning Division has overall responsibility in managing the corporate information and IR of the Kurita Group.

Kurita holds an earnings presentation twice a year, at which time the president explains the results and holds a Q&A session. In addition, the president also conducts overseas meetings twice annually. Kurita has also set up a dedicated IR website on which the Company discloses earnings presentation materials and a variety of other financial materials.

CORPORATE SOCIAL RESPONSIBILITY

RELATIONSHIP WITH EMPLOYEES

Basic Policy

The Kurita Group provides a diverse range of employment styles for employees to choose from. By allowing employees to select a working style that enables them to achieve their individual dreams and to suit their lifestyle and stage in life, we aim to promote employees' enthusiasm for their work.

Kurita Water Industries works to develop and utilize its employees based on a personnel system comprising a qualification system, a position system, a wage system, and a personnel performance review system.

Promoting Diversity

To meet global needs, we seek a diverse range of personnel around the world, and aim to hire the right people for the right positions.

Employee Breakdown

(As of April 2013; Kurita Water Industries)

Age	Full-time employees	(Management positions therein)
29 and under	294	(0)
30-39	405	(77)
40-49	516	(299)
50 and over	257	(204)
Total	1,472	(580)
Female	186	(5)
Non-Japanese	7	(2)

Note: Figures of female and non-Japanese employees are included in total numbers of employees

- Average age
39.7
- Average service years
16.6 years (Male 16.5 years; Female 17.3 years)
- Ratio of female employees among career track employees
3.6%

Numbers of Employees by Region

(As of March 2013; Consolidated)

Japan 3,674

Overseas 966

(China 274, Thailand 131, Singapore 130, South Korea 120,

Indonesia 103, Brazil 85, Europe 51, Taiwan 38, U.S. 34)

Total 4,640

Ratio of Local Nationals Among Directors in Overseas Group Companies

(As of April 1, 2013)

11 of 31 directors are local nationals (35.5%)

Developing and Utilizing Human Resources

The Kurita Group has a firmly entrenched system that encourages employees to challenge themselves and enhance their own skills. We strive to enable employees to grow so that they can create and develop Kurita's own

products, technologies, and services as they find solutions to the issues facing customers and society. For operational areas where the Company has needs, we have a study sabbatical system that provides employees with opportunities to study at educational institutions and research institutions in Japan or overseas, as well as a scholarship program for students which aims to develop personnel who can contribute to the advancement of society through our business activities.

We hold a Management Development Seminar each year for employees of our overseas group companies. The objectives of this training include cultivating employees' knowledge of Kurita, including its history, features, strengths, and business strategies, as well as developing their global management skills, and enhancing communication among Group companies.

In 1999, Kurita Water Industries established the Technology Transmission Committee for the purpose of raising each employee's level of expertise and for passing on Kurita's technologies and know-how. In 2005, we opened Kurita Technology College, which aims to develop engineers who will lead the Company in the future. With these programs, veteran employees' skills and know-how are reliably passed down to mid-career and young employees via one-on-one instruction.

Employment of Personnel with Disabilities

In Japan, the Kurita Group provides a wide range of employment opportunities for people with disabilities. In April 2013, we founded With Kurita Ltd., with 11 employees (five of whom have disabilities). With Kurita employees are engaged in cleaning Kurita Global Technology Center and other duties. As of May 31, 2013, With Kurita has been approved as a special subsidiary company under the Act on Employment Promotion etc. of Persons with Disabilities, and we expect to exceed the statutory levels with respect to both the number of persons with disabilities employed as well as the ratio of persons with disabilities employed (2.0%), which was raised from April 2013.

Employment of Senior Personnel

In conjunction with the enforcement of the amended Act on Stabilization of Employment of Elderly Persons from 2006, Kurita Water Industries has established a system to secure employment opportunities for people who have retired having reached the mandatory retirement age. These employment opportunities are offered for up to a maximum

of five years from the time of mandatory retirement (60 years old) in accordance with the 2013 amendment to the Act on Stabilization of Employment of Elderly Persons.

Between 2006 and April 1, 2013, a total of 250 senior employees have been rehired. As of April 1, 2013, there were 115 senior employees working at the Company.

Second Career Support System

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

Child-Raising Leave and Shortened Working Hours for Child Raising

In accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children, Kurita Water Industries has established an environment that makes it easier for employees to balance work with raising children.

In principle, employees can take child-raising leave until the day that their child reaches one year and six months of age, but this period can be extended if stipulated conditions are met.

As of April 2013, over the past three years a total of 26 employees (including one male employee) have used the childcare leave system, while 353 employees have taken advantage of another system that allows employees raising children to have shortened working hours.

Nursing Care Leave and Shortened Working Hours for Nursing Care

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

Health and Safety

In accordance with the Industrial Safety and Health Act, Kurita Group companies in Japan have established health and safety rules in order to prevent employees from being harmed by occupational disasters, as well as to maintain and improve the health of employees, and to

promote comfortable workplace environments. We have organized a health and safety management system comprising Health and Safety Committees and Health and Safety Managers. Under this system, the domestic Group works alongside partnering companies to provide health and safety education to employees and to conduct health and safety drills. We also develop work standards and provide instruction on them, maintain and inspect employees' safety gear and other facilities to prevent accidents. The Group also examines ways to deal with disasters, discovers their causes, and drafts countermeasures.

Kurita Water Industries' Health and Safety Committee is chaired by an executive senior managing director and general manager of the Administrative Division, with the general manager of the Personnel and Labor Relations Department serving as the deputy chairman. The committee chair appoints the remainder of the committee members, selecting employees with experience in health and safety.

Appropriate Labor Conditions and Industrial Relations

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

Human Rights

Kurita works to raise awareness of human rights issues throughout the Group. This effort includes guidelines aimed at preventing various types of discrimination and harassment, as well as regularly holding human rights training programs.

RELATIONSHIP WITH CUSTOMERS

The Kurita Group strives to provide products, technologies and services that excel in terms of quality, including safety, as well as cost performance that customers expect.

Quality Assurance Policy

The Kurita Group's Quality Policy is to speedily provide our customers with products, technologies and services that can meet their quality expectations, thereby winning their unshakable trust. In accordance with this Quality Policy, we will continue to enhance our problem-solving capabilities, with a focus on "quality via products" and "quality via people" from the customers' perspective. To this end, we will extend the capabilities of our human resources, developing a team that understands what is happening on the frontlines, knows our customers, and provides value to them. At the same time, we will strive to develop and improve our products, technologies and services to help customers boost productivity, reduce environmental impact, and create energy.

Developing Human Resources and Improving Operational Quality and the Environment

The Kurita Group is working to develop human resources and enhance our corporation through operational quality improvements and operational reforms. We are also working to improve the environment in accordance with

our Corporate Philosophy and the principles of the Basic Environment Act.

Customer Satisfaction Survey

The Kurita Group conducts a customer satisfaction survey regularly once every four years in order to verify the results of the work that we have done to solve our customers' problems, based on their specific needs. The aim of this survey is to identify issues that can help us cement the trust of our customers, and to use these findings to improve our Company and to achieve our medium-term management plan. We recently conducted the sixth customer satisfaction survey during October to November 2012, and we received responses from more than 700 customers, including overseas customers.

In the survey, we received high marks from customers both in terms of overall satisfaction with the Kurita Group's business activities as a whole and with our stance on proposals to solve problems. On the other hand, areas highlighted for improvement included the quality of our proposals as well as verifying results. We will analyze these issues, and work to further improve our customers' levels of satisfaction.

RELATIONSHIP WITH SUPPLIERS

The Kurita Group strives to maintain fair and transparent transactions based on free competition. In our dealings with business partners, we emphasize relationships built on trust, with an emphasis on placed on the mutual autonomy, profits and property of both companies.

Basic Policies for Purchasing

Our basic policies for purchasing are to have open purchases and to coexist and prosper with our business partners. We choose suppliers based on a comprehensive set of criteria, including product quality, price competitiveness, certainty of on-time delivery, management stability, and green purchasing (RoHS directive) compliance.

Purchasing Guidelines

Kurita Water Industries has put in place purchasing guidelines. The purpose of these guidelines is to establish purchasing standards, reduce product costs, and save expenses by purchasing inexpensive, high-quality goods from the best suppliers on an as-needed basis, thereby improving management efficiency.

In making purchases, we buy products with general-use specifications to the extent possible, and we select the supplier based on competitive estimates from the suppliers in the supplier ledger. After deciding on the supplier and the purchase price, we quickly issue an order form to the supplier. We keep track of the delivery deadline and make payments appropriately in compliance with our payment guidelines.

Furthermore, the department in charge performs market research as needed, and keeps track of the state of the industry along with the economic environment, as we strive to choose blue-chip suppliers and gather information on new products. Also, the responsible General Manager keeps track of the supplier's fulfillment of obligations to prevent losses or damages due to problems such as late delivery or poor product quality.

RELATIONSHIPS WITH REGIONAL COMMUNITIES

The Kurita Group is actively working to use the insight and expertise built up in its businesses to give back to society as a good corporate citizen.

Kurita Water and Environment Foundation (Public Interest Incorporated Foundation)

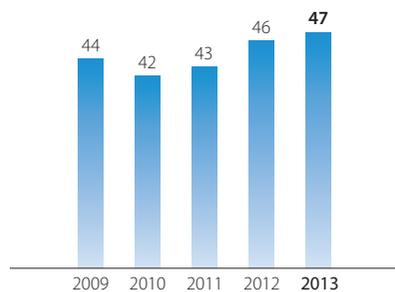
Kurita Water Industries makes a monetary contribution to the Kurita Water and Environment Foundation, as a social contribution activity expense.

The Kurita Water and Environment Foundation is a public interest incorporated foundation established with basic funds by Kurita Water

Monetary Contribution to the Kurita Water and Environment Foundation

(Millions of yen)

Kurita Water Industries Ltd.



Industries in 1997. Kurita group companies make contributions to the Foundation every year to provide operating funds. By providing subsidies for surveys, research, and international exchange programs regarding water and the environment, as well as other support, the Foundation contributes to the development of a society that promotes harmony between

people and nature. At the same time, it contributes to the creation of a rich global environment. Specifically, the Foundation provides subsidies for surveys and research regarding water and the environment conducted by universities and other research institutes in Japan and overseas, and subsidies for holding international symposiums and for researchers and experts to attend international conferences regarding science related to water and the environment. By the year ended March 31, 2013 we had provided ¥414 million in assistance to a total of 898 projects.

Regional Activities

At the Kurita Global Technology Center, volunteers conduct cleanup activities in the local area every year. The Center also accepts visits from local elementary and middle school students and other groups from time to time.

Tree-planting Activities

In 1999, Kurita planted approximately 300 broad-leaf trees, including cherry, Japanese zelkova, maple, and flowering dogwood,



The Kurita Asoudaira Shikisai Forest

in a mountain forest in Hinode-cho, Tokyo, as part of its 50th anniversary commemorations. The forest is named the Kurita Asoudaira Shikisai Forest, and volunteer programs to tend to the trees are held every year.

Volunteer Leave System

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

Disaster Recovery Support

Kurita lends seawater desalination units to local governments to help with emergency water shortage relief.

In order to provide relief for the victims of the Great East Japan Earthquake and help disaster-stricken regions recover, Kurita made a donation of ¥100 million and also provided ¥27 million in support in the form of approximately 30,000 liters of drinking water.

From June 19 to July 19, 2011, the Kurita Group helped supply water to a hotel being used as an evacuation shelter in Minamisanriku, Miyagi Prefecture, one of the areas hit hard by the Great East Japan Earthquake. Kurita installed a seawater desalination unit there to provide approximately 30 m³/day of water for evacuation shelter toilets and washing.



The seawater desalination unit in Minamisanriku, Miyagi Prefecture

ENVIRONMENTAL IMPROVEMENT ACTIVITIES

The Kurita Group's basic policy for its environmental activities is to operate in keeping with its corporate philosophy and endeavor to resolve water and environmental issues so it can contribute broadly to society.

A distinctive aspect of the Kurita Group's environmental improvement activities is that activities are carried out from the three perspectives of societal needs, customer needs, and internal change. From the perspective of societal needs, we aim to contribute to realizing a sustainable society through the development of new products and technologies that contribute to environmental improvement. From the perspective of customer needs, we strive to help customers improve their environmental performance by working to provide products, technologies and services that improve productivity, reduce environmental impact, and create energy. In the area of internal change, we work to reduce the environmental impact from our own business operations through operational improvement and innovation.

The Three Aspects of Kurita's Environmental Improvement Activities



Results of Environmental Activities in the Year Ended March 31, 2013

Responding to Social Needs

The Group develops new products and technologies that fundamentally resolve environmental and water-related issues for society. The Group monitors the numbers of

new products and technologies developed and the resulting environmental benefits to customers. Key results for the year under review were as follows.

New Environmental Improvement Products and Newly Developed Technologies

Environmental Improvements	New Products and Technologies
CO ₂ emissions reduction	<ul style="list-style-type: none"> ● Low-pressure boiler steam condenser treatment chemicals for food-processing plants ● Cooling water treatment chemicals for the Chinese market, which are applicable to low quality water ● Boiler water treatment chemicals for bioethanol and sugar plants ● Wastewater reclamation and recycling system for beverage container sterilization process ● Reclamation and recycling system for blow water released from cooling towers ● Software system to support water and energy saving at water treatment facilities
Waste reduction • Wastewater treatment	<ul style="list-style-type: none"> ● Anaerobic wastewater treatment processes for wastewater containing suspended solids ● Pellet-forming high-speed coagulation and sedimentation device
Reduction of environmentally harmful substances	<ul style="list-style-type: none"> ● Cooling water treatment chemicals with reduced environmental impact for blast furnaces of steel refineries ● Cleaning technology with reduced environmental impact for LED substrates

Initiatives for Meeting Customers' Needs

Kurita helps customers to improve the environment by proposing and implementing solutions that match customers' needs for reducing the environmental impacts of their plants and other business sites.

Key achievements for the year under review were as follows.

1: Reducing Waste Volume Using Anaerobic Water Treatment

A customer that manufactures and sells a wide range of chemicals, such as electronic materials and pharmaceutical products, needed to boost the capacity of its wastewater treatment equipment in order to ensure stable treatment. The customer was anticipating that an increase in production would strain its wastewater treatment process in the manufacturing of chemicals used as raw materials for adhesives, coatings and other materials.



Kurita proposed an improvement measure to boost treatment capacity by placing an anaerobic wastewater treatment facility before the existing wastewater treatment facility. Anaerobic wastewater treatment offers advantageous energy savings and waste emission reductions in treatment of high-concentration organic wastewater, and produces only small amounts of excess sludge. Because it uses anaerobic microorganisms attached to carriers in high concentration, it overcomes previous difficulties in applying anaerobic treatment to wastewater from chemical or factory processes. By applying this proposal, the customer was able to significantly reduce emissions of BOD (biochemical oxygen demand).

2: Hybrid Treatment and Water Quality Analysis Save Energy in Combination

A customer that supplies heat to TOKYO SKYTREE TOWN™ and the surrounding area through a district heating and cooling system (DHC) wanted to install a state-of-the-art turbo freezer and other energy-saving equipment to achieve stable operations as well as achieve higher than COP1.35, the highest level of energy use efficiency in Japan for a DHC system.



To achieve and maintain this level, it is important to keep the air conditioner's auxiliary cooling water system that performs the heat exchange clean at all times, to prevent any increase in the LTD value, which is an indicator of the heat exchange efficiency.

In addition to offering cooling water treatment chemicals that match the water quality and operating conditions, we proposed a water treatment program that combines consulting services such as real-time LTD value monitoring technologies, freezer inspections, and data analysis.

By implementing this proposal, the customer succeeded in preventing the LTD value from increasing, even approximately one year after the start of the trial run, and the cooling water system achieved COP1.36.

Note: COP: Coefficient of performance. Calculated as air conditioner capacity (kW)/power consumption (kW)
LTD: Leaving Temperature Difference. Coolant condensing temperature—cooling water outlet temperature

Internal Change Initiatives

To drive internal change, we started by categorizing all Group business facilities into production sites and administrative offices. We set goals in keeping with the nature of each operation. Objectives are to reduce environmental impact, notably by lowering carbon dioxide emissions and waste from Group operations.

To lower carbon dioxide emissions, we worked to reduce energy consumption through efforts such as adopting "Cool Biz"—a nationwide initiative to save energy by relaxing office dress standards while reducing air conditioning—and by installing high-efficiency lighting and air conditioning units. However, there was a year-on-year increase in Kurita Group's overall carbon dioxide emissions as a result of the increase in energy use at some of our ultrapure water supply

sites, in connection with changes in customers' production conditions.

With respect to waste disposal, although there was specific waste generated in conjunction with both the disposal of equipment used in the restoration effort following the Great East Japan Earthquake as well as the large-scale office relocation, we saw a significant reduction in waste at ultrapure water supply facilities thanks to improvements in our operation management method for wastewater treatment facilities.

Moreover, we started initiatives to reduce waste at worksites, and proceeded with the preparation for a full scale launch in 2013.

We will disclose more specific and detailed data in the Kurita Group Environmental Report.

DIRECTORS AND MEMBERS OF THE AUDIT & SUPERVISORY BOARD

As of June 27, 2013

Directors



Toshiyuki Nakai*

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



Tetsuo Saeki*

2013 Executive Senior Managing Director
Representative Director
General Manager of Administrative Division (to present)
2007 Managing Director
2005 Director
1974 Joined Kurita Water Industries Ltd.



Kaoru Kajii

2013 General Manager of Facilities Division and
General Manager of Ultra Pure Water
Supply Group, Facilities Division (to present)
2011 General Manager of Research and
Development Division
2009 Managing Director (to present)
2005 Director
1974 Joined Kurita Water Industries Ltd.



Kouichi Iioka

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



Kiyoshi Ito

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

Motoyuki Yoda

2012 General Manager of Domestic Sales
Group I, Facilities Division (to present)
2009 Director (to present)
1978 Joined Kurita Water Industries Ltd.

Takahito Namura

2012 General Manager of Sales Group I,
Chemicals Division (to present)
2011 Director (to present)
1977 Joined Kurita Water Industries Ltd.

Youichi Kurokawa

2013 General Manager of Facilities
Production Division (to present)
2011 Director (to present)
1984 Joined Kurita Water Industries Ltd.

Seiji Nakamura

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

Members of the Audit & Supervisory Board

Chiaki Kuzuu

2004 External Member of the Audit &
Supervisory Board (to present)
2002 Chief Financial Officer, Machinery
Company, ITOCHU Corporation
1971 Joined ITOCHU Corporation

Shiro Hayashi

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

Tamio Uda

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

* Representative Director

FINANCIAL SECTION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

During the fiscal year ended March 31, 2013, the Japanese economy continued to face a challenging environment, despite continued demand generated by the recovery from the Great East Japan Earthquake. The Japanese economy was negatively impacted by slower growth in exports and production due to the decelerating world economy, along with capital spending adjustments, sluggish consumer spending, concerns about electricity supply, and the yen's continued appreciation. The global economy generally saw a slowdown increasingly take hold around the world. In Asia, China and India experienced slower economic growth, despite sustained economic expansion in ASEAN countries. The global economy was also weighed down by prolonged economic stagnation in Europe due to the debt crisis. Meanwhile, the U.S. showed signs of a moderate economic recovery, highlighted by an increase in housing starts supported by quantitative easing policies, along with a lower unemployment rate.

The markets in which the Kurita Group operates remained challenging throughout the fiscal year. In Japan, both capital spending and capacity utilization at plants stayed low, as the elimination and consolidation of production bases and the trend of transferring operations overseas continued in the manufacturing industry, the main source of customers for the Group. Overseas, the operating environment also remained harsh, as demand declined with the slower economic growth in China and the prolonged stagnation of the European economy, in addition to the emergence of movements to postpone and scale down large capital investments in the electronics industry in East Asia.

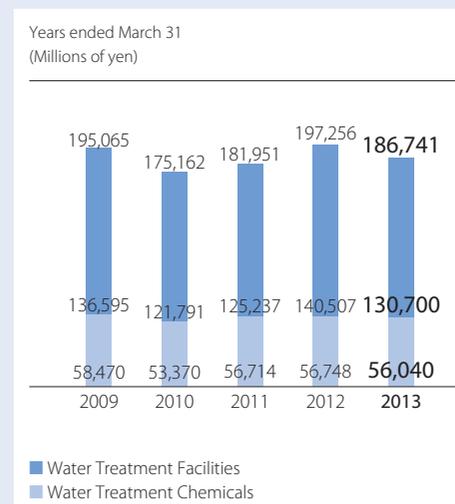
In this business environment, the fiscal year ended March 31, 2013 was the first year of Take Action 2014 (TA-14), our three-year medium-term management plan based on the theme of "Execution and Evolution." The basic objectives of the plan are to demonstrate the Group's comprehensive strengths to secure the trust of customers in Japan and other countries. Under the plan, the Group is endeavoring to expand overseas business while also raising its domestic market share. Particularly overseas, the Company concentrated management resources on growing areas and industry sectors with a targeted approach focused mainly on Asia, by setting up operating bases and strengthening its human resources. However, the Group was unable to increase earnings sufficiently and suffered falls in overall orders, sales, and profits from the previous fiscal year.

Operating Results

a) Orders

In both the Water Treatment Chemicals and Water Treatment Facilities segments, the Group focused on expanding performance in the fiscal year ended March 31, 2013.

Orders by Segment



In the Water Treatment Chemicals segment, Kurita worked to expand sales of core products, including cooling water treatment chemicals and chemicals for reverse osmosis membranes in Japan and overseas, and to strengthen sales capabilities in priority regions such as China and Southeast Asia. At the same time, the Group strove to reduce overall expenses, including expenses at Group companies.

In the Water Treatment Facilities segment, Kurita worked to bolster its overseas business foundation with a view to expanding business globally. Measures included strengthening ties with Group companies around the world and opening the Malaysia Branch to enhance sales activities in Southeast Asia.

Despite these efforts, orders decreased in both the Water Treatment Chemicals and Water Treatment Facilities segments. Total consolidated orders for the Kurita Group in the fiscal year ended March 31, 2013 were down 5.3% versus the previous fiscal year to ¥186,741 million.

b) Net Sales

Consolidated net sales for the fiscal year ended March 31, 2013 decreased ¥13,649 million, or 7.0%, to ¥180,143 million. In the Water Treatment Chemicals segment, sales were favorable in Asia, particularly in China and Thailand, but were negatively affected by elimination and consolidation of production bases and lower capacity utilization at customers' plants in Japan. In the Water Treatment Facilities segment, while sales of water treatment facilities for the semiconductors and LCD panel industries in Asia increased, sales declined overall, mainly due to elimination and consolidation of production bases and lower capacity utilization at customers' plants, and a fall in earthquake recovery-related demand.

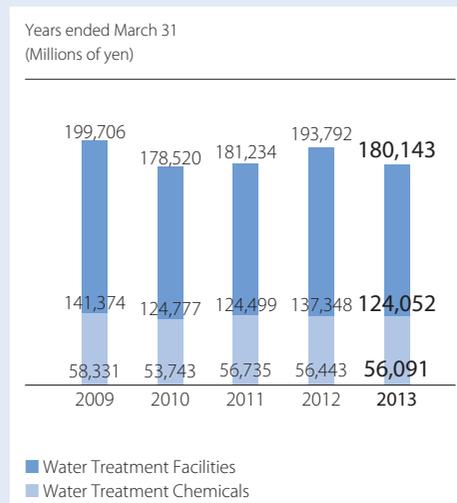
c) Cost of Sales

Cost of sales was down 5.4% to ¥121,047 million from ¥127,905 million in the fiscal year ended March 31, 2012. As a percentage of sales, cost of sales increased to 67.2% in the year ended March 31, 2013, from 66.0% in the previous fiscal year. This increase in the cost-of-sales ratio was due in part to the fall in the cost-of-sales ratio in the Water Treatment Facilities segment, caused mainly by lower sales to the electronics industry.

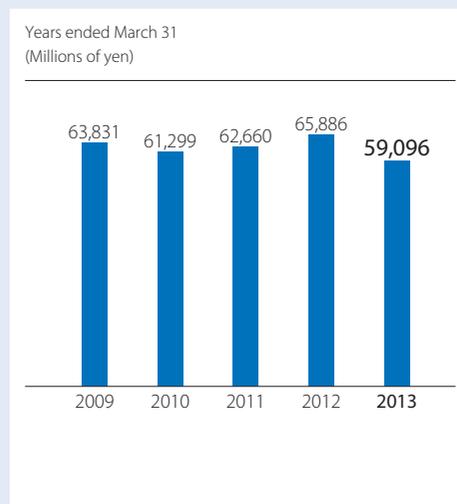
d) Selling, General and Administrative (SG&A) Expenses

SG&A expenses were ¥38,106 million, up 4.4%, or ¥1,603 million, from ¥36,503 million in the fiscal year ended March 31, 2012. The increase in SG&A expenses was mainly attributable to a ¥501 million year-on-year increase in salaries and allowances, due to an increase in the number of employees. Another factor was a ¥130 million year-on-year increase in research and development expenses. At the same time, other increased by ¥849 million year on year, mainly due to higher rental expenses.

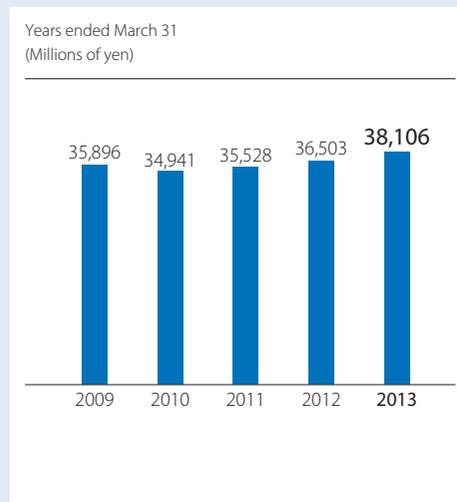
Sales by Segment



Gross Profit



SG&A Expenses



e) Operating Income

Operating income decreased to ¥20,989 million in the year ended March 31, 2013, down 28.6% from ¥29,382 million in the fiscal year ended March 31, 2012. The operating margin declined to 11.7% from 15.2% in the previous fiscal year.

f) Segment Information

Water Treatment Chemicals

Orders and Sales

In Japan, although chemicals for reverse osmosis membranes and certain other products saw increased orders and sales, both orders and sales declined for mainstay cooling water treatment chemicals and wastewater treatment chemicals, mainly due to the elimination and consolidation of customers' plants and falling capacity utilization. Overseas, both orders and sales increased overall, supported by steady growth in Asia, especially in China and Thailand, despite lower orders and sales in Europe. However, this did not make up for the overall decrease in orders and sales for the Water Treatment Chemicals segment as a whole.

As a result, total Group orders for the Water Treatment Chemicals segment were ¥56,040 million (down 1.2% versus the previous fiscal year), while sales were ¥56,091 million (down 0.6%).

Operating Income

Segment operating income declined 10.1% year on year to ¥8,334 million. This was mainly due to lower sales and changes in the sales mix, as well as higher SG&A expenses, such as personnel costs in line with an increase in employees overseas.

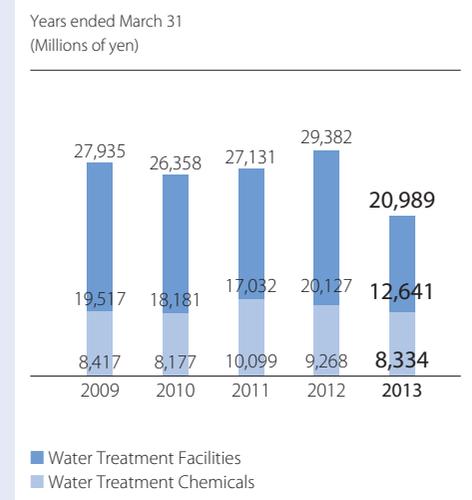
Water Treatment Facilities

Orders and Sales

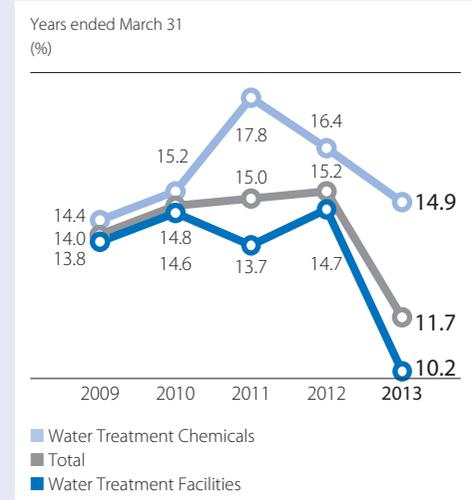
In the electronics industry, both orders and sales declined in the ultrapure water supply business, water treatment facilities, and maintenance services in Japan, reflecting the elimination and consolidation of plants and lower capacity utilization rates among major customers. Overseas, while some customers postponed or scaled back capital investments, sales of water treatment facilities for semiconductor and LCD panel factories in Asia increased. In general industries, although orders for and sales of water treatment facilities for the steel and the food industries increased, water treatment facilities for the electric power industry and maintenance services posted declining orders and sales due to a fall in earthquake recovery-related demand and lower capacity utilization at customers' plants.

As a result, total Group orders for the Water Treatment Facilities segment were ¥130,700 million (down 7.0% versus the previous fiscal year), and sales declined to ¥124,052 million (down 9.7%).

Operating Income by Segment



Operating Margin by Segment



Operating Income

Operating income decreased significantly by 37.2% year on year to ¥12,641 million. This was mainly due to lower sales and changes in the sales mix, as well as higher SG&A expenses, such as personnel costs in line with an increase in employees overseas.

g) Overseas Sales

Overseas sales rose 4.1% to ¥30,472 million in the year ended March 31, 2013. The overseas sales ratio with respect to consolidated net sales increased to 16.9% from 15.1% in the previous fiscal year.

Sales by Region

- Asia: Up 6.0% to ¥23,898 million; 78.4% of total overseas sales
- North America: Up 1.7% to ¥2,349 million; 7.7% of total overseas sales
- Europe: Down 12.9% to ¥1,196 million; 3.9% of total overseas sales
- Other regions: Down 0.5% to ¥3,028 million; 9.9% of total overseas sales

h) Other Income and Expenses

The net result of other income and expenses was net other expense of ¥1,212 million, compared to net other income of ¥294 million in the previous fiscal year.

This decline was mainly attributable to a loss on valuation of investment securities of ¥2,343 million and impairment losses of ¥1,108 million related to the relocation of the head office, which was partially offset by a gain on sales of properties of ¥1,051 million.

i) Income before Income Taxes and Minority Interests

Income before income taxes and minority interests decreased 33.4% to ¥19,776 million from ¥29,676 million in the previous fiscal year.

The pretax profit margin decreased to 11.0% from 15.3% in the previous fiscal year.

j) Net Income

After deducting income taxes and minority interests in income, Kurita recorded net income of ¥11,476 million for the fiscal year ended March 31, 2013, a 30.7% decrease from ¥16,548 million in the previous fiscal year.

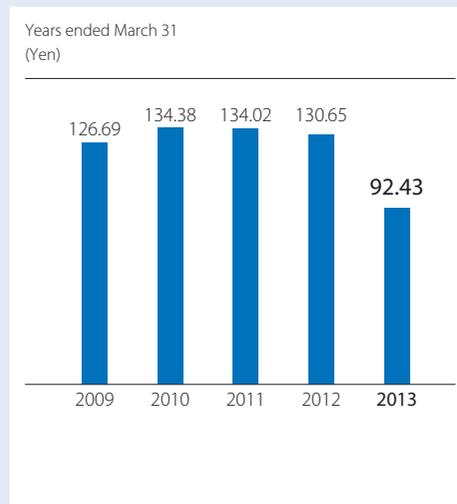
Net income per share decreased to ¥92.43 from ¥130.65 in the previous fiscal year, and the net margin fell to 6.4% from 8.5% in the previous fiscal year.

Return on equity decreased to 5.5% from 8.1% in the previous fiscal year.

Overseas Sales by Region



Net Income per Share



Return on Equity



k) Returns to Shareholders

Kurita's basic policy is to pay stable dividends on an ongoing basis. Kurita strives to increase its dividends, taking into consideration earnings performance and investment in its businesses.

In light of future business prospects, and to reward shareholders for their support, Kurita paid an annual dividend of ¥42 per share (of which ¥21 per share was an interim dividend), an increase of ¥2 per share versus the previous fiscal year's ¥40 per share (of which ¥20 per share was an interim dividend).

Capital Expenditures

The Kurita Group is committed to making necessary investments in technological innovation, production capacity expansion, and competitiveness enhancement in response to intensification of sales competition. In the year ended March 31, 2013, capital expenditures totaled ¥6,688 million, a decrease of ¥1,417 million year on year. (Leased assets and leased obligations were included for transactions for finance leases which do not transfer ownership.)

The Water Treatment Chemicals segment invested a total of ¥1,458 million, mainly for renovation of water treatment chemicals production facilities. This represented a decrease of ¥5 million from the previous fiscal year.

The Water Treatment Facilities segment invested a total of ¥5,230 million, primarily to install and expand facilities for the ultrapure water supply business. This was a ¥1,411 million decrease from the previous fiscal year.

Depreciation and amortization decreased by 6.1% year on year to ¥15,054 million.

Research and Development

Kurita conducts R&D mainly through its Research and Development Division.

In the year ended March 31, 2013, total R&D expenses increased 3.1% year on year to ¥4,362 million, equivalent to 2.4% of net sales.

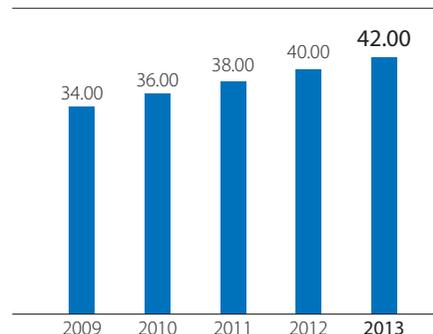
The Kurita Group employs approximately 140 R&D personnel, equivalent to 3.0% of its total workforce (4,640 personnel on a consolidated basis).

The Water Treatment Chemicals segment's R&D activities predominantly involved developing chemicals that help customers improve energy efficiency, reduce their environmental impact, and boost productivity. Other developments include technologies for systems that monitor water treatment effectiveness. Through these efforts, the segment achieved the following:

- Kurita developed a safety boiler water treatment chemical comprised solely of compounds found in food and food additives for plants in the food industry.
- For plants manufacturing bioethanol and sugar from sugar cane, which are found in large numbers in South America and Southeast Asia, Kurita developed

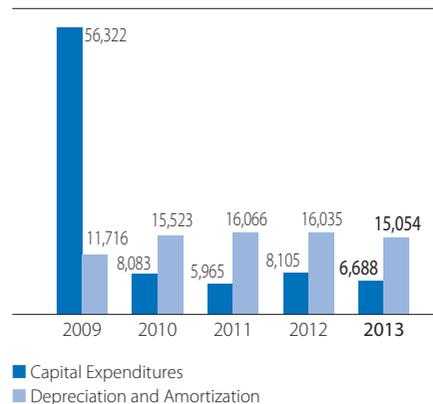
Dividends per Share

Years ended March 31
(Yen)



Capital Expenditures and Depreciation and Amortization

Years ended March 31
(Millions of yen)



a boiler water treatment chemical to prevent the thermal efficiency decreased by scale formation on the heating surface.

- For plants in the papermaking process that use wastepaper, manufacturing paper products such as paperboard and newsprint, Kurita developed a pulp and paper processing chemical to prevent problems caused by adhesive contamination originated from wastepaper, such as quality deterioration and paper breaks.
- Kurita developed a highly cost competitive cooling water treatment chemical for plants in industrial complexes, containing new polymer compounds. The Company also developed a portable water quality monitor for cooling water systems, enabling the Company's sales engineers to quickly evaluate various water quality control items and to provide customers with valuable information that they want and need on-site.

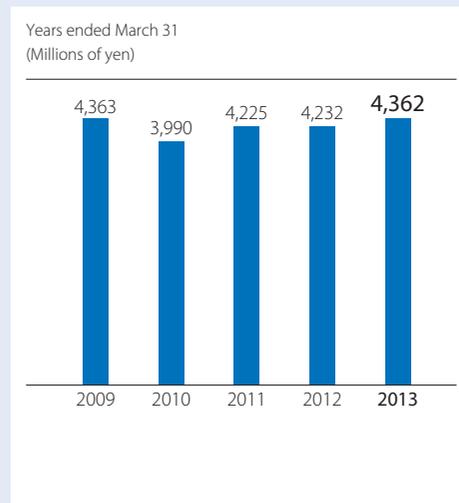
The segment's R&D expenses for the fiscal year ended March 31, 2013 totaled ¥1,367 million, a 2.4% increase versus the previous fiscal year.

In the Water Treatment Facilities segment, Kurita endeavored to further improve ultrapure water quality to contribute to productivity in the electronics industry, and to develop wastewater treatment and soil remediation technologies in anticipation of future environmental regulations. Kurita also endeavored to develop technologies conducive to a recycling oriented society, such as wastewater reclamation for reuse and sludge volume reduction. Through these efforts, the segment achieved the following:

- Kurita developed an ultrapure water production system and trace analysis technologies to ensure the water quality required in the manufacturing process of the most advanced semiconductors in the world.
- Kurita developed a new sedimentation system—a key component of the wastewater treatment process. The new system takes a completely new approach to coagulation and sedimentation to reduce costs and save space compared with conventional systems.
- Kurita developed a new technology to remove metal residues on surfaces of advanced silicon wafers for system LSIs.

The segment's R&D expenses for the fiscal year ended March 31, 2013 totaled ¥2,994 million, a 3.3% increase versus the previous fiscal year.

R&D Expenses



Financial Position

a) Assets

As of March 31, 2013, Kurita had total assets of ¥263,580 million, a decrease of ¥7,561 million from ¥271,141 million as of March 31, 2012.

Current Assets

Current assets as of March 31, 2013 totaled ¥146,874 million, an increase of ¥1,889 million from ¥144,985 million as of March 31, 2012.

This increase was mainly due to an increase of ¥14,137 million in cash and time deposits, partially offset by decreases of ¥4,969 million in notes and accounts receivable, trade and ¥6,500 million in marketable securities.

The decrease in notes and accounts receivable, trade reflected decreased sales during the second half of the fiscal year ended March 31, 2013. The increase in cash and time deposits and decrease in marketable securities were due to decreased investment in negotiable certificates of deposits, which are treated as marketable securities.

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

As of March 31, 2013, property, plant and equipment, net totaled ¥86,820 million, a decrease of ¥11,548 million from ¥98,368 million as of March 31, 2012. This occurred mainly because depreciation on past years' investments in ultrapure water supply business facilities exceeded capital expenditure in the year under review, the sale of some ultrapure water supply business facilities owned by the Company, and impairment losses related to the relocation of the head office.

Investments and long-term receivables were ¥28,265 million as of March 31, 2013, an increase of ¥2,162 million from ¥26,103 million a year earlier. The increase was the result of an increase in unrealized gains on investment securities due to the recovery of share prices after the posting of a valuation loss of ¥2,343 million on investment securities in the second quarter.

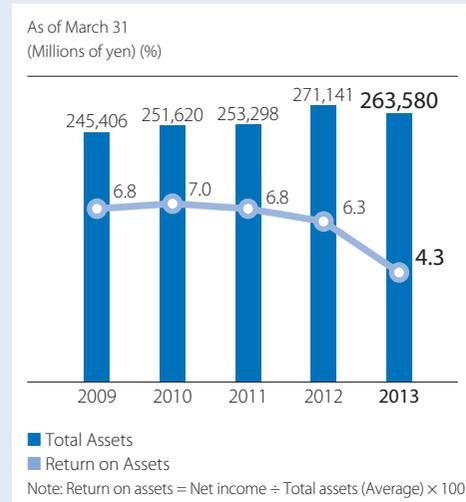
b) Liabilities

As of March 31, 2013, liabilities totaled ¥54,462 million, a decrease of ¥6,677 million from ¥61,139 million as of March 31, 2012.

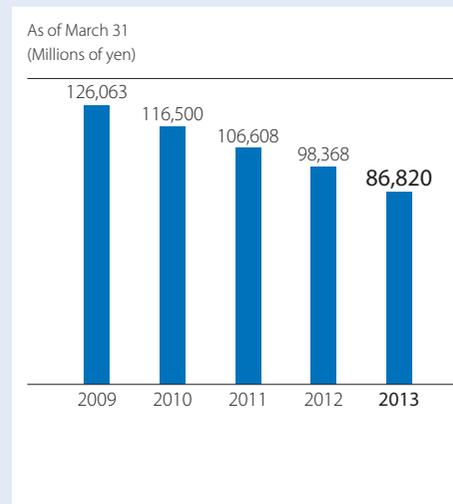
Current Liabilities

Current liabilities as of March 31, 2013 were ¥35,415 million, a decrease of ¥6,943 million from ¥42,358 million as of March 31, 2012. This was due to decreases of ¥3,349 million in notes and accounts payable, trade, and ¥4,536 million in income taxes payable. The decrease in notes and accounts payable, trade was due to slower production activities associated with lower sales in the

Total Assets and Return on Assets



Property, Plant and Equipment, Net



second half of the fiscal year. The decline in income taxes payable was due to a fall in income before income taxes and minority interests.

Long-term Liabilities

Long-term liabilities as of March 31, 2013 were ¥19,046 million, a small increase of ¥265 million from ¥18,781 million as of March 31, 2012.

c) Net Assets

As of March 31, 2013, net assets totaled ¥209,118 million, an ¥884 million decrease from ¥210,002 million as of March 31, 2012. The change mainly reflects a ¥12,217 million increase in treasury stock through a tender offer, a ¥6,266 million increase in retained earnings resulting from the posting of ¥11,476 million in net income, which exceeded dividend payments in the previous fiscal year and interim dividend payments in the fiscal year under review of ¥5,192 million, and a ¥3,827 million increase in unrealized gains on available-for-sale securities owing to an increase in unrealized gains on investment securities.

As a result, total assets were ¥263,580 million as of March 31, 2013, a ¥7,561 million decrease from the previous fiscal year-end. As of March 31, 2013, Kurita had an equity ratio of 78.9%, up 1.9 percentage points from 77.0% a year earlier. Equity per share at March 31, 2013 was ¥1,744.41, an increase of ¥95.17 from ¥1,649.24 a year earlier.

Cash Flows

Cash Flows from Operating Activities

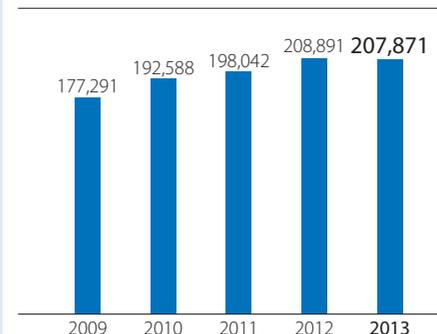
Operating activities provided net cash of ¥27,276 million in the fiscal year ended March 31, 2013, a decrease of ¥1,006 million versus the previous fiscal year. The main sources of cash were income before income taxes and minority interests of ¥19,776 million, ¥15,054 million in depreciation and amortization, and a ¥6,095 million decrease in trade receivables. These were partly offset by ¥4,005 million from a decrease in trade payables and income taxes paid of ¥13,152 million.

Cash Flows from Investing Activities

Net cash provided by investing activities was ¥4,268 million, a change of ¥17,775 million from net cash used in the previous fiscal year. This primarily reflects an inflow from a decrease in time deposits, net of ¥7,895 million, and proceeds from sale of property, plant and equipment of ¥3,356 million. These were partly offset by a net outflow of ¥1,393 million after subtracting payments for purchase of marketable securities and investment securities from proceeds from sale and redemption of marketable securities and investment securities, and an outflow of ¥5,048 million for payments for purchase of property, plant and equipment, mainly for equipment for the ultrapure water supply business.

Equity

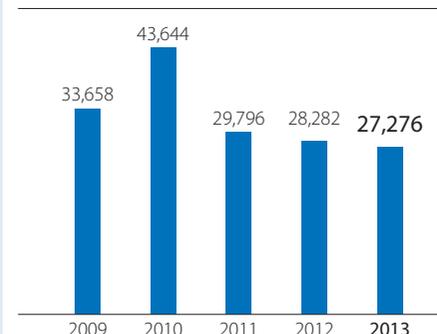
As of March 31
(Millions of yen)



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

Cash Flows from Operating Activities

Years ended March 31
(Millions of yen)



Cash Flows from Financing Activities

Financing activities used net cash of ¥18,561 million, an increase of ¥12,954 million versus the previous fiscal year. The main uses of cash were ¥12,216 million for purchase of treasury stock, net and ¥5,241 million for cash dividends paid.

Cash and Cash Equivalents at End of Year

At March 31, 2013, Kurita had cash and cash equivalents totaling ¥33,313 million, an increase of ¥13,487 million versus March 31, 2012.

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, 2013.

1. Economic and Market Conditions

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

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

2. Materials and Parts Procurement

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

3. Overseas Business Development

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

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, 2013 and 2012

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Current assets:			
Cash and time deposits (Notes 3, 5 and 7)	¥ 43,039	¥ 28,902	\$ 457,864
Notes and accounts receivable, trade (Notes 4 and 5)	61,387	66,356	653,063
Allowance for doubtful accounts	(104)	(58)	(1,108)
Marketable securities (Notes 5 and 6)	34,000	40,500	361,702
Inventories (Note 8)	4,875	5,522	51,865
Deferred tax assets (Note 10)	1,956	2,294	20,817
Other current assets	1,719	1,466	18,290
Total current assets	146,874	144,985	1,562,495
Investments and long-term receivables:			
Investment securities (Notes 5 and 6)	17,367	14,992	184,765
Investments in unconsolidated subsidiaries and affiliates (Note 5)	1,384	1,169	14,730
Deferred tax assets (Note 10)	7,738	8,035	82,328
Other investments	2,015	2,246	21,439
Allowance for doubtful accounts	(241)	(339)	(2,565)
Total investments and long-term receivables	28,265	26,103	300,698
Property, plant and equipment, at cost (Notes 15 and 16):			
Land (Note 13)	13,984	13,962	148,771
Buildings and structures	59,982	65,368	638,115
Machinery and equipment	87,994	92,180	936,111
Construction in progress	4,074	2,362	43,349
Other facilities	11,368	11,237	120,945
Leased assets	8,183	7,808	87,058
Total	185,589	192,919	1,974,351
Accumulated depreciation	(98,768)	(94,551)	(1,050,726)
Property, plant and equipment, net	86,820	98,368	923,625
Intangible assets	1,619	1,683	17,227
Total assets	¥263,580	¥271,141	\$ 2,804,046

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Current liabilities:			
Short-term borrowings and current portion of long-term borrowings lease obligations (Note 9)	¥ 1,127	¥ 1,463	\$ 11,997
Notes and accounts payable, trade (Notes 4 and 5)	17,973	21,322	191,206
Accounts payable, other	6,857	6,237	72,953
Income taxes payable	2,509	7,045	26,692
Advances received	1,409	945	14,999
Accrued employees' bonuses	2,362	2,427	25,137
Provision for product warranties	774	1,007	8,241
Other current liabilities	2,400	1,908	25,534
Total current liabilities	35,415	42,358	376,762
Long-term liabilities:			
Lease obligations (Note 9)	6,020	6,191	64,051
Accrued employees' retirement benefits (Note 11)	10,835	10,335	115,275
Accrued retirement benefits for directors and corporate auditors	165	168	1,756
Deferred tax liabilities on revaluation of land (Note 13)	1,303	1,303	13,866
Other long-term liabilities (Note 9)	721	782	7,672
Total long-term liabilities	19,046	18,781	202,623
Total liabilities	54,462	61,139	579,385
Net assets:			
Shareholders' equity (Note 12):			
Common stock, 2013 and 2012			
Authorized: 531,000,000 shares			
Issued: 2013—132,800,256 shares			
2012—132,800,256 shares	13,450	13,450	143,093
Capital surplus	11,426	11,426	121,561
Retained earnings	202,807	196,541	2,157,531
Treasury stock, at cost			
2013—13,635,467 shares			
2012—6,140,839 shares	(21,859)	(9,642)	(232,543)
Total shareholders' equity	205,826	211,776	2,189,643
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities	4,079	252	43,395
Unrealized losses on revaluation of land (Note 13)	(564)	(564)	(6,007)
Foreign currency translation adjustments	(1,469)	(2,572)	(15,629)
Total accumulated other comprehensive income	2,045	(2,884)	21,759
Minority interests	1,246	1,110	13,258
Total net assets	209,118	210,002	2,224,661
Liabilities and net assets	¥263,580	¥271,141	\$2,804,046

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen										
	Shareholders' equity (Note 11)					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Unrealized losses on revaluation of land (Note 13)	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of March 31, 2011	¥13,450	¥11,426	¥184,954	¥ (9,640)	¥200,191	¥ 623	¥(764)	¥(2,006)	¥(2,148)	¥1,308	¥199,351
Changes during the year											
Cash dividends paid			(4,939)		(4,939)						(4,939)
Other			(5)		(5)						(5)
Net income for the year			16,548		16,548						16,548
Acquisition of treasury stock				(2)	(2)						(2)
Reversal of unrealized gains (losses) on revaluation of land			(15)		(15)						(15)
Net changes of net assets other than shareholders' equity						(370)	199	(565)	(736)	(198)	(934)
Total changes during the year			11,587	(2)	11,585	(370)	199	(565)	(736)	(198)	10,650
Balance as of March 31, 2012	¥13,450	¥11,426	¥196,541	¥(9,642)	¥211,776	¥ 252	¥(564)	¥(2,572)	¥(2,884)	¥1,110	¥210,002
Changes during the year											
Cash dividends paid			(5,193)		(5,193)						(5,193)
Other			(16)		(16)						(16)
Net income for the year			11,476		11,476						11,476
Acquisition of treasury stock				(12,216)	(12,216)						(12,216)
Reversal of unrealized gains (losses) on revaluation of land			(0)		(0)						(0)
Net changes of net assets other than shareholders' equity						3,826	0	1,103	4,930	135	5,065
Total changes during the year			6,266	(12,216)	(5,950)	3,826	0	1,103	4,930	135	(884)
Balance as of March 31, 2013	¥13,450	¥11,426	¥202,807	¥(21,859)	¥205,826	¥4,079	¥(564)	¥(1,469)	¥2,045	¥1,246	¥209,118

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity (Note 11)					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Unrealized losses on revaluation of land (Note 12)	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of March 31, 2012	\$143,093	\$121,561	\$2,090,870	\$(102,581)	\$2,252,943	\$ 2,685	\$(6,008)	\$(27,366)	\$(30,688)	\$11,813	\$2,234,068
Changes during the year											
Cash dividends paid			(55,244)		(55,244)						(55,244)
Other			(178)		(178)						(178)
Net income for the year			122,086		122,086						122,086
Acquisition of treasury stock				(129,961)	(129,961)						(129,961)
Reversal of unrealized gains (losses) on revaluation of land			(1)		(1)						(1)
Net changes of net assets other than shareholders' equity						40,710	1	11,736	52,448	1,445	53,893
Total changes during the year			66,661	(129,961)	(63,300)	40,710	1	11,736	52,448	1,445	(9,406)
Balance as of March 31, 2013	\$143,093	\$121,561	\$2,157,531	\$(232,543)	\$2,189,643	\$43,395	\$(6,007)	\$(15,629)	\$21,759	\$13,258	\$2,224,661

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
I. Cash flows from operating activities			
Income before income taxes and minority interests	¥ 19,776	¥ 29,676	\$ 210,393
Depreciation and amortization	15,054	16,035	160,150
Increase in accrued employees' retirement benefits	464	415	4,938
Increase (decrease) in other allowances	(379)	85	(4,032)
Equity in earnings of unconsolidated subsidiaries and affiliates	(348)	(328)	(3,702)
Interest and dividend income	(501)	(495)	(5,338)
Interest expense	78	88	836
Gain on sales and disposal of properties	(1,000)	(108)	(10,646)
Impairment loss	1,108	173	11,794
Loss (gain) on sales of investment securities	(403)	1	(4,297)
Loss on valuation of investment securities	2,343	608	24,925
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	6,095	(13,652)	64,847
Decrease (Increase) in inventories	808	(135)	8,601
Increase (decrease) in trade payables	(4,005)	5,448	(42,613)
Decrease (increase) in other assets	(76)	285	(818)
Increase in other liabilities	173	954	1,847
Others, net	221	(147)	2,360
	39,409	38,907	419,246
Interest and dividends received	730	693	7,775
Interest paid	(73)	(89)	(776)
Income taxes paid	(13,152)	(11,346)	(139,915)
Others, net	361	117	3,845
Net cash provided by operating activities	27,276	28,282	290,174
II. Cash flows from investing activities			
Decrease in time deposits, net	7,895	6,608	83,998
Payments for purchase of property, plant and equipment	(5,048)	(7,460)	(53,707)
Proceeds from sale of property, plant and equipment	3,356	262	35,705
Payments for purchase of marketable securities and investment securities	(76,510)	(69,010)	(813,946)
Proceeds from sale and redemption of marketable securities and investment securities	75,117	57,001	799,120
Others, net	(541)	(907)	(5,761)
Net cash used in investing activities	4,268	(13,507)	45,409
III. Cash flows from financing activities			
Decrease in short-term borrowings, net	(494)	(166)	(5,256)
Proceeds from long-term loans payable	58	46	627
Repayment of long-term loans payable	(89)	—	(954)
Cash dividends paid	(5,192)	(4,936)	(55,235)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(49)	(41)	(521)
Payments for lease obligations	(579)	(507)	(6,160)
Payments for purchase of treasury stock, net	(12,216)	(2)	(129,961)
Net cash used in financing activities	(18,561)	(5,607)	(197,463)
IV. Effect of exchange rate changes on cash and cash equivalents	503	(176)	5,359
V. Net increase in cash and cash equivalents	13,487	8,991	143,479
VI. Cash and cash equivalents at beginning of year	19,825	10,834	210,914
VII. Cash and cash equivalents at end of year (Note 3)	¥ 33,313	¥ 19,825	\$ 354,393

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 2012 financial statements to conform to the classification used in 2013.

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, 2013 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 ¥94 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2013. 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, 2013 and 2012, 37 subsidiaries were consolidated, respectively.

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

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

Names of principal consolidated subsidiaries:

- Kuritaz Co., Ltd.
- Kurita Engineering Co., Ltd.
- Kuritec Service Co. Ltd.
- Kurita Chemical Manufacturing Ltd.

Fiscal years of consolidated subsidiaries

The fiscal years of Kurita (Singapore) Pte. Ltd. and 12 (12 in 2012) other consolidated subsidiaries 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 three years, 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, 2013 and 2012, 3 companies were accounted for by the equity method.

Name of principal company applying the equity method:

Kurita Sogo Service Co., Ltd.

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

Adjustments were made to the financial statements of the companies accounted for by the equity method whose fiscal year-ends were not identical to the Company.

(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 utilized by the Group are composed of only forward currency contracts entered into when necessary to hedge the market risk, as the Company maintains the policy not to engage in speculative transactions. The Company believes that the risk of counterparty default is negligible because its forward currency contracts are entered into only with banks with high credit ratings. In addition, transactions in forward currency contracts are executed and managed by the finance and accounting department on a contract-by-contract basis after they have been approved by prescribed internal procedures.

Derivatives are classified and accounted for as follows: a) all derivatives are recognized as either assets

or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purpose, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

If forward currency contracts qualify for hedge accounting and the required condition under the related Japanese accounting standards, the hedged assets and liabilities dominated in foreign currencies are translated at the contracted rates, and no gains and losses on derivative transactions are recognized.

Hedging instruments and Hedged items are as follows:

<u>Hedging instruments</u>	<u>Hedged items</u>
Forward currency contracts	Time deposits dominated in foreign currencies

The Group evaluates hedge effectiveness by comparing the cumulative changes in the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

If forward contracts qualify for the hedge accounting, these derivatives are not evaluated hedge effectiveness.

(7) Depreciation of property, plant and equipment

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

Accounting change which could not be distinguished from changes in accounting estimate

In accordance with revisions to the Corporate Tax Act, effective April 1, 2012, the Group adopted amortization methods revised based on the Corporation Tax Act for depreciation of property, plant and equipment (excluding building) acquired on or after April 1, 2012. The effects of this change are immaterial.

(8) 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.

(9) Accrued employees' bonuses

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

(10) Accrued employees' retirement benefits

Accrued employees' retirement benefits are recorded based on the estimated amount of projected

benefit obligation at the balance sheet date by the Company, certain of its domestic consolidated subsidiaries and certain foreign consolidated subsidiaries, and based on the estimated amounts of projected benefit obligation and pension plan assets, at the balance sheet date by other domestic consolidated subsidiaries. Actuarial differences are subject to amortization over a period of 1–2 years from the year when they are incurred.

(11) 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.

(12) Consumption taxes

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

(13) 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.

(14) 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 "Minority interests" in net assets.

(15) 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.

(16) Earnings per share

Earnings per share are computed using the weighted-average number of common shares outstanding.

(17) New accounting pronouncements

Accounting standard for retirement benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

These accounting standards were revised mainly on a processing method of unrecognized actuarial loss and unrecognized prior service cost, a calculation method of retirement benefit obligations and

service cost and expansion of the disclosure based on a point of view that improved a financial report and an international trend.

The Company expects to apply the revised accounting standard from the end of the annual period ending on March 31, 2014. However, on the calculation method of retirement benefit obligations and service cost, it expects to apply from the beginning of the annual period ending on March 31, 2015.

The Company is in the process of measuring the effects of applying the revised accounting standard at the making of the accompanying consolidated financial statements.

(18) Reclassifications

Certain reclassifications have been made in the 2012 consolidated financial statements to conform to the 2013 presentation. These reclassifications had no impact on previously reported results of operations.

3. Reconciliation between cash and cash equivalents

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)
	2013	2012	2013
Cash and time deposits.....	¥43,039	¥28,902	\$457,864
Time deposits with original maturity of more than three months	(9,726)	(17,576)	(103,471)
Certificates of deposits included in marketable securities, excluding deposits maturing over three months.....	—	8,500	—
Cash and cash equivalents.....	¥33,313	¥19,825	\$354,393

4. Trade notes with maturity on the balance sheet date

The following amount of trade notes had March 31, 2013 and 2012 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.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Notes receivable.....	¥629	¥679	\$6,698
Notes payable	195	197	2,080

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

(2) Nature of financial instruments and their related risks

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

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

Payment terms of trade payables such as notes and accounts are mostly less than one year. Lease obligations under finance lease transactions are mainly related to ultrapure water supply business and its payment term is 16 years (17 in 2012) 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 Department after the individual contract is approved in accordance with the predetermined rule.

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

The Finance Departments 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, 2013 and 2012 were as follows (financial instruments whose fair values cannot be reliably determined are not included in the following table):

At March 31, 2013	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and time deposits.....	¥ 43,039	¥ 43,039	¥—
Notes and accounts receivable, trade	61,387	61,387	—
Marketable securities and investment securities			
Available-for-sale securities.....	51,277	51,277	—
Total assets.....	¥155,705	¥155,705	¥—
Notes and accounts payable, trade	¥ 17,973	¥ 17,973	¥—
Total liabilities.....	¥ 17,973	¥ 17,973	¥—
Derivatives.....	¥ —	¥ —	¥—

At March 31, 2013	Thousands of U.S. dollars (Note 1)		
	Carrying amount	Fair value	Difference
Cash and time deposits.....	\$ 457,864	\$ 457,864	\$—
Notes and accounts receivable, trade	653,063	653,063	—
Marketable securities and investment securities			
Available-for-sale securities.....	545,509	545,509	—
Total assets.....	\$1,656,437	\$1,656,437	\$—
Notes and accounts payable, trade	\$ 191,206	\$ 191,206	\$—
Total liabilities.....	\$ 191,206	\$ 191,206	\$—
Derivatives.....	\$ —	\$ —	\$—

At March 31, 2012	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and time deposits.....	¥ 28,902	¥ 28,902	¥—
Notes and accounts receivable, trade	66,356	66,356	—
Marketable securities and investment securities			
Available-for-sale securities.....	55,402	55,402	—
Total assets.....	¥150,661	¥150,661	¥—
Notes and accounts payable, trade	¥ 21,322	¥ 21,322	¥—
Total liabilities.....	¥ 21,322	¥ 21,322	¥—
Derivatives.....	¥ —	¥ —	¥—

Notes:

a. Computation method of fair values

Cash and time deposits and notes and accounts receivable, trade:

Fair values approximate carrying amounts because of their short maturities.

Marketable securities and investment securities:

Fair values approximate carrying amounts because of their short maturities since marketable securities consist of certificates of deposits. 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:

These derivatives are accounted for together with time deposits designated as a hedged item. Therefore, the fair value of such derivatives is included in that of time deposits. (Note2 (6))

Detail 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)
	2013	2012	2013
Unlisted equity securities (Unlisted shares).....	¥ 90	¥ 90	\$ 957
(Shares of unconsolidated subsidiaries and affiliates).....	¥1,384	¥1,169	\$14,730

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

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

At March 31, 2013	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.....	¥ 43,009	¥—	¥—	¥—
Notes and accounts receivable, trade.....	61,387	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Certificates of deposits)	34,000	—	—	—
Total.....	¥138,397	¥—	¥—	¥—

At March 31, 2013	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.....	\$ 457,549	\$—	\$—	\$—
Notes and accounts receivable, trade.....	653,063	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(Certificates of deposits).....	361,702	—	—	—
Total.....	\$1,472,315	\$—	\$—	\$—

6. Marketable securities and investment in securities

(1) Available-for-sale securities with fair value at March 31, 2013 and 2012 are summarized as follows:

At March 31, 2013	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks.....	¥16,679	¥11,198	¥5,481
Bonds.....	—	—	—
Other.....	—	—	—
Subtotal.....	16,679	11,198	5,481
Carrying amount not exceeding acquisition cost:			
Stocks.....	598	756	(157)
Bonds.....	—	—	—
Other.....	—	—	—
Subtotal.....	598	756	(157)
Total.....	¥17,277	¥11,954	¥5,323

At March 31, 2013	Thousands of U.S. dollars (Note 1)		
	Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks.....	\$177,442	\$119,129	\$58,313
Bonds.....	—	—	—
Other.....	—	—	—
Subtotal.....	177,442	119,129	58,313
Carrying amount not exceeding acquisition cost:			
Stocks.....	6,364	8,044	(1,679)
Bonds.....	—	—	—
Other.....	—	—	—
Subtotal.....	6,364	8,044	(1,679)
Total.....	\$183,807	\$127,173	\$56,633

Notes:

The above table does not include negotiable deposits that have not been assigned a market value (value on consolidated balance sheets: ¥34,000 million) and unlisted shares (value on consolidated balance sheets: ¥90 million).

At March 31, 2012	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks	¥ 7,845	¥ 5,873	¥ 1,972
Bonds	—	—	—
Other.....	—	—	—
Subtotal	7,845	5,873	1,972
Carrying amount not exceeding acquisition cost:			
Stocks	7,056	8,626	(1,570)
Bonds	—	—	—
Other.....	—	—	—
Subtotal	7,056	8,626	(1,570)
Total.....	¥14,902	¥14,499	¥ 402

Notes:

The above table does not include negotiable deposits that have not been assigned a market value (value on consolidated balance sheets: ¥40,500 million) and unlisted shares (value on consolidated balance sheets: ¥90 million).

(2) Available-for-sale securities sold during the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Sales amount.....	¥617	¥0	\$6,566
Total gains on sales.....	411	—	4,382
Total losses on sales.....	7	1	84

(3) Loss on valuation of available-for-sale securities

The Company recognizes loss valuation for the full amount of securities when the fair value declines below 50% of the acquisition cost, and for amounts deemed necessary after consideration of recoverability when the fair value declines by 30 to 50% of the acquisition cost. For the year ended March 31, 2013 and 2012, loss on valuation recognized on equity securities classified as available-for-sale securities amounted to ¥2,343 million (US\$24,925 thousand) and ¥608 million, respectively.

7. Derivatives

All Derivatives held by the Group as of March 31, 2013 and 2012 have been applied the hedge accounting.

Derivatives for which hedge accounting applied at March 31, 2013 are as follows:

Currency related

At March 31, 2013	Hedging instrument	Hedge item	Millions of yen		
			Contract amount	Contracts longer than one year	Fair value
	Forward currency contracts: Selling Yuan Renminbi	Time deposits	¥4,000	—	Note
			Thousands of U.S. dollars (Note 1)		
	Forward currency contracts: Selling Yuan Renminbi	Time deposits	\$42,553	—	Note

Note:

These derivatives are accounted for together with time deposits designated as a hedged item. Therefore, the fair value of such derivatives is included in that of time deposits. (Note2 (6))

Derivatives for which hedge accounting applied at March 31, 2012 are not disclosed because they are not material.

8. Inventories

Inventories at March 31, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Finished products	¥1,445	¥1,598	\$15,376
Raw materials	1,191	1,209	12,670
Work in process.....	2,238	2,715	23,818
Total	¥4,875	¥5,522	\$51,865

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, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Short-term borrowings	¥ 543	¥ 957	\$ 5,785
Current portion of lease obligations.....	583	506	6,211
Total	¥1,127	¥1,463	\$11,997

The weighted-average annual interest rate of short-term borrowings for the years ended March 31, 2013 and 2012 were 4.62% and 4.69%, respectively.

(2) Long-term debt

Long-term debt at March 31, 2013 and 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Long-term borrowings	¥ 0	¥ 42	\$ 6
Less current portion of long-term borrowings	—	—	—
Long-term borrowings with maturing dates coming in 2015 and thereafter	¥ 0	¥ 42	\$ 6
Lease obligations	¥6,604	¥6,697	\$70,263
Less current portion of lease obligations	(583)	(506)	(6,211)
Lease obligations with maturing dates coming in 2015 and thereafter	¥6,020	¥6,191	\$64,051

The weighted-average annual interest rate of long-term borrowings for the year ended March 31, 2013 and 2012 were 10.37% and 4.24%, respectively.

Annual maturities of long-term debt at March 31, 2013 are as follows:

Years Ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2014	¥ 583	\$ 6,211
2015	544	5,790
2016	508	5,408
2017	481	5,124
2018 and thereafter	4,487	47,734
Total	¥6,605	\$70,270

(3) Other long-term liabilities

Other than the short-term borrowings and lease obligations described above, ¥664 million (US\$7,066 thousand) and ¥727 million of interest-bearing long-term deposits received were included in other long-term liabilities as of March 31, 2013 and 2012, respectively. The weighted-average annual interest rates for such deposits received for the years ended March 31, 2013 and 2012 were 0.36%.

10. Income taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deferred tax assets:			
Excess depreciation of property, plant and equipment	¥ 5,676	¥ 4,956	\$ 60,389
Excess provision for accrued employees' retirement benefits	3,815	3,675	40,591
Loss on revaluation of investment securities	1,187	461	12,637
Excess provision for accrued bonuses to employees	873	897	9,296
Impairment loss	351	316	3,738
Excess provision of allowance for product warranty	287	379	3,053
Accrued enterprise taxes not deductible	251	509	2,677
Unrealized gain on sale of property, plant and equipment . .	157	188	1,678
Other	1,060	961	11,281
Subtotal	13,662	12,347	145,344
Valuation allowance	(1,539)	(786)	(16,382)
Total deferred tax assets	12,122	11,561	128,962
Deferred tax liabilities:			
Unrealized losses on available-for-sale securities	(1,267)	(149)	(13,479)
Capital gains on properties deferred for tax purposes	(638)	(640)	(6,794)
Estimated income taxes pertaining to retained earnings of overseas consolidated subsidiaries	(520)	(439)	(5,541)
Other	—	(1)	—
Total deferred tax liabilities	(2,426)	(1,231)	(25,815)
Deferred tax assets, net	¥ 9,695	¥10,329	\$103,146

A reconciliation between the normal effective statutory tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2013 and 2012 was as follows:

	2013	2012
Normal effective statutory tax rate	38.0%	40.6%
Loss on revaluation of investment securities	3.8	—
Expenses not deductible for income tax purposes	0.5	0.4
Reversal of deferred tax liabilities on retained earnings of foreign consolidated subsidiaries	(0.4)	(0.1)
Dividend income not taxable for income tax purposes	(0.3)	(0.2)
R&D expense tax credit	(1.4)	(0.8)
Difference in statutory tax rates of foreign subsidiaries	(1.0)	(0.9)
Adjustment to deferred tax assets and liabilities from changes in the statutory tax rate	—	4.4
Income taxes—correction	1.3	—
Other	1.0	0.5
Actual effective tax rate	41.5%	43.9%

11. Retirement benefits and pension plans

The Company and 9 domestic consolidated subsidiaries provide lump-sum retirement benefit plans and defined contribution pension plans. Fifteen other domestic consolidated subsidiaries provide lump-sum retirement benefit plans. Four overseas consolidated subsidiaries provide lump-sum retirement benefit plans; 2 provide lump-sum retirement benefit plans and defined contribution pension plans; and 2 provide a defined contribution pension plan.

(1) Benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Retirement benefit obligation.....	¥(20,891)	¥(20,305)	\$(222,244)
Fair value of plan assets.....	10,038	9,879	106,787
Unfunded retirement benefit obligations.....	(10,852)	(10,426)	(115,457)
Unrecognized actuarial gain.....	17	91	181
Unrecognized prior service cost.....	—	—	—
Net accrued employees' retirement benefits.....	(10,835)	(10,335)	(115,275)
Prepaid pension cost.....	—	—	—
Accrued employees' retirement benefits.....	¥(10,835)	¥(10,335)	\$(115,275)

(2) Net periodic benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Service cost.....	¥ 777	¥ 854	\$ 8,272
Interest cost.....	159	152	1,692
Expected return on plan assets.....	—	—	—
Amortization of actuarial differences.....	239	124	2,548
Additional retirement payments.....	14	27	151
Loss at transition to defined contribution pension plan.....	—	0	—
Other.....	711	685	7,563
Net periodic benefit cost.....	¥1,901	¥1,844	\$20,229

In the above table, benefit cost incurred for the domestic consolidated subsidiaries, which use the simplified method for computing benefit obligations, is included in "Service cost," and "Other" represents contribution to the defined contribution pension plan.

(3) Assumptions to determine above obligation and cost

	2013	2012
Periodic allocation of projected benefit obligation ...	Equal amount over each period	Equal amount over each period
Discount rate.....	1.7–1.8%	1.7–1.8%
Expected rate of return on plan assets.....	0.5%	0.5–0.7%
Amortization period of actuarial differences.....	1–2 years	1–2 years

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. Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors' meeting if the articles of incorporation of the company so stipulate.

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

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

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

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

(3) Treasury stock

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

13. Unrealized gains on revaluation of 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 "Unrealized gains (losses) on revaluation of land" in the valuation and translation account in net assets. The tax equivalent is stated as deferred tax assets or liabilities in long-term liabilities.

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

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

Revaluation date: March 31, 2002

14. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Salaries and allowances.....	¥14,895	¥14,394	\$158,458
Provision for employees' bonuses.....	1,368	1,378	14,554
Retirement benefit expenses.....	1,079	987	11,479
Travel expenses.....	2,675	2,633	28,466
Research and development expenses.....	4,362	4,232	46,406
Other.....	13,726	12,877	146,026
Total.....	¥38,106	¥36,503	\$405,392

15. Other income (expenses)

The details of gain on sales of properties for the year ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Machinery and equipment	¥701	¥ 15	\$7,465
Buildings and structures	346	—	3,682
Land	—	123	—
Others	3	0	32

Provision for building demolition expenses

Provision for building demolition expenses relates to the former head office building of the Company (Shinjuku-ku, Tokyo) and is estimated based on the plan of demolishing the former head office building.

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, 2013, the Group recognized impairment losses of ¥1,108 million (US\$ 11,794 thousand) on the following assets.

Land, buildings and structures, etc. of the former head office of the Company (Shinjuku Ward, Tokyo) became idle assets as a result of the relocation of the head office. Of these assets, the Group recognized an impairment loss on buildings and structures, etc. as because of aging and other factors the carrying value of these assets may not be recoverable.

The Group recognized an impairment loss on land in Ichinomiya City, Aichi, for which there is no intended use in the future and whose market values significantly declined.

The details of impairment losses recognized for the year ended March 31, 2013 are as follows:

Year ended March 31, 2013		Millions of yen	Thousands of U.S. dollars (Note 1)
Idle assets:			
Shinjuku-ku, Tokyo	Buildings and structures	¥1,094	\$11,648
Ichinomiya City, Aichi	Land	13	146

The carrying value of these assets is written down to their fair value less costs to sell, of which buildings and structures, etc. is estimated memorandum value of ¥1 because the carrying value of these assets may not be recoverable, and of which land is based on Japanese Real Estate Appraisal Standards.

For the year ended March 31, 2012, the Group recognized impairment losses of ¥173 million on real estate for which there is no intended use in the future and whose market values significantly declined.

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

Year ended March 31, 2012		Millions of yen
Idle assets:		
Kitakami City, Iwate	Land	¥103
Takatsuki City, Osaka	Land	60
Awara City, Fukui	Land	8

The carrying value of these assets is written down to their fair value less costs to sell, which is based on Japanese Real Estate Appraisal Standards.

17. Comprehensive income

The components of other comprehensive income for the year ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Unrealized gains on available-for-sale securities			
Gains arising during the year	¥ 2,982	¥(1,004)	\$ 31,725
Reclassification adjustments to profit or loss	2,085	610	22,188
Amount before income tax effect	5,067	(394)	53,913
Income tax effect	(1,243)	23	(13,228)
Subtotal	3,824	(370)	40,685
Unrealized losses on revaluation of land			
Income tax effect	—	184	—
Foreign currency translation adjustments			
Gains arising during the year	1,069	(564)	11,376
Share of other comprehensive income of associates accounted for using equity method			
Gains arising during the year	133	(35)	1,421
Total	¥ 5,027	¥ (785)	\$ 53,483

18. Segment information

(1) Overview of reportable segments

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

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

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

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

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

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

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

Year ended March 31, 2013	Millions of yen					
	Reportable segments			Total	Adjustments	Consolidated
	Water Treatment Chemicals	Water Treatment Facilities				
Sales						
1) Sales to outside customers	¥56,091	¥124,052	¥180,143	¥ —	¥180,143	
2) Intersegment sales	287	188	476	(476)	—	
Total	¥56,378	¥124,241	¥180,619	¥ (476)	¥180,143	
Segment income	¥ 8,334	¥ 12,641	¥ 20,975	¥ 13	¥ 20,989	
Segment assets	34,647	143,772	178,419	85,161	263,580	
Segment liabilities	16,589	37,983	54,573	(111)	54,462	
Other items						
Depreciation and amortization . .	1,369	13,684	15,054	—	15,054	
Impairment losses	—	—	—	1,108	1,108	
Increase in property, plant and equipment and intangible assets	1,458	5,230	6,688	—	6,688	
Amortization of goodwill	13	—	13	—	13	
Goodwill	—	—	—	—	—	

Year ended March 31, 2013	Thousands of U.S. dollars (Note 1)					
	Reportable segment			Total	Adjustments	Consolidated
	Water Treatment Chemicals	Water Treatment Facilities				
Sales						
1) Sales to outside customers	\$596,713	\$1,319,707	\$1,916,420	\$ —	\$1,916,420	
2) Intersegment sales	3,061	2,006	5,068	(5,068)	—	
Total	\$599,774	\$1,321,714	\$1,921,488	\$ (5,068)	\$1,916,420	
Segment income	\$ 88,661	\$ 134,484	\$ 223,145	\$ 145	\$ 223,291	
Segment assets	368,585	1,529,489	1,898,074	905,971	2,804,046	
Segment liabilities	176,487	404,082	580,570	(1,185)	579,385	
Other items						
Depreciation and amortization . .	14,567	145,583	160,150	—	160,150	
Impairment losses	—	—	—	11,794	11,794	
Increase in property, plant and equipment and intangible assets	15,514	55,640	71,155	—	71,155	
Amortization of goodwill	144	—	144	—	144	
Goodwill	—	—	—	—	—	

Year ended March 31, 2012	Millions of yen				
	Reportable segments			Adjustments	Consolidated
	Water Treatment Chemicals	Water Treatment Facilities	Total		
Sales					
1) Sales to outside customers	¥56,443	¥137,348	¥193,792	¥ —	¥193,792
2) Intersegment sales	372	246	619	(619)	—
Total	¥56,816	¥137,595	¥194,411	¥ (619)	¥193,792
Segment income	¥ 9,268	¥ 20,127	¥ 29,396	¥ (13)	¥ 29,382
Segment assets	36,580	161,750	198,330	72,811	271,141
Segment liabilities	17,999	43,252	61,252	(113)	61,139
Other items					
Depreciation and amortization	1,485	14,550	16,035	—	16,035
Impairment losses	—	—	—	173	173
Increase in property, plant and equipment and intangible assets	1,463	6,641	8,105	—	8,105
Amortization of goodwill	31	—	31	—	31
Goodwill	13	—	13	—	13

Note:

"Adjustments" represents the following:

1. Sales: Elimination of intersegment transactions.
2. Segment income: Amount resulting from eliminations of intersegment transactions.
3. Segment assets: Mainly corporate assets of ¥85,272 million (US\$907,157 thousand) and ¥72,932 million as of March 31, 2013 and 2012, 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. Impairment loss on idle assets was recognized for the year ended March 31, 2012. This had no effect on the reportable segments.

Related Information (Information by geographic region)

(1) Net Sales

Year ended March 31, 2013	Millions of yen					Total
	Japan	Asia	North America	Europe	Other	
Sales	¥149,670	¥23,898	¥2,349	¥1,196	¥3,028	¥180,143

Year ended March 31, 2013	Thousands of U.S. dollars (Note 1)					Total
	Japan	Asia	North America	Europe	Other	
Sales	\$1,592,244	\$254,240	\$24,991	\$12,729	\$32,215	\$1,916,420

Year ended March 31, 2012	Millions of yen					Total
	Japan	Asia	North America	Europe	Other	
Sales	¥164,523	¥22,541	¥2,310	¥1,373	¥3,044	¥193,792

Note:

Sales are allocated to regions based on the location of the customer to which the products or services are delivered or provided.

(2) Property, Plant and Equipment

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

(Information by major customer)

Year ended March 31, 2013	Millions of yen	Thousands of U.S. dollars (Note 1)	Reportable segment
Sales to:			
Sharp Corporation	¥25,684	\$273,238	Water Treatment Facilities

Year ended March 31, 2012	Millions of yen	Thousands of U.S. dollars (Note 1)	Reportable segment
Sales to:			
Sharp Corporation	¥28,792	\$306,298	Water Treatment Facilities

19. Subsequent events

Appropriation of retained earnings

The following appropriation of retained earnings for the year ended March 31, 2013 was approved at the ordinary general meeting of shareholders of the Company held on June 27, 2013.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (year-end dividends)	¥2,502	\$26,621

20. Per share information

	Yen		U.S. dollars (Note 1)
	2013	2012	2013
Net assets per share	¥1,744.41	¥1,649.24	\$18.56
Net income per share (EPS)	92.43	130.65	0.98

The basis of calculation for EPS is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net income	¥ 11,476	¥ 16,548	\$122,086
Net income attributable to common stock	11,476	16,548	122,086
Average number of shares outstanding	124,160,885	126,659,779	

(The Company has no dilutive shares.)

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



Independent Auditor's Report

Grant Thornton Taiyo ASG LLC

5F Akasaka Oji Bldg.
8-1-22 Akasaka, Minato-ku
Tokyo 107-0052, Japan

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F +81 (0)3 5474 0112
<http://www.gtjapan.or.jp/>

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 sheets as at March 31, 2013, and the consolidated financial statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and 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 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 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, the auditor considers 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, but 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, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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.

Grant Thornton Taiyo ASG LLC

Tokyo, Japan
June 27, 2013

CORPORATE DATA

As of March 31, 2013

Company Name	Kurita Water Industries Ltd.
Address	10-1, Nakano 4-chome, Nakano-ku, Tokyo 164-0001, Japan
Paid-in Capital	¥13,450,751,434
Date of Establishment	July 13, 1949
Number of Employees	4,640 (on a consolidated basis); 1,543 (parent company)

Kurita Global Technology Center:

1-1, Kawada, Nogi-machi,
Shimotsuga-gun, Tochigi
329-0105, Japan
Tel.: 81 (280) 54-1511

Osaka Office:

2-22, Kitahama 2-chome, Chuo-ku,
Osaka-shi, Osaka 541-0041, Japan
Tel.: 81 (6) 6228-4800

Other Offices:

Tohoku, Nagoya,
Hiroshima and Kyushu

Domestic Offices	Head Office: 10-1, Nakano 4-chome, Nakano-ku, Tokyo 164-0001, Japan Tel.: 81 (3) 6743-5000
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Overseas Offices	Taiwan Branch: 5F-3, No. 295, Section 2, Kuang-Fu Road, (Empire Commercial Bldg.) Shinchu, Taiwan, R.O.C. Tel.: 886 (3) 575-1157
	Malaysia Branch: 1-5-28, E-gate Lebu Tunku Kudin 2, 11700 Gelugor, Pulau Pinang, Malaysia Tel.: 60 (4) 656-0026

Major Consolidated Subsidiaries and Affiliated Companies

Company Name	Paid-in Capital (Millions)	Equity Ownership (%)	Main Business
OVERSEAS			
■ North America & South America			
Kurita America, Inc.	US\$3.0	100.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kurita do Brasil LTDA.	R\$6.986	100.0	Manufacture & sale of water treatment chemicals
■ Europe			
Kurita Europe GmbH	EUR2.301	95.0	Manufacture & sale of water treatment chemicals
■ Asia			
Kurita Water Industries (Dalian) Co., Ltd.	¥550	90.1	Manufacture & sale of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Sale & maintenance of water treatment facilities
Kurita Water Industries (Suzhou) Ltd.	¥530	100.0	Manufacture & sale of water treatment facilities
Kurita (Taiwan) Co., Ltd.	NT\$20	100.0	Manufacture & sale of water treatment chemicals
Hansu Ltd.	W2,500	33.2	Manufacture & sale of water treatment chemicals
Hansu Technical Service Ltd.	W400	59.4	Manufacture & sale of water treatment facilities
Kurita-GK Chemical Co., Ltd.	BAHT92	85.0	Manufacture & sale of water treatment chemicals
Kurita (Singapore) Pte. Ltd.	S\$4.0	100.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kurita Water (Malaysia) Sdn. Bhd.	RM\$0.6	83.3	Sale of water treatment chemicals and water treatment facilities
P.T. Kurita Indonesia	US\$2.0	92.5	Manufacture & sale of water treatment chemicals and water treatment facilities
DOMESTIC			
Kurita Creation Co., Ltd.	¥160	100.0	Manufacture & sale of water purifiers
Kuritec Service Co. Ltd.	¥50	100.0	Tool cleaning
Kuritaz Co., Ltd.	¥220	100.0	Operation & maintenance of water treatment facilities
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical cleaning
Land Solution Inc.	¥450	66.0	Soil remediation
Kurita Chemical Manufacturing Ltd.	¥50	100.0	Manufacture of water treatment chemicals

INVESTOR INFORMATION

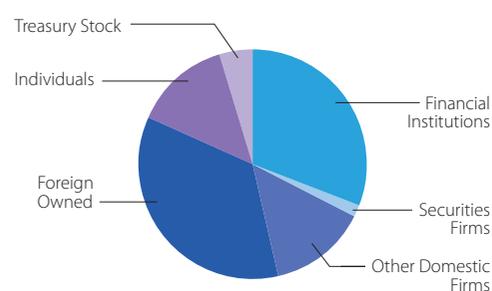
Stock Exchange Listing	First Section of the Tokyo Stock Exchange
Common Stock	Authorized: 531,000,000 shares Issued: 132,800,256 shares (Stock trading unit: 100 shares) (As of March 31, 2013)
Number of Shareholders	37,824 (As of March 31, 2013)
Independent Auditor	Grant Thornton Taiyo ASG LLC Akasaka Oji Bldg. 5F, 8-1-22, Akasaka, Minato-ku, Tokyo 107-0052, Japan
Transfer Agent	Sumitomo Mitsui Trust Bank, Ltd. 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Main Shareholders

	Shareholdings (Number of shares)	Percentage of total shares issued (%)
Kurita Water Industries Ltd.	13,635,467	10.26
Nippon Life Insurance Company	6,644,283	5.00
Japan Trustee Services Bank, Ltd. (Trust Account)	5,374,400	4.04
Northern Trust Co. (AVFC) Sub A/C American Clients	4,201,600	3.16
National Mutual Insurance Federation of Agricultural Cooperatives	3,380,300	2.54
RBC IST LONDON-LENDING ACCOUNT	2,885,830	2.17
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	2,743,248	2.06
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,586,926	1.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,360,200	1.77
Pictet and Cie (Europe) S.A.	2,273,800	1.71

(As of March 31, 2013)

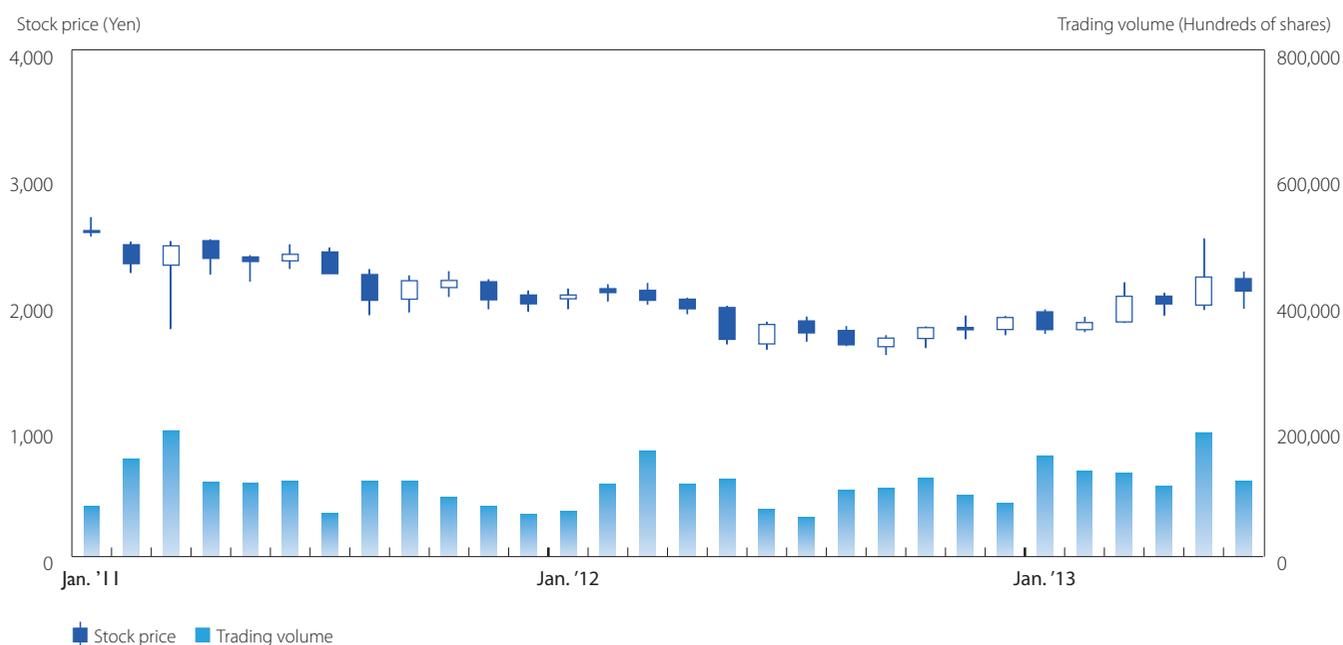
Distribution of Shares



	Shareholdings (Number of shares)	Percentage of total shares issued (%)
Financial Institutions	38,181,722	28.8%
Individuals	935,340	0.7%
Foreign Owned	10,895,827	8.2%
Securities Firms	50,537,910	38.1%
Other Domestic Firms	18,613,990	14.0%
Treasury Stock	13,635,467	10.3%
Total	132,800,256	100.0%

(As of March 31, 2013)

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



 **KURITA WATER INDUSTRIES LTD.**

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