KURITA

Surging Ahead

Annual Report 2007

For the Year Ended March 31, 2007

Profile & Vision

Advancing the Science of Water and Environmental Management

Kurita Water Industries Ltd. provides total solutions in the field of water and environmental management, under the corporate vision of becoming "an advanced water and environmental management company." Kurita's core business is water treatment and related products and services, from which it provides a growing range of services in the broader field of environmental management. Consistent with this approach, Kurita supplies not only products, such as water treatment chemicals and facilities, but also consulting, outsourcing services and other high-value-added solutions that draw on its unique expertise built up over half a century. Based on the corporate philosophy, "Study the properties of water, master them, and we will create an environment in which nature and man are in harmony," Kurita is committed to realizing its goal of becoming an advanced water and environmental management company. Through these endeavors, Kurita aims to contribute broadly to meeting the needs of its customers and society.

Water & Environmental Management

CONTENTS

Stable Growth through Balance

BUSINESS OPERATIONS AND SEGMENTS

On an increasingly global basis, the Kurita Group offers a diverse lineup of water and environmental management products, technologies and services, as well as comprehensive solutions that incorporate outsourcing and consulting services. The business of the Kurita Group can be divided into two main segments—the Water Treatment Chemicals Business and the Water Treatment Facilities Business.

Water Treatment Chemicals Business

This business originated from boiler water treatment chemicals, and now has a wide range of lineups including cooling water treatment chemicals, wastewater treatment chemicals and process treatment chemicals. It also contributes to the stable and efficient operation of factories and air conditioning facilities.

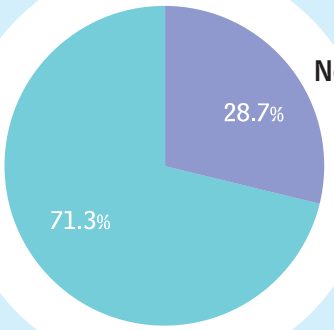
Water Treatment Facilities Business

For the Electronics Industry

We have ultrapure water production systems essential for the manufacture of semiconductors and flat-panel displays. We also provide maintenance service for the ultrapure water production systems and have outsourcing businesses including the Ultrapure Water Supply Business and tool cleaning.

For General Industries

We supply water treatment and wastewater treatment facilities to the electrical power, food products, oil refining, steel and petrochemical industries. Maintenance services along with soil remediation and chemical cleaning businesses are also provided.

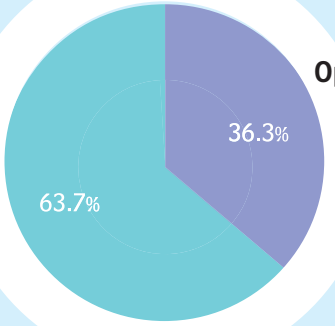


Total: ¥197.1 billion

Net Sales by Segment

Performance Highlights

- In the Water Treatment Chemicals Business, increasing overseas sales pulled up overall performance
- Strong growth from both hardware and the Service Business for the electronics industry
- Earnings increases for both hardware and the Soil Remediation Business for general industries

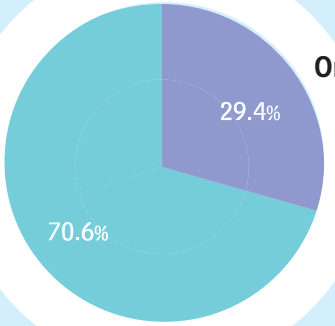


Total: ¥24.3 billion

Operating Income by Segment

Performance Highlights

- Through improvement of the domestic product mix and higher earnings from overseas, income increased in the Water Treatment Chemicals Business
- Through improvements in profitability in hardware and increased earnings from the Service Business, income in the Water Treatment Facilities Business for the electronic industry increased



Total: ¥192.5 billion

Orders Received by Segment

Performance Highlights

- Orders for process treatment chemicals and Customized Services increased strongly in Japan
- Orders for ultrapure water production systems remained at a high level
- Orders from the public sector decreased broadly, while orders for soil remediation increased

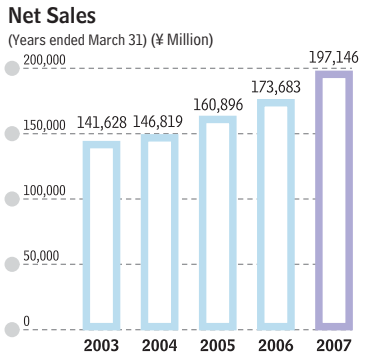
Note on Projections of Future Results

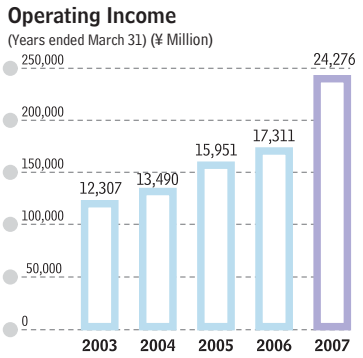
Projections of future results contained in this annual report accord with Kurita's plans, prospects and strategies as decided by the management on the basis of information available at the time. Since projections of future results lack the substance of fact and may be based on data from other sources, we are unable to guarantee the accuracy and reliability of such information, and you are requested not to rely on such projections alone. Moreover, many factors affecting business results are subject to uncertainty and are therefore a source of risk. These factors include, but are not limited to, the following: macroeconomic changes, such as changes in capital markets and large-scale shifts in demand, especially insofar as those influencing the markets and industries directly related to our main businesses.

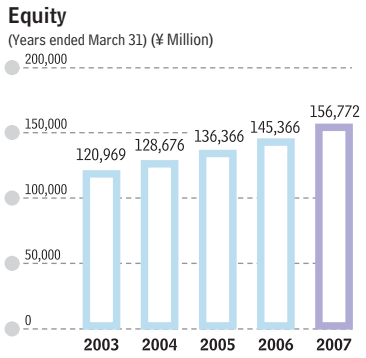
CONSOLIDATED FINANCIAL HIGHLIGHTS

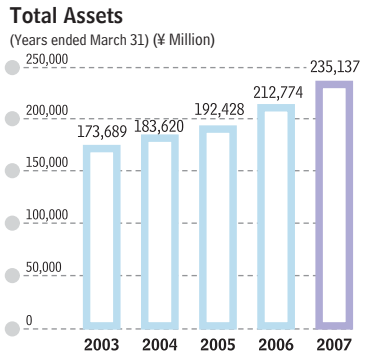
Years ended March 31	Millions of yen		Percentage change	Thousands of U.S. dollars
For the year:	**2007**	2006	2007/2006	**2007**
Net sales	¥197,146	¥173,683	+13.5%	$1,670,028
Operating income	24,276	17,311	+40.2	205,648
Income before income taxes	24,591	18,200	+35.1	208,318
Net income	14,207	10,519	+35.1	120,351
At year-end:				
Total assets	235,137	212,774	+10.5	1,991,848
Equity	156,772	145,366	+7.8	1,328,019
Per share of common stock:		Yen		U.S. dollars
Net income	¥110.42	¥81.76		$0.93
Cash dividends applicable to the year	28.00	22.00		0.23

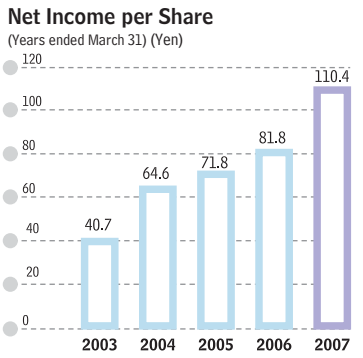
Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥118.05 to US$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2007.











Surging Ahead through Strong Growth and Continuing Innovation

Hiroshi Fujino, President

In the year ended March 31, 2007, the first fiscal year of the medium-term management plan Growth 2008 (G-8), the Kurita Group was able to achieve sales and profits in excess of the original plan. Management is encouraged by the decisive first step taken by the Group toward achieving the challenging goals of the medium-term management plan.

Q Could you give us an outline of the G-8 plan that you are working on at present?

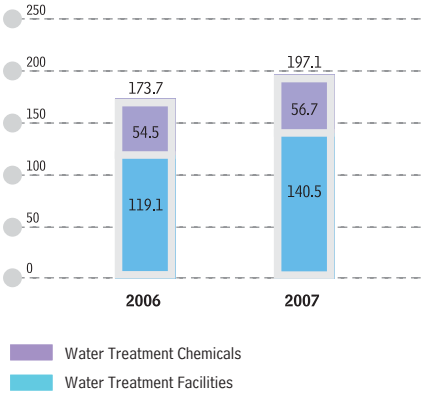
A: The G-8 plan, which commenced in April 2006, is a three-year medium-term management plan that aims to expand and grow Kurita Group, in particular by a process of further strengthening the Group's highly profitable businesses in the areas of water and environment. The basic theme of this plan, "Growth and Innovation," expresses our aspiration to innovate daily and provide the most advanced services and to become active globally.

The Group has already established a solid position as a top water treatment company. Our plan seeks to bolster sustainable growth as a global company of the 21st century by achieving three central pillars: "Accelerating Kurita's shift to a service-based business model," "Expanding Kurita's global business operations," and "Reinforcing Kurita's firm foundation as a technology-oriented company." To achieve this vision, the entire Group is promoting performance initiatives aiming for ¥200.0 billion in net sales, ¥27.0 billion in operating income and ¥15.4 billion in net income in the year ending March 31, 2009.

We are also building relationships based on transparency and fairness among the Group, employees and society by thoroughly working to achieve compliance, which is the basis of the Company's activities.

Q Could you comment on the business performance of the year ended March 31, 2007, which is the first fiscal year of the medium-term management plan?

Net Sales
(Years ended March 31) (¥ Billion)



A: Compared with the results of the previous year, total consolidated orders of the Group were ¥192,529 million, an increase of 4.7%, with net sales standing at ¥197,146 million, an increase of 13.5%, and operating income was ¥24,276 million, an increase of 40.2%. Consolidated net income hovered at record levels and increased by 35.1% to ¥14,207 million over the previous fiscal year. As a result, net income per share increased from ¥81.76 to ¥110.42 compared with the previous fiscal year.

Concerning the market environment, domestic capital investments were firm with a bullish demand background in the electronics industry sector, for items such as liquid crystal display (LCD) and plasma televisions. On the other hand, we did observe a softening in large-scale capital investment by some customers in Taiwan and South Korea; nevertheless, overall among general industries, capital expenditure and plant utilization levels were both firm and centered on the basic materials-producing industries such as steel, oil refining and petrochemicals.

When observing the state of each segment, domestic sales for the water treatment chemicals segment was at the same level as it was the previous fiscal year, nevertheless, profits increased due to an improved product mix coupled with increased revenues from overseas.

For the water treatment facilities segment, orders and sales of ultrapure water production systems increased from the electronics industry due to a good market environment. Sales expanded favorably in the Ultrapure Water Supply Business and the tool cleaning business, both of which are outsourcing businesses, as we appropriately fulfilled customer demand. In line with the domestic economic recovery and the resulting resurgence of land liquidation, the soil remediation business is expanding favorably. The profits of business serving the public sector moved from a deficit to a surplus compared with the previous fiscal year, reducing the deficit from facility construction sales while maintaining stable profits from maintenance and operation.

Results in 2007 (¥ Billion)	**2006**	**2007**
Net sales	173.7	197.1 (+13.5%)
Operating income	17.3	24.3 (+40.2%)
Net income	10.5	14.2 (+35.1%)
Net income per share (Yen)	81.76	110.42 (+28.66 Yen)

Q What were the reasons for reinforcement of compliance?

A: The Company has contravened the law concerning the "Prohibition of Private Monopolization and Securing Fair Trade" (Antimonopoly Law) in relation to the projects to construct sludge (human waste) treatment facilities, and an employee of the Company was arrested. In addition, a criminal penalty was established together with an order to pay a surcharge as an administrative punishment. We would like to apologize deeply for the inconvenience and apprehension that we have caused to our shareholders and stakeholders concerning the events leading to this kind of situation.

We are striving to recover the trust of society as early as possible by rebuilding the system for enforcing thorough compliance in accordance with the framework for preventing reoccurrences mentioned by the Group to solemnly stop this aspect.

Furthermore, the Company has withdrawn from all construction and building works ordered by governmental and local authorities as to be more consistent with its policy to prevent reoccurrences of actions contravening the Antimonopoly Law.

In the G-8 plan, compliance is being thoroughly enforced, from the individual position of each employee's daily business activities, "to absolutely comply with the law." This is one of the most significant management issues for an enduring company.

Q What are the significant measures for business development in the future?

A: First, we will further reinforce the service business, which is the core strength of the Group.

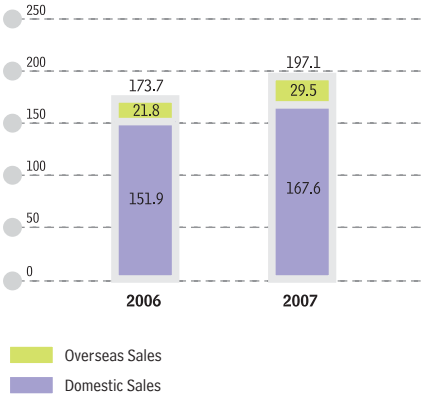
In the Water Treatment Chemicals Business, we shall continue to provide optimal customer solutions for reducing environmental loads and improving productivity, based on our technical competencies and extensive sales network in Japan.

In the Water Treatment Facilities Business, we shall continue to enforce aggressive investments in the Ultrapure Water Supply Business, which holds a high competitive edge. Concerning capital investments for this business, actual capital investments in the fiscal year ended March 31, 2007 were ¥15.7 billion. In addition, we are planning to invest more than ¥17.0 billion for the year ending March 31, 2008. Even on the organization side of the operation, we established a dedicated department in April 2006 to support internal needs arising by our expanding business, including human resource training.

We are also working on the reinforcement of the tool cleaning business for semiconductor and LCD panel production equipment, which is part of the outsourcing business. Thanks to a growing demand from our customers, we are pushing aggressively to increase our capacity. In addition, we are strongly promoting business expansion, including expanding human resources, for the soil remediation business, whose demand continues to expand, driven by an active real estate market that reflects the growing domestic economic recovery. Based on these initiatives, we plan to boost the sales composition ratio of the service business in the year ending March 31, 2008 to 76% compared with 72% of the previous year.

Second, we will accelerate and strengthen our business expansion in the overseas market.

Overseas Sales
(Years ended March 31) (¥ Billion)



For the year ended March 31, 2007, overseas business expanded favorably, and the overseas sales ratio grew to 15.0% from the previous fiscal year's 12.6%. In the Water Treatment Chemicals Business, we are focusing on developing the sales network in China, which is expected to grow swiftly, and are investing in human resources such as the expansion and training of human resources for Group companies in Brazil and Southeast Asia. In addition, we shall aggressively promote sales in the Middle East, which is active with projects for petrochemical plants.

In the Water Treatment Facilities Business, we are focusing on proposals that leverage our technical predominance in areas such as ultrapure water, wastewater recycling and functional water for our customers in Asia and the U.S.A. to attract new customers. In addition, we are developing comprehensive water-treatment proposals that make good use of the uniquely integrated structure of our business combining chemicals, facilities and maintenance and operation.

Third, in reinforcing the firm foundation as a technology-oriented company, we shall stress the fact that products and services supplied to our customers are reliable and of the high quality expected of a total solution provider in the field of water and environmental management to support the above-mentioned initiatives.

Q What is your approach to profit distribution to shareholders?

A: We decide the level of the dividend while giving due consideration to the necessary capital requirements for future business expansion and business performance trends. At the same time, we take into consideration the basic goal of stable, sustainable dividend payments. Concerning the year ended March 31, 2007, the Company raised its year-end dividend by ¥4 to ¥15 per share, and together with the interim dividend of ¥13, the annual dividend stood at ¥28, an increase of ¥6 compared with the previous fiscal year, to reward the expectations and support of our shareholders. Accordingly, the dividend has increased for three consecutive fiscal years. Concerning the fiscal year ending March 31, 2008, we are planning to increase the dividend by ¥4 to ¥32.

Q What is your Business Performance Plan for the year ending March 31, 2008?

A: First, let us consider the future market environment for the main premises of the plan. We anticipate high operation levels among our customers and strong continuing demand for productivity enhancement and environmental measures. Looking at capital investment, we anticipate that the large-scale investment by the domestic electronics industry will run its course. Although we foresee a near-term fall off from peak levels in individual projects, we expect steady investment in electronic components overall and in LCD panel components specifically, such as color filters, glass substrates and optical films. In addition, we expect firm investments by companies in the basic materials industries and food sector who are seeking to lower their environmental burden.

Under this situation, we expect increased revenues and profits for both the Water Treatment Chemicals Business and Water Treatment Facilities Business. Especially, in the services business of the Water Treatment Facilities Business, which is the strength of the Group, we can expect strong growth with high profitability.

In the business performance plan of the year ending in March 31, 2008, we expect net sales to increase by 5.0% to ¥207,000 million, operating income to increase by 13.3% to ¥27,500 million, net income to increase by 10.5% to ¥15,700 million, and net income per share to stand at ¥122.02. We expect that those targets of the medium-term management plan will be achieved one year earlier.

In addition, we plan to increase overseas sales by 7% to ¥31,500 million for the year ending March 31, 2008.

Q What is your vision for the future?

A: At present the Group is working on realizing the Company vision of becoming an "advanced water and environmental management company," which describes where the Company should be in 2010. In this vision, the business scope expands from "Water" to "Water and the Environment," and, at the same time, our aim is to not only supply products such as water treatment chemicals and water treatment facilities that we have been supplying, but also to provide overall solutions to the various issues related to "Water and Environment" that are social priorities and based on customer needs.

The Group, since enacting its corporate vision in 1999, is moving towards its achievement, and is aspiring to contribute to society through its business activities with its high technical competence as its base.

The Group aims for sustainable development in the 21st century, which is the "Century of water and environment," as a globally active corporate citizen and, ultimately, as a total solution provider in the field of water and environmental management.

It has been a pleasure to have this opportunity to clarify management's ideas, and we look forward to the continuing support of shareholders and other stakeholders in Kurita's future endeavors.

August 2007

Hiroshi Fujino, President

Priming for Growth and Innovation

Medium-Term Management Plan: Growth 2008
(April 2006–March 2009)

Twin themes: "Growth and Innovation"

Basic policy: "We will strive for daily innovation in the value we provide, thereby winning the overwhelming trust of our customers."

Key Strategies

- Reinforcing Kurita's firm foundation as a technology-oriented company
- Accelerating Kurita's shift to a service-based business model
- Expanding Kurita's global business operations
- Revamping Kurita's organization structure
- Reinforcing Kurita's compliance functions

Realizing our corporate vision of the Kurita Group for 2010:
"An advanced water and environmental management company"

- Win customer trust
- Enhance corporate value
- Gain societal recognition and support

SPECIAL FEATURE 1:

Expansion of the Service Businesses

One of the Kurita Group's primary aims under the medium-term management plan Growth 2008 (G-8), which commenced in April 2006, is to construct a business portfolio producing high profitability. A key initiative in this regard is the expansion of the service businesses.

Process treatment chemicals that contribute to the improvement of customer productivity

Ultrapure Water Supply Business that responds to customers' outsourcing needs

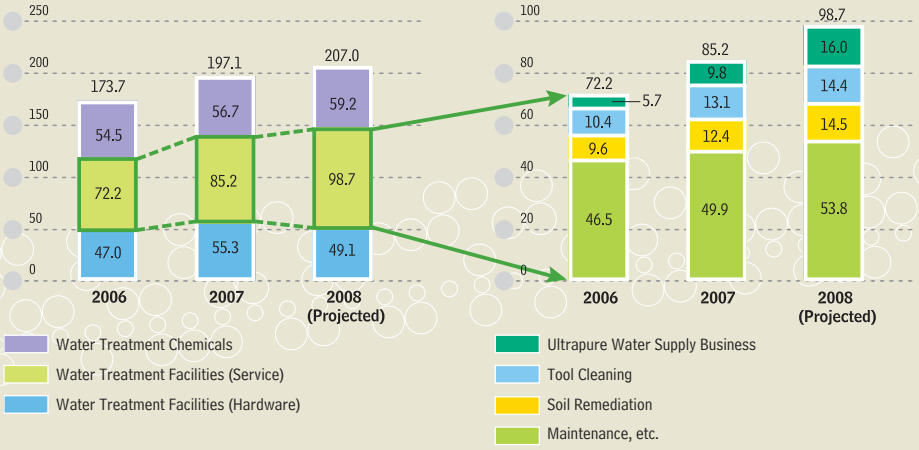
Soil remediation business that provides the optimal solutions for customers' land utilization

The business of the Kurita Group consists of the "Water Treatment Chemicals" and "Water Treatment Facilities" businesses. The "Water Treatment Facilities" business includes service businesses as well as the production and sale of water treatment facilities. In detail, we operate, manage and provide maintenance services for water treatment facilities. Through the Ultrapure Water Supply Business, we also produce and supply ultrapure water on site for use by flat-panel display and semiconductor manufacturers. We have an off-site tool-cleaning business, which cleans semiconductor and liquid crystal display production equipment components and jigs. We assess and remediate contaminated soil, making former industrial sites once again safe for commercial or residential use, and, we offer a chemical cleaning business, in which we clean heat exchangers and boilers at factories and power generation plants.

These businesses, together with the Water Treatment Chemicals Business, all demand a high degree of solution competence. In addition, they provide high profitability, and we believe that in the future these businesses will support sustainable growth. The trend of customers' capital investments does not easily influence these businesses, which contributes to the stability of the Group's performance. Combined sales of the Water Treatment Chemicals Business and the service businesses of the Water Treatment Facilities Business of the Kurita Group for the fiscal year ended March 31, 2007 were ¥141.9 billion. This figure accounted for 72% of consolidated net sales.

Sales from Service Businesses

(Years ended March 31) (¥ Billion)



In particular, sales from the Ultrapure Water Supply Business, whose demand continues to grow since its establishment in April 2002, significantly increased to ¥9.8 billion in the year ended March 31, 2007, compared with ¥5.7 billion in the previous fiscal year. We have planned ¥16 billion of sales for the year ending March 31, 2008, and we expect that sales will reach ¥15 billion one year earlier than planned in the medium-term management plan. This business is expected to further grow due to a rise in latent demand in the semiconductor and flat-panel display industries, and we will continue to invest aggressively in the future.

In addition, we are also seeking to invest aggressively into the tool cleaning business, which faces increasing demand from the semiconductor and flat-panel display industries. In the area of soil remediation, for which demand is expanding in line with Japan's economic recovery, we will also continue to expand this business through growth initiatives based on intra-group collaboration between subsidiary Land Solution Inc. and Kurita Water Industries.

We are strengthening our relationships with customers, to include the Water Treatment Chemicals Business, which continues to provide stable profit growth, and to capture additional business opportunities while providing more timely and higher quality services.

Based on the above measures, we forecast sales of ¥157.9 billion for the service business in the year ending March 31, 2008, a planned 76% of total consolidated net sales. This ratio is expected to increase to 80% of total consolidated net sales for the year ending March 31, 2009, which is the final fiscal year of the medium-term management plan.

SPECIAL FEATURE 2:

Expansion of the Global Business

The Kurita Group has designated the expansion of the global business as another key initiative in the medium-term management plan. The Group is working to expand the overseas business fields along with market share, and it is aggressively promoting business development based on the proprietary business model that has fostered Kurita's business performance domestically.

Supply of water treatment facilities that appropriately meet customers' needs

Site for the manufacture of water treatment facilities in Suzhou, China, which is experiencing continuous economic growth

Petrochemical plant in the Middle East, an area with high potential as a market for water treatment chemicals

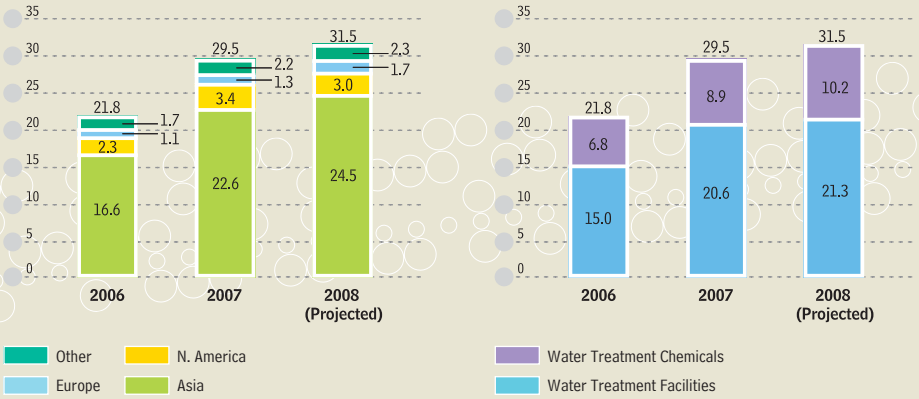
The Kurita Group had developed 16 overseas subsidiaries in over 11 countries as of the end of March 2007. In pursuit of future sustainable growth, it is essential for the Group to aggressively develop overseas business, leading to increased market share and expanded business internationally.

Overseas sales in the year ended March 31, 2007 increased by 35.3% to ¥29.5 billion, compared with the previous fiscal year, with the sales composition ratio standing at 15.0%. In the medium-term management plan G-8 for the year ending March 31, 2009, we set a target of overseas sales of ¥31.0 billion and a sales composition ratio of 15.5%. Subsequently, we decided to raise our target for overseas sales in the year ending March 31, 2008 to ¥31.5 billion, comprising a ¥10.2 billion sales target for the Water Treatment Chemicals Business and ¥21.3 billion sales target for the Water Treatment Facilities Business. If the new target is achieved as planned, we will have reached the medium-term management plan sales target one year ahead of schedule.

Looking closely at each region, in China, the Water Treatment Chemicals Business, which has leveraged Kurita's high consulting competence, is growing favorably. In the future, the Group will invest aggressively in the key areas of business expansion and the maintenance of the sales network, along with the training of sales engineers.

Sales by Region

(Years ended March 31) (¥ Billion)



Utilizing the strength of our total-solutions capability encompassing chemicals, facilities maintenance and operation, we aim to expand business by focusing on customers in industrial fields who need sophisticated solutions.

In South Korea, Taiwan, Southeast Asia, mainly in the electronics industry, we have applied the advantages of our technical predominance in technologies such as ultrapure water technology, functional water technology, wastewater recycling and re-utilization technology, and we are focusing on the initiatives that suitably meet our customers' needs.

In addition, for the Saudi Arabian petrochemical plant, expected to be a large-scale capital investment project, the Group is achieving assured results in the Water Treatment Chemicals Business based on a collaboration initiative between the Group's European company and Kurita Water Industries Ltd. In the U.S.A., for the Water Treatment Facilities Business, the Group utilizes its good relationships with its customers, fostered mainly in the maintenance business, to respond to the investment demands of increasing production.

As described above, in each business area of chemicals, facilities and maintenance, the Group is reinforcing its global production, sales and services strengths by enhancing collaboration among Group companies to provide a tailored response to the needs of each region.

SPECIAL FEATURE 3:

Reinforcing Our Firm Foundation as a Technology-Oriented Company

To fully realize its vision of becoming an "advanced water and environmental management company" the Kurita Group must pursue challenges in new areas, while promoting the continued evolution of its existing technologies. It is also working to guarantee the trust and support of customers and society through business innovation.

Ultrapure water analysis technology which supports the manufacture of semiconductors

Production which is modularized to realize high quality and short delivery times

Fuel cartridge to power fuel-cell battery charger for mobile phones using solid-state methanol, currently in trial manufacturing

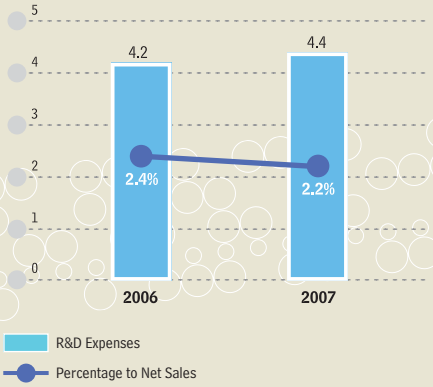
The Kurita Group is contributing to environmental preservation and enhancing quality and productivity through both water treatment for environment preservation and utility water treatment to support industrial infrastructure. Kurita is reinforcing its technological infrastructure in various areas of its business activities in order to continue to respond broadly to the needs of industries and society.

In its medium-term management plan, Kurita seeks to improve on a daily basis the quality of the services and products it provides, while partnering with customers in the development of new solutions based on a scientific foundation of extensive data and solid theory. From these strong underpinnings, the Kurita Group is providing cutting-edge products and services, while, as ever, seeking to earn the support and trust of its customers. Furthermore, it is building a higher position of competitive advantage and further solidifying its profit structure.

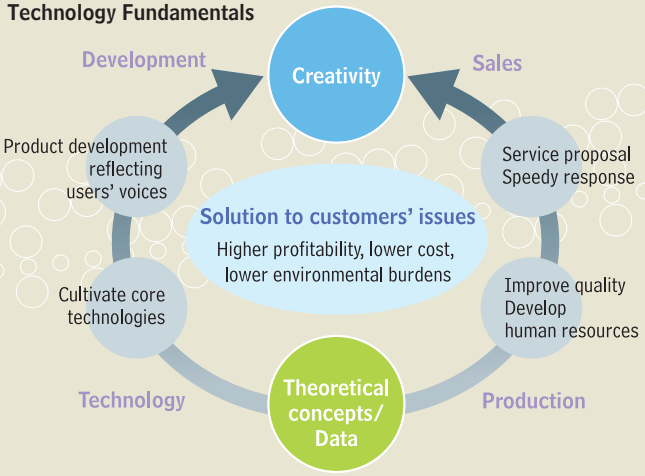
In the area of research and development, we established the "Kurita Global Technology Center" in 2005. This center provides business support through the enhancement of product quality and the development of new products and technology.

R&D Expenses

(Years ended March 31) (¥ Billion)



Technology Fundamentals



Looking at our accomplishments in the year ended March 31, 2007, in the field of Water Treatment Chemicals Business, we have continued to develop products that contribute to improved productivity and lower costs for our customers. We also worked on the development of technology to reduce environmental impact, including the development of new materials. In addition, in the field of water treatment facilities, we promoted an initiative to advance ultrapure water technology and the development of environment preservation technologies such as wastewater treatment that anticipates environmental regulations, soil remediation and others. We also carried forward the technologies to meet the needs of a recycling society, including wastewater reclamation and reutilization technologies and sludge reduction technologies.

On the production technology side, we are working to improve the quality of products and make them more compact, through the development of modularized water treatment systems.

In the future, Kurita will apply its accumulated-data and advanced-theory approach throughout the breadth of its business activities such as sales, production, technology and product development. Kurita aspires to become an "advanced water and environmental management company" by providing total solutions to its customers that improve productivity and reduce costs and environmental impact.

FUNDAMENTAL POLICY REGARDING THE ESTABLISHMENT OF INTERNAL CONTROL SYSTEMS

Kurita Water Industries Ltd. and the Kurita Group have defined the following Fundamental Policy regarding the Establishment of Internal Control Systems.

1. System to Ensure the Execution of Duties by Directors and Employees that Complies with Laws, Regulations, and Articles of Incorporation

1 One of the Company's management principles is defined as follows: "Laws and regulations shall be observed in accordance with the ethics and mores of society. Through all of its business activities, the Company shall build transparent and fair relationships with its shareholders, customers, employees, local communities and suppliers." This management principle shall serve as a prerequisite for the Company's activities. Furthermore, in accordance with this management principle, the Company formulated a Code of Ethical Conduct, Basic Principles for Practice of Ethical Conduct, and Guidelines for Ethical Conduct. The Company ensures the implementation of thorough compliance with respect to laws and regulations and society's ethical standards.

2 The Company shall establish a Compliance Committee chaired by the executive senior managing director/representative director. Concurrently, a Group Compliance Committee shall also be established comprising the representatives of each Group company as its members. These compliance committees shall work in tandem to determine compliance-activity-related policies and key measures, which shall be conveyed to all Group employees through subordinate compliance committees established within each corporate and business division and Group company. The committees shall also regularly monitor the progress and results of compliance programs and strive for continuous upgrading of these programs. When the chairman of the Compliance Committee judges that significant compliance-related issues or questions have arisen, he shall promptly provide a report to the president/representative director, and he shall also formulate and implement corrective actions and measures to prevent the recurrence of similar problems. The president or Compliance Committee chairman shall provide appropriate reports on the status of such issues to the Board of Directors and the Board of Corporate Auditors.

3 The Company shall establish an Internal Auditing Department which shall carry out internal audits—including matters relating to compliance programs—covering the self-auditing activity for the Company's managers and the Group company representatives.

4 With regard to activities or actions that raise legal or regulatory questions, whistleblower protection rules shall be formulated and a compliance consultation desk shall be operated to provide a framework under which employees may directly provide information.

5 To ensure the propriety of the financial reports of the Group, the Company shall establish an Internal Control Reporting System. Under this System, the Administrative Division shall be responsible for verifying whether present operational processes as well as assessment and audit systems are functioning in an appropriate manner, and for carrying out corrective measures if necessary. This system is scheduled to come into effect on April 1, 2008.

2. System for Storing and Managing Information Related to Directors' Execution of Duties

Information related to directors' execution of duties shall be recorded and stored on paper or electronic media in accordance with the record-keeping rules and the confidential information management rules decided by the Board of Directors. Directors and corporate auditors shall be able to view these records as necessary.

3. Regulations and Other Systems Regarding Management of Risk Losses

1 The monitoring of risk affecting the Company and the Group as a whole shall be overseen by the general manager of the Corporate Planning Division. The general manager of the Corporate Planning Division, in addition to risk monitoring, shall also be tasked with systematizing risk categorization and risk prevention. In the event of risk occurrence that may have a material impact on the Company's management, the general manager of the Corporate Planning Division shall draft an appropriate risk management system together with crisis response officer. This system would be announced immediately after the approval of the president. The crisis response officer shall promptly implement response measures and report to the president and the general manager of the Corporate Planning Division on risk impact, corrective status, and measures to prevent recurrence.

2 With regard to serious risk, where such risk involves compliance matters, the chairman of the Compliance Committee shall be responsible for risk management. Where such risk involves safety and hygiene issues or disaster issues, the chairman of each division's Safety & Hygiene Committee shall be responsible for risk management. Other day-to-day risk management, including issues related to quality, environment, information security and export control, shall be carried out by the respective divisions responsible for these areas.

3 The general manager of the Corporate Planning Division and the respective committee chairmen shall report to the Board of Directors and the Board of Corporate Auditors as appropriate regarding the occurrence and outcome of serious risk.

4. System to Ensure the Efficient Execution of Directors' Duties

1 The Board of Directors shall assign duties to the directors and executive officers and define the division of duties of organizational unit heads (managers at general manager level and above) and organizational units.

❷ As a decision-making mechanism to complement resolutions of the Board of Directors, the Company shall establish an authorization request system in accordance with authorization and screening rules. The creation, modification or abolition of such a system shall be carried out by resolution of the Board of Directors. To facilitate the efficient execution of the day-to-day duties of the directors and executive officers, bylaws shall be established and operated in accordance with authorization and assessment rules.

❸ The Board of Directors shall formulate a long-term management vision, medium-term management plans, and annual business plans, as well as define targets, policies, and important measures for each organizational unit. Furthermore, the Board of Directors shall also manage the operating performance of business divisions and Group companies based on monthly and quarterly targets.

❹ To facilitate the timely and smooth implementation of resolutions of the Board of Directors, the Company shall establish an Executive Committee comprising the president, the executive senior managing director, managing directors, and the general manager of the Corporate Planning Division. The Executive Committee shall convene twice a month as a rule, and on additional occasions as necessary. The Executive Committee shall deliberate on matters affecting management of the Company and Group, monitor (on a monthly and quarterly basis) the progress made on achieving targets and the status of implementation of policies and measures, and issue instructions to the respective directors and executive officers responsible for corrective measures where divergence has occurred. Corporate auditors may attend meetings of the Executive Committee.

5. System to Ensure the Proper Operation of the Corporate Group Comprising the Company and Its Subsidiaries

❶ The Company and its Group companies shall formulate medium-term management plans and annual business plans based on unified management principles.

❷ General oversight of the management of each Group company shall be carried out by the Corporate Planning Division. For each Group company, a director of the Company and division of the Company shall be appointed in oversight roles, which shall regularly monitor and supervise progress in achieving business performance targets set out in medium-term management plans and annual business plans.

❸ Each Group company shall have its own board of directors. Directors and corporate auditors (both part time) shall be dispatched from the Company to sit on these Group company boards and monitor the management, business performance, financial reporting, and risk of these Group companies. Where Group-level decision-making is necessary, the Company's Executive Committee shall deliberate on such matters, and decisions shall be made by the Company's Board of Directors or be made in accordance with the Company's authorization and assessment rules (Article 5, Matters relating to Domestic and Overseas Affiliate Companies).

❹ For measures taken with regard to compliance matters of the entire Group and each Group company, policies shall be decided, and specific actions shall be implemented, by the Group Compliance Committee specified Basic Policies in Article 1, Paragraph 2 above. With regard to the system for ensuring the reliability of financial reports of the Group, measures shall be considered as stipulated in Article 1, Paragraph 5 above, with the aim of establishing such a system.

6. Matters relating to the Appointment of Employees to Assist the Functioning of the Board of Corporate Auditors and the Independence of those Employees from the Directors

The Company's Board of Internal Auditing Department shall not appoint full-time assistants. However, where necessary, corporate auditors may appoint specific employees from the Internal Auditing Department to assist in the execution of auditing duties.

7. System of Reporting to the Board of Corporate Auditors by Directors and Employees and Other Systems for Reporting to the Board of Corporate Auditors

❶ To regularly ascertain that the directors and employees are properly executing their duties, the corporate auditors may attend meetings of the Board of Directors, Executive Committee, Compliance Committee, and other bodies.

❷ Regardless of record-keeping rules, rules for managing confidential information, and other rules, the corporate auditors may at any time view any documents as deemed necessary to fulfill their auditing functions.

❸ In addition to matters stipulated by law or regulation, directors and employees shall also report to the Board of Corporate Auditors on matters including compliance violations, disputes, occurrence of material risk, and financial accounting and reporting. In response to requests by corporate auditors, directors and employees shall provide business reports.

8. Other Systems to Ensure that Auditing Functions of the Board of Corporate Auditors Are Carried Out Effectively

❶ The Board of Corporate Auditors and the president shall hold regular meetings in which to exchange opinions.

❷ The Board of Corporate Auditors shall, as necessary, hold consultations and exchange opinions with the Internal Auditing Department and the independent auditor.

Basic Stance Regarding Corporate Governance

Kurita's basic stance on corporate governance is to execute its business affairs with rigorous management oversight, and to establish a management organization and systems that will increase transparency and efficiency and steadily enhance corporate value over the long term.

Status of Corporate Governance Initiatives

1 Management and administrative organization and other corporate governance systems

Kurita has adopted the corporate auditor system. The Board of Corporate Auditors comprises four corporate auditors, including two outside auditors. In addition to conducting audits based on the policies and division of responsibilities determined by the Board of Corporate Auditors, the corporate auditors also monitor and audit the operational execution of representative directors and the management performance of directors. As of June 28, 2007, the Board of Directors comprised 13 members, including one outside director. The Board makes decisions on important managerial matters, and monitors and supervises the operational execution of representative directors. An Executive Committee has been established with six directors, including the representative directors, as the committee members. To reinforce the effectiveness of operational execution, in June 2005 Kurita introduced an executive officer system, and at present there are five executive officers.

2 Internal control and risk management systems

In addition to the monitoring and auditing of the representative directors and other directors, as well as the general audits, carried out by the Board of Corporate Auditors, Kurita is strengthening its internal control and risk management with the following systems.

a. Establishment of the Internal Auditing Department

The Internal Auditing Department performs internal audits, including audits of Group companies, identifies issues and problems in the execution of operations, and submits improvement proposals to the president.

b. Compliance Committee

The Kurita Group considers compliance to be one of the most important issues of management. As committees reporting directly to the president, we have established the company-wide Compliance Committee as well as the Group Compliance Committee, with the latter comprising the representative directors of all Group companies in Japan. In addition, Group companies overseas are working to enact codes of ethical conduct that reflect the laws and regulations of the given country.

Kurita has also defined whistleblower protection rules, and it has established an internal compliance consultation desk and a consultation and reporting function operated by an outside party.

c. Safety & Hygiene Committee

Kurita is working to improve safety and hygiene in all business activities and workplaces of all Group companies as well as suppliers. We have established a Safety & Hygiene Committee of each division, which reports directly to the president and oversees a subsidiary organization comprising safety and hygiene committees established in the various workplaces, in manufacturing departments, and in the head office, branch offices, and other places of business. This Committee is also actively involved in health management, including the mental health of employees.

3 Audit status

a. Internal audits

As described above, Kurita has established the Internal Auditing Department, which performs internal audits of all Group companies. The Department consists of a staff of seven people who do the audits, make proposals for improvements, and monitor and manage the implementation status of the instructions issued by the president in response to such proposals.

b. Audits by the Board of Corporate Auditors

The four-member Board of Corporate Auditors determines auditing policies for the current year, the job responsibilities of each auditor, specific implementation-related issues, and scheduling. It also audits the job performance of directors. In addition, corporate auditors attend Board of Directors' meetings and other important company meetings to monitor and verify the status of decision-making by the directors and the status of fulfillment of the oversight responsibilities of the Board. Other tasks of the Board of Corporate Auditors include surveying the financial positions of subsidiaries and other Group companies, verifying the status of the internal control system arranged by directors, and monitoring the independence and job performance status of the accounting auditors.

c. Accounting audit

In accordance with the Company Law and the Securities and Exchange Law, Grant Thornton Taiyo ASG has been appointed as accounting auditor.

KURITA'S ENVIRONMENTAL IMPROVEMENT INITIATIVES

In March 2004, Kurita Water Industries formulated a Basic Policy for environmental improvement, and in April 2004, we launched a three-pronged proactive approach involving "responding to customer needs," "changing Kurita," and "changing society." From April 2006, we have promoted environmental improvement activities through these three approaches at 19 domestic group companies. At our inaugural Environmental Improvement Activities Promotion Meeting, in May 2006, we established the aim of consistently utilizing PDCA cycles in the environmental improvement activities of the domestic companies in the Kurita Group. The Meeting is responsible for all phases of implementation, from the setting of targets and specific measures for each company, through to the monitoring of progress, reporting on and discussing results, and identifying issues to be resolved.

Below, we introduce the major environmental improvement activities undertaken in the year ended March 31, 2007 by the companies in the Kurita Group based on the three approaches.

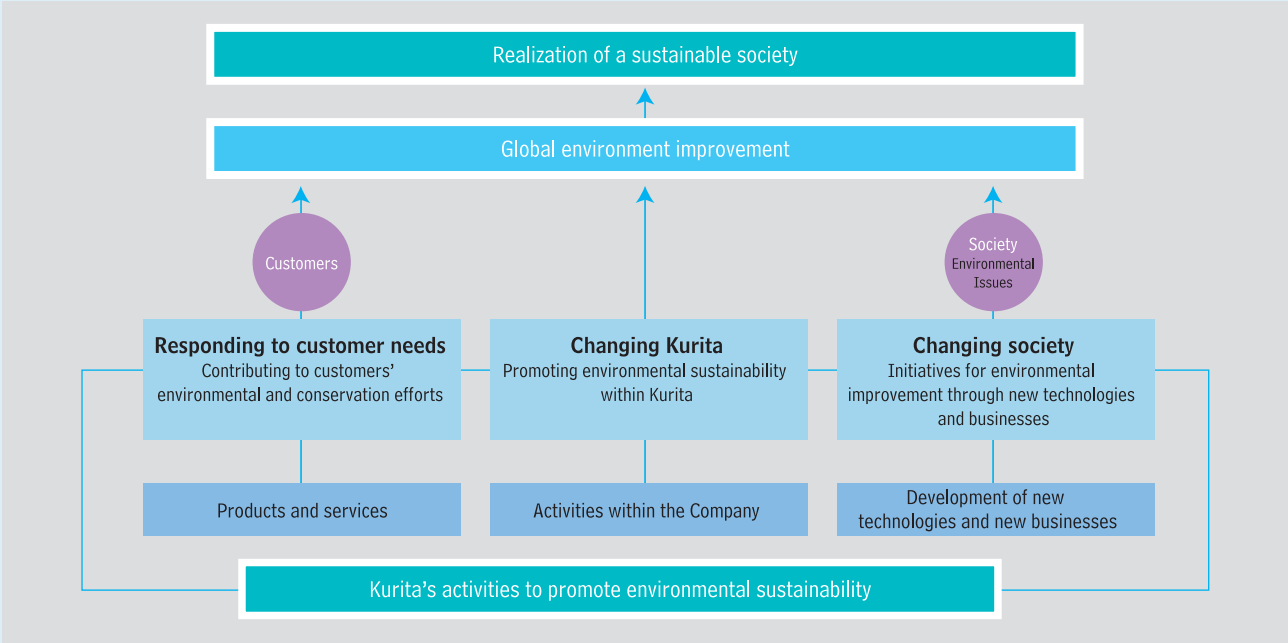
For the first approach, "responding to customer needs," we assess the advantages that our customers gain from their use of such Kurita products as water treatment chemicals and water treatment facilities, namely CO_2 emission reductions and waste output reductions. We assess the results by applying our own, unique indicator of "environmental benefits to customers," and constantly endeavor to increase the benefits. One example of such activities in fiscal 2006 was the use of Kurita's products "Kuristucker®," a paint overspray recovery device, and "Kuristuck®," a water treatment agent, by plants that produce molded-resin bodies for motorcycles, then paint and assemble them. This contributed to the elimination of problems arising from the recovery of excess paint and to the improvement of water treatment efficiency, lowered CO_2 emissions, by reducing electricity and water consumption, and also lowered waste volume by reducing sludge.

The second approach, "changing Kurita," involves optimizing our manufacturing and logistics systems for water treatment chemicals and water treatment facilities to reduce CO_2 emissions and waste output, as well as the safe management of chemical substances. In the year ended March 31, 2007 we expanded the scope of these activities to include the entire domestic Kurita Group, established targets and policies related to reductions of CO_2 emissions and waste output for each of the domestic group companies and focused our efforts on environmental improvement activities aimed at achieving these targets.

Under the third approach of "changing society" we contribute to fundamental solutions to social environmental issues through our development of innovative new technologies and businesses. In the year ended March 31, 2007, our main achievements in this area were the development of a technology that rapidly detects and suppresses the growth of Legionella bacteria inside cooling water systems, which is one cause of Legionnaires' disease, and the development of remediation technology for soil and groundwater contaminated with fluorine.

Detailed results of our environmental improvement activities during the year ended March 31, 2007 will be presented in our Environmental Report, to be published in October 2007.

Overview of Kurita's Activities to Promote Environmental Sustainability



BOARD OF DIRECTORS AND CORPORATE AUDITORS

As of June 29, 2007

President*	Hiroshi Fujino
Executive Senior Managing Director*	Takuo Ishida General Manager of Chemicals Division
Senior Managing Director	Kazufumi Moriuchi General Manager of Facilities Division
Managing Directors	Toshiaki Deguchi General Manager of Research and Development Division
	Mitsuru Ogawa General Manager of Administrative Division
	Tetsuo Saeki General Manager of Corporate Planning Division
Directors	Kaoru Kajii General Manager of Production Group, Facilities Division
	Toshiyuki Nakai General Manager of 2nd Plant Group, Facilities Division
	Ryouichi Ishigami General Manager of 3rd Group, Chemicals Division
	Tetsuo Kai General Manager of 1st Plant Group, Facilities Division
	Shigeaki Takeda General Manager of Global Business Group, Chemicals Division
	Kouichi Iioka General Manager of 1st Group, Chemicals Division
	Shigeji Sugimoto
Corporate Auditors	Tohru Ishizaka
	Chiaki Kuzuu
	Masahiko Kurita
	Kazuma Yura

*Representative Director

Six-year Summary

(Years ended March 31)

	Millions of yen					
For the year:	2007	2006	2005	2004	2003	2002
Net sales	¥197,146	¥173,683	¥160,896	¥146,819	¥141,628	¥142,678
Cost of sales	137,819	122,630	112,077	101,433	97,846	99,039
Selling, general and administrative expenses	35,050	33,741	32,867	31,895	31,474	32,848
Operating income	24,276	17,311	15,951	13,490	12,307	10,790
Income before income taxes	24,591	18,200	16,376	14,918	10,263	9,121
Net income	14,207	10,519	9,383	8,444	5,476	5,670
Capital expenditures	19,563	16,537	6,706	9,718	6,198	4,760
Research and development (R&D) expenses	4,421	4,213	4,228	4,289	4,484	5,071
Depreciation and amortization	6,512	4,906	4,361	3,872	3,307	3,487
At year-end:						
Total current assets	137,004	125,231	116,400	118,923	107,180	103,490
Total current liabilities	65,496	54,877	44,465	42,954	38,643	36,585
Equity	156,772	145,366	136,366	128,676	120,969	122,590
Total assets	235,137	212,774	192,428	183,620	173,689	172,145
Amounts per share of common stock (yen):						
Net income	110.4	81.8	71.8	64.6	40.7	42.9
Equity	1,218.4	1,129.7	1,058.9	999.7	939.8	926.5
Cash dividends applicable to the year	28.0	22.0	18.0	16.0	16.0	16.0
Ratios:						
Return on assets (ROA) (%)	6.3	5.2	5.0	4.7	3.2	3.2
Return on sales (%)	7.2	6.1	5.8	5.8	3.9	4.0
Total assets turnover (times)	0.88	0.86	0.86	0.82	0.82	0.80
Equity ratio (%)	66.7	68.3	70.9	70.1	69.6	71.2
Return on equity (ROE) (%)	9.4	7.5	7.1	6.8	4.5	4.7

Kurita Group Overview

The Kurita Group comprises Kurita Water Industries Ltd., 40 subsidiaries, and 13 affiliated companies.

The Group offers a wide range of water treatment-related products, technology, and maintenance services, with the Group's business categorized overall into two segments: Water Treatment Chemicals Business—water treatment chemical manufacture, sales, and maintenance services—and Water Treatment Facilities Business—water treatment facilities and equipment manufacture, sales, and maintenance services.

The business contents of Kurita Group and the positioning of Kurita Water Industries Ltd. and its subsidiaries and affiliated companies in these two segments are as follows:

- **Water Treatment Chemicals Business**

There are a total of 33 companies involved in this business, including Kurita Water Industries Ltd.—21 companies in Japan and 11 overseas companies, including Kurita (Singapore) Pte. Ltd.

- **Water Treatment Facilities Business**

There are a total of 23 companies involved in this business, including Kurita Water Industries Ltd., Kurita Engineering Co., Ltd., 13 other companies in Japan and eight companies, including Kurita (Singapore) Pte. Ltd. overseas.

Water Treatment Chemicals Business

Water Treatment Facilities Business

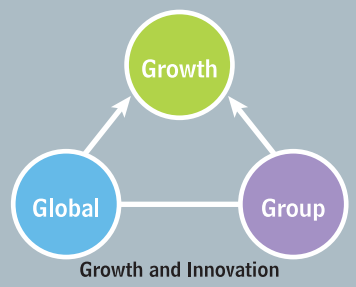
Management Environment

In the year ended March 31, 2007, the Japanese economy was in a recovery trend bolstered by private-sector demand which was itself sustained by improving corporate earnings, increasing capital expenditures, and an upturn in consumer spending.

Concerning the market environment, domestic capital investments were firm with a bullish demand background in the electronics industry sector, for items such as liquid crystal display (LCD) and plasma televisions. On the other hand, we did observe a softening in large-scale capital investment by some customers in Taiwan and South Korea. Nevertheless, overall, among general industries in Japan, capital expenditure and plant utilization levels were both firm and centered on the basic materials producing industries such as steel, oil refining, and petrochemicals.

Under this management environment, the Company initiated the three-year medium-term management plan Growth 2008 (G-8) with the basic theme "growth and innovation." We aim to expand and grow Kurita Group throughout and took thorough action to aimed at implementing the key G-8 plan strategies of "Accelerating Kurita's shift to a service-based business model," "Expanding Kurita's global business," and "Reinforcing Kurita's business base."

Primary Theme of the [G-8] Plan



Basic policy
We will strive for daily innovation in the value we provide, thereby winning the overwhelming trust of our customers.

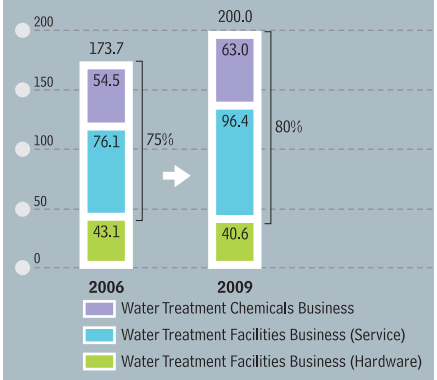
Initial Performance Targets

Consolidated performance targets for the fiscal year ending March 31, 2009, are as follows:

Net Sales	¥200.0 billion
Operating Income	¥27.0 billion
Net Income	¥15.4 billion

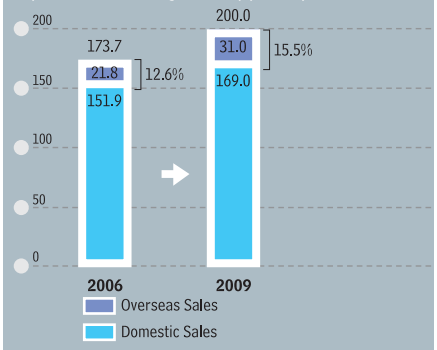
Projected Net Sales in [G-8] Plan

(Years ended or ending March 31) (¥ Billion)



Projected Overseas Sales Ratio in [G-8] Plan

(Years ended or ending March 31) (¥ Billion)



Business Status

Business Overview

a) Basic business policies and measures

● Medium-term management plan Growth 2008 (G-8)

Expanding our business domain from "water" to "water and the environment," the Kurita Group will not limit itself to the supply of materials such as water treatment chemicals and water treatment facilities, but strive to transform itself into a group that can provide solutions to a diverse array of societal needs related to "water and the environment." Since formulating our corporate vision of being "an advanced water and environmental management company" in 1999, we have continued to work to achieve that vision and contribute to society by providing the most advanced technology, actively investing in business growth, and maintaining high ethical standards.

The G-8 plan, which was launched in April 2006, is based on the basic themes of "growth and innovation." Its basic policy is: "We will strive for daily innovation in the value we provide, thereby winning the overwhelming trust of our customers." Under the plan, we are leveraging the Group's strengths built up through previous medium-term management plans—technology base, financial foundation, and customer foundation—as a springboard to future growth. By further enhancing these advantages, the Group is working to transform itself to enable Kurita to even better meet the needs of the market and society. The G-8 plan represents the final stage in the realization of our corporate vision for where we want the Kurita Group to be in 2010.

● Water Treatment Chemicals Business

Focusing on expanding sales of major products and promoting water treatment management blanket contracts, in this business segment the Kurita Group worked to secure orders by proposing solutions to a range of customer issues, including mitigation of environmental impact, enhancement of operation reliability, and improvement of productivity. In addition, we also worked to improve profitability by promoting high-value-added products, implementing countermeasures for increases in raw material costs, and reducing manufacturing and distribution costs.

● Water Treatment Facilities Business

In this business segment, the Kurita Group strengthened development of its unique business model by continuing to aggressively invest in service business operations such as Ultrapure Water Supply Business and tool cleaning business. In addition, we endeavored to secure orders by reinforcing sales to key customers and by expanding proposal-oriented sales offering solutions to customer

Segment Information

(For the years ended March 31)

	Millions of yen				
	2007	2006	2005	2004	2003
Orders (not included in the consolidated statements of income: shown for reference purposes only)					
Water Treatment Chemicals Business	¥ 56,560	¥ 53,903	¥ 52,120	¥ 47,516	¥ 46,450
Water Treatment Facilities Business	135,969	130,007	119,213	102,218	81,981
Total	¥192,529	¥183,910	¥171,334	¥149,735	¥128,431
Sales					
Water Treatment Chemicals Business	¥ 56,667	¥ 54,549	¥ 50,637	¥ 47,442	¥ 47,116
Water Treatment Facilities Business	140,479	119,133	110,259	99,377	94,512
Total	¥197,146	¥173,683	¥160,896	¥146,819	¥141,628
Operating income					
Water Treatment Chemicals Business	¥ 8,806	¥ 7,961	¥ 7,433	¥ 6,640	¥ 6,493
Water Treatment Facilities Business	15,471	9,349	8,515	6,845	5,730
Elimination or corporate	(1)	0	1	5	82
Total	¥ 24,276	¥ 17,311	¥ 15,951	¥ 13,490	¥ 12,307

issues such as mitigation of environmental impact and improvement of productivity. We also worked to improve profitability by increasing design and construction productivity, reducing costs, and enhancing quality.

b) Orders

Orders received in the year ended March 31, 2007 increased by 4.7% over the previous fiscal year to ¥192,529 million. Reflecting the efforts described above, orders rose in both the Water Treatment Chemicals Business segment and the Water Treatment Facilities Business segment.

c) Net sales

As a result of the increase in orders, overall net sales for the year ended March 31, 2007 increased 13.5% to ¥197,146 million.

d) Cost of sales

Along with the sales increase, cost of sales rose 12.4% to ¥137,819 million. The sales cost ratio improved 0.7% over the previous fiscal year as a result of efforts to improve our cost percentage by increasing sales of high-value-added products and services, and absorbing raw material price increases through cost reductions.

e) Gross profit

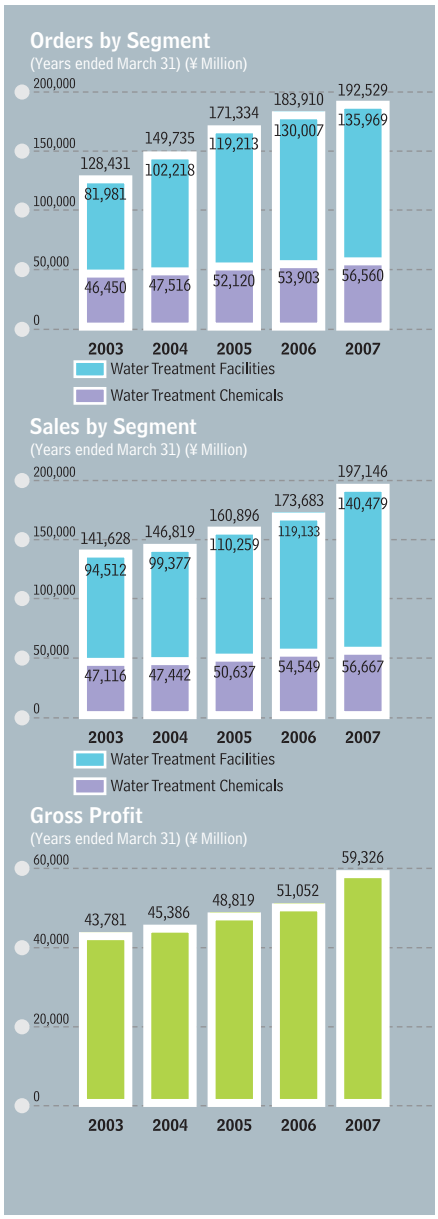
Gross profit rose 16.2% to ¥59,326 million as a result of the revenue increase and the improved sales cost ratio.

f) Selling, general and administrative (SG&A) expenses

SG&A expenses increased by 3.9%, or ¥1,309 million, to ¥35,050 million. The rise was primarily due to a ¥501 million increase in personnel expenses (salaries and benefits, provision for employees' bonuses, and expenses for accrued employees' retirement benefits) and a ¥208 million increase in R&D expenses.

g) Operating income/operating income ratio

As a result of higher sales and improvement of the sales cost ratio, operating income increased by ¥6,965 million, or 40.2%, to ¥24,276 million. The operating income ratio improved 2.3% to 12.3%.



h) Business results by segment

Water Treatment Chemicals Business

Orders, sales, operating expenses and operating income

For our major products in the domestic market, orders and sales both fell slightly for wastewater treatment chemicals, remained steady for boiler water treatment chemicals, and rose slightly for cooling water treatment chemicals. For other chemicals, orders and sales remained about the same for oil refining and petrochemical process chemicals and rose slightly for water treatment management blanket contracts. Orders and sales for process treatment chemicals for the paper and pulp industry increased as a result of the high factory utilization rates at customer companies. Sales from overseas Group companies also increased. As a result of these trends, overall Water Treatment Chemicals Business orders increased by ¥2,657 million, or 4.9% from the previous fiscal year, to ¥56,560 million, and net sales rose ¥2,118 million or 3.9% to ¥56,667 million. On the cost side, our sales cost ratio improved because we were able to strengthen sales of high-value-added products and also absorb almost all raw material cost increases through cost reductions achieved by enhancing manufacturing and distribution efficiency. Operating expenses were held to ¥48,123 million, an increase of ¥1,213 million over the previous fiscal year. Consequently, operating income increased by 10.6% or ¥845 million to ¥8,806 million.

Water Treatment Facilities Business

Orders, sales, operating expenses and operating income

In the electronics industry business, with a background of robust capital expenditures and high factory-utilization rates at liquid crystal display (LCD) and plasma television manufacturers, orders and sales both increased for ultrapure water production systems, the Ultrapure Water Supply Business, tool cleaning business and maintenance services. In general industries, public-sector order volume fell considerably but there was solid order and sales activity in soil remediation business and strong sales concentrated in water treatment facility projects for basic materials industries. The net result for the Water Treatment Facilities Business as a whole was that orders increased by 4.6% or ¥5,962 million to ¥135,969 million and sales increased by 17.9% or ¥21,346 million to ¥140,479 million. Operating expenses increased by 13.3% to ¥125,086 million, with the year-on-year operating expense increase being held to ¥14,729 million as a result of cost reductions achieved by improving the sales cost ratio when the order is received, by strengthening measures aimed at enhancing design and construction productivity, and by reinforcing measures for limiting the cost of additional construction occurring after delivery to the customer. Consequently, operating income recorded a large 65.5% or ¥6,122 million increase to ¥15,471 million.

i) Overseas sales

Sales by region

Overseas sales were ¥29,528 million, with the breakdown by region and the percentage of total consolidated net sales as follows. Asian sales increased 36.3% over the previous fiscal year to ¥22,635 million (percentage of consolidated net sales: 11.5%), North American sales increased 46.3% to ¥3,424 million (percentage of consolidated net sales: 1.7%), European sales increased 15.6% to ¥1,296 million (percentage of consolidated net sales: 0.7%), and sales in other regions increased 25.9% to ¥2,171 million (percentage of consolidated net sales: 1.1%).

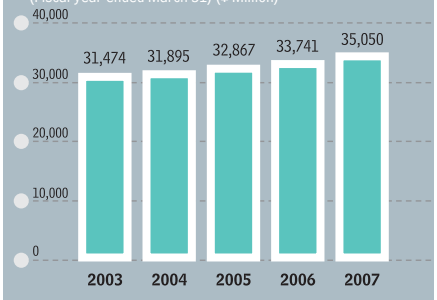
Sales by business segment

Of overseas sales of ¥29,528 million, the Water Treatment Chemicals Business increased 29.7% over the previous fiscal year to ¥8,873 million (30% of total overseas sales) and the Water Treatment Facilities Business increased 38.2% to ¥20,655 million (70% of total overseas sales).

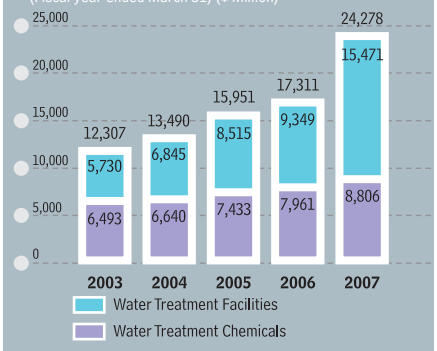
j) Income before income taxes

As a result mainly of higher operating income, income before income taxes increased by 35.1%, or ¥6,391 million to ¥24,591 million.

SG&A Expenses
(Fiscal year ended March 31) (¥ Million)

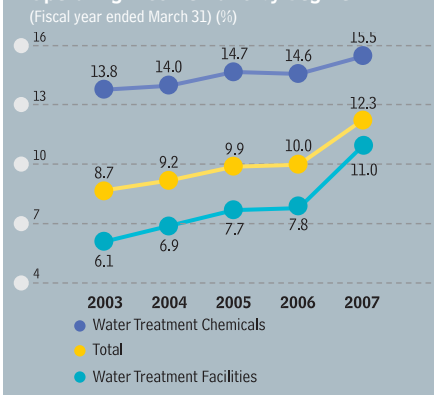


Operating Income by Segment
(Fiscal year ended March 31) (¥ Million)

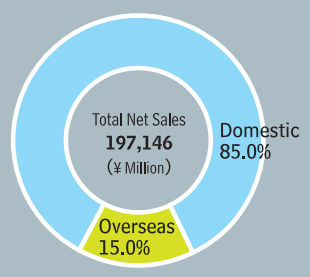


Note: Total operating income in shown before deduction of corporate items and inter-segment eliminations.

Operating Income Ratio by Segment
(Fiscal year ended March 31) (%)



Percentage of Net Sales
(Fiscal year ended March 31, 2007)



k) Net income and net income per share

Net income increased 35.1%, or ¥3,688 million to ¥14,207 million, and net income per share increased from ¥81.76 in the previous fiscal year to ¥110.42.

l) Dividend policy and dividends

In the distribution of profits, our basic policy is to maintain stable dividends while giving due consideration to full-year business performance and the demand for funds for future business expansion. In the year under review, Kurita declared a year-end dividend of ¥15, up ¥4 from the previous fiscal year. Combined with the interim dividend of ¥13, this resulted in total dividends for the fiscal year of ¥28 per share, an increase of ¥6. This was the third year in a row that Kurita has increased dividends, and in the year ending March 31, 2008, we plan to increase dividends another ¥4 to a total of ¥32.

Capital expenditures

● Capital expenditure status

The Kurita Group is committed to making the investments necessary to enhance its technological innovation and production capacity and to respond to the ongoing intensification of sales competition. During the year under review, we invested a total of ¥19,563 million, an increase of ¥3,026 million from the previous fiscal year, primarily for the acquisition of facilities for business use.

● Water Treatment Chemicals Business

Capital expenditures for this segment decreased by ¥694 million to ¥1,324 million, which were made for such purposes as renovating chemical product manufacturing facilities and purchasing analysis equipment for water quality analysis operations.

● Water Treatment Facilities Business

Capital expenditures rose by ¥3,719 million from the previous fiscal year to ¥18,238 million, for such purposes as acquisition of facilities for the Ultrapure Water Supply Business and acquisition of land and buildings for use in the tool cleaning business.

● Depreciation and amortization

In conjunction with the increase in the number of facilities for the Ultrapure Water Supply Business, depreciation and amortization increased by 32.7%, or ¥1,606 million from ¥4,906 million in the previous fiscal year to ¥6,512 million.

R&D Expenses

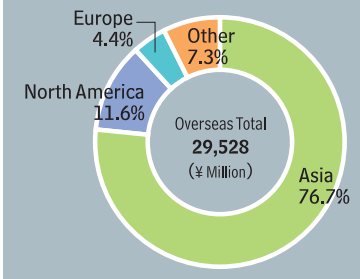
● R&D status

The Kurita Group is evolving and nurturing the technology used in our business operations, including technologies for boiler water treatment and cooling water treatment, ultrapure water production, water and wastewater processing, water reclamation, and soil and ground water remediation. In addition, we are also engaged in a wide range of other R&D for platform technology research in areas such as analysis technology and IT control and diagnostic technology, and for the development of technology for new business ventures.

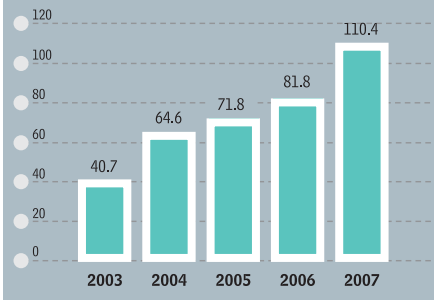
In the future, we will continue to refine the "water" technologies that we have accumulated over many years. Toward our vision of becoming "an advanced water and environmental management company," we will aggressively carry out research and development on the wide range of technologies—environmental preservation technology, water reuse technology, productivity improvement technology, etc.—needed by industry and society. We will also actively engage in R&D for new business ventures, for example: the development and promotion of technologies for the fuel cell systems needed to realize a "hydrogen society" in the years ahead.

Kurita's R&D activities are conducted principally by the parent company's Research and Development Division and the technical development departments of each operating division. R&D personnel of the Group as a whole number approximately 180, which is about 4.5% of all Group

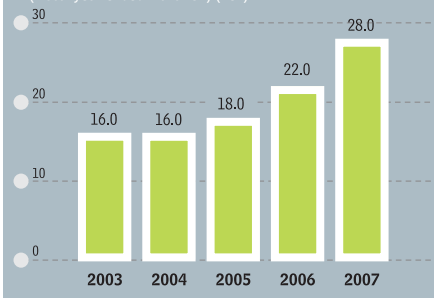
Overseas Sales by Area
(Fiscal year ended March 31, 2007)



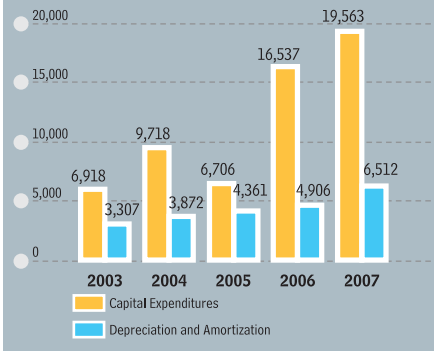
Net Income per Share
(Fiscal year ended March 31) (Yen)



Dividends per Share (Parent Company)
(Fiscal year ended March 31) (Yen)



Capital Expenditures, and Depreciation and Amortization
(Fiscal year ended March 31) (¥ Million)



personnel. Total R&D expenses for the year ended March 31, 2007 amounted to ¥4,421 million, equivalent to 2.2% of net sales.

An overview of R&D activities, results and expenses of each business segment in the year under review is given below.

● Water Treatment Chemicals Business

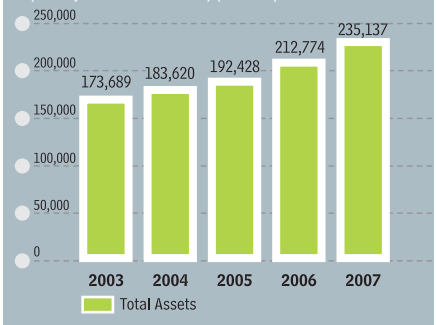
In this segment, we promote water treatment chemicals that contribute to customer efforts to conserve energy, resources and finances, and improve productivity, and, at the same time, we develop technologies focusing on reducing the environmental impact of water treatment by developing new environment-friendly basic materials and non-chemical water treatment methods. We also develop system technologies to support maintenance services for our packaged water treatment management contracts. During the year under review, R&D expenses for this were ¥1,392 million.

● Water Treatment Facilities Business

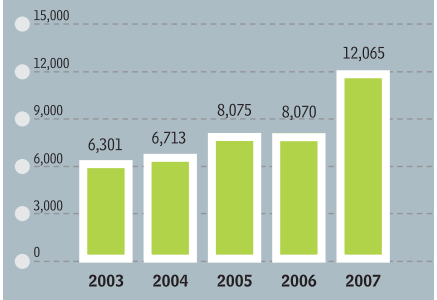
We are moving forward with efforts to further enhance ultrapure water quality and with R&D for environmental preservation technologies for soil remediation and wastewater treatment that go beyond current environmental regulatory requirements. At the same time, we are engaging in developing wastewater reclamation and recycling technologies and sludge reduction technologies that will contribute to the realization of a recycling society. We are also working to improve our hardware technology by making our water treatment systems more compact and standardized. During the year under review, R&D expenses for this business were ¥3,028 million.

R&D Expenses
(Fiscal year ended March 31) (¥ Million)

Total Assets
(Fiscal year ended March 31) (¥ Million)



Inventories
(Fiscal year ended March 31) (¥ Million)



Financial position

a) Total assets

● Current assets

At fiscal year-end, total current assets were up by ¥11,772 million compared with the previous fiscal year-end to ¥137,004 million. Significant factors contributing to this rise included a ¥7,653 million increase in cash and time deposits and a ¥3,995 million increase in inventories. The rise in inventories was the result of an increase in work in progress related to the progress status of facilities under construction at water treatment facility projects.

● Property, plant and equipment

Property, plant and equipment increased by ¥13,297 million over the previous fiscal year-end to ¥67,288 million. This occurred because of the increase in tangible fixed assets, which mainly comprised investments in facilities for Ultrapure Water Supply Business.

b) Liabilities and net assets

● Current liabilities

Current liabilities rose by ¥10,619 million to ¥65,496 million, due to an increase in notes and accounts payable, trade of ¥4,341 million and increases of ¥3,122 million in accrued income tax and ¥2,865 million in advances received. The rise in notes and accounts payable, trade was attributable mainly to an increase in trade payables for material costs, outsourcing, and other costs involved in efforts to increase the production output of Water Treatment Facilities Business. The rise in accrued income tax was the result of the increase in income before income taxes.

● **Long-term liabilities**

Long-term liabilities increased slightly by ¥207 million to ¥11,440 million, which represented a slight increase of ¥207 million over the previous fiscal year-end.

● **Net assets**

Total net assets increased by ¥12,833 million to ¥158,200 million compared to total shareholders' equity at the previous fiscal year-end. This was primarily attributable to a ¥11,095 million increase in retained earnings stemming from the ¥14,207 million in net income and to the inclusion in the net assets section of ¥1,427 million in minority interests as a result of the application of "Accounting Standard for Presentation of Net Assets in the Balance Sheet" beginning with the year under review.

● **Equity ratio**

The equity ratio declined 1.6 percentage points from 68.3% to 66.7%.

● **Return on equity**

Although equity in the period under review increased 7.8% to ¥156,772 million, since net income increased 35.1% to ¥14,207 million, return on equity rose from 7.5% in the previous fiscal year to 9.4%.

Cash flows

● **Cash flows from operating activities**

Net cash provided by operating activities amounted to ¥27,070 million, an increase of ¥13,214 million compared with the previous fiscal year. Factors bolstering operating cash flows included income before income taxes of ¥24,591 million (up ¥6,391 million from the previous fiscal year), depreciation and amortization of ¥6,512 million (up ¥1,606 million), and an increase in advances received of ¥2,846 million (up ¥1,769 million). Factors constraining operating cash flows included an increase in inventories of ¥3,945 million (up ¥4,101 million) and income taxes paid totaling ¥8,032 million (up ¥1,051 million).

● **Cash flows from investing activities**

Net cash used in investing activities totaled ¥16,453 million, a large expenditure increase of ¥4,135 million compared with the previous fiscal year. This rise stemmed mainly from the fact that even though there was a net positive cash flow from the acquisition and sales of marketable securities and investment securities of ¥3,009 million (up ¥4,706 million), there was also, for the second year in a row, a large increase in expenditures for acquisition of tangible fixed assets used for business purposes to ¥18,846 million (up ¥7,884 million).

● **Cash flows from financing activities**

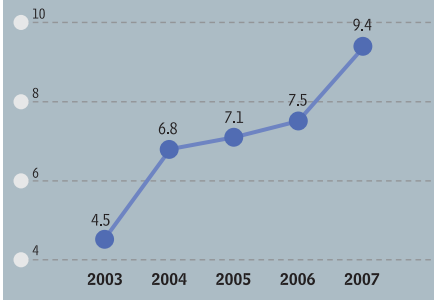
Net cash used in financing activities amounted to ¥3,458 million, up ¥942 million compared with the previous fiscal year. This was primarily owing to cash dividends paid totaling ¥3,086 million (up ¥514 million).

● **Cash and cash equivalents at end of year**

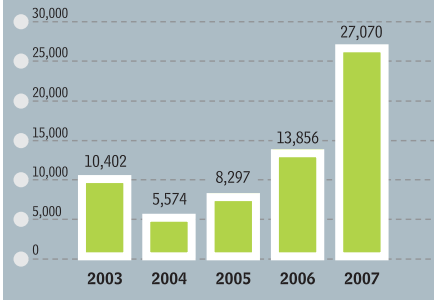
At the end of the fiscal year, cash and cash equivalents stood at ¥37,442 million, an increase of ¥7,571 million compared with the previous period. This figure reflects the ¥280 million effect of exchange rate adjustment on cash and cash equivalents and the ¥132 million in cash and cash equivalents held by newly consolidated subsidiaries at beginning of the year.

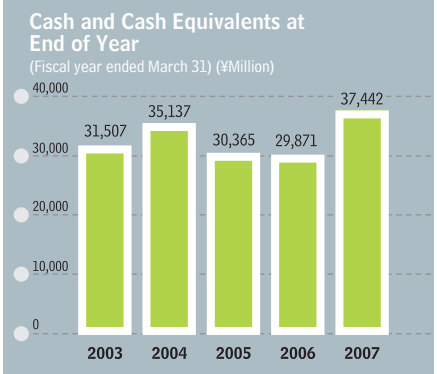
Equity
(Fiscal year ended March 31) (¥ Million)

Return on Equity
(Fiscal year ended March 31) (%)



Cash Flows from Operating Activities
(Fiscal year ended March 31) (¥ Million)





Issues to be addressed and outlook for the year ending March 31, 2008

Under the G-8 plan, launched in April 2006, we are working for Group growth and expansion by strengthening our core businesses and investing aggressively in growing businesses. In the consolidated fiscal year under review, the Group achieved excellent business performance in a favorable market environment. In order to ensure the timely realization of our 21st-century vision and the G-8 plan, in the year ending March 31, 2008, we set forth the basic policies of "create new value and accelerate Group growth." In line with these policies, we are taking thorough action to implement the strategies of "Accelerating Kurita's shift to a service-based business model," "Expanding Kurita's global business," and "Reinforcing Kurita's management/business base."

The following three priority measures are being taken.

(1) Improve thoroughly the profitability of core businesses. Particularly in Water Treatment Facilities Business, further accelerate the expansion of service business.

(2) Further strengthen business initiatives for aggressively expanding global business.

(3) Thoroughly implement compliance activities while also working to improve product and service quality.

Business risks

Important risk factors affecting Kurita Group business performance include economic trends, capital expenditure trends in water treatment facilities and the plant, operating rates at client companies, price movements in basic materials, and the status of competition with other companies in the same industry.

(1) Factors affecting business performance

Specific factors that can affect Group performance, by segment, are described below.

- **Water Treatment Chemicals Business**

Our business performance is affected by demand fluctuations determined by the factory operating rates of our major demand sources; customers in the steel, oil refining, petrochemicals, and pulp and paper industries. Basic material price fluctuations caused by oil price changes can also affect business performance.

- **Water Treatment Facilities Business**

Business performance is influenced by demand fluctuations resulting from capital expenditures in the electronics industry, a major source of demand.

(2) Concentration of Water Treatment Facilities Business income in second half of fiscal year

With the exception of service business operations such as Ultrapure Water Supply Business and tool cleaning business, operating income from Water Treatment Facilities Business is generally concentrated in the second half of the fiscal year. This occurs because sales recorded based on project completion and work-in-progress standards tends to be concentrated at the end of the fiscal year.

FINANCIAL SECTION

CONTENTS

CONSOLIDATED BALANCE SHEETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

As of March 31, 2007 and 2006

Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash and time deposits (Note 3)	¥ 37,761	¥ 30,107	$ 319,878
Notes and accounts receivable, trade (Note 4)	77,080	77,072	652,950
Allowance for doubtful accounts	(164)	(125)	(1,390)
Marketable securities (Note 5)	5,830	6,162	49,387
Inventories (Note 6)	12,065	8,070	102,205
Deferred tax assets (Note 8)	2,713	2,170	22,987
Other current assets	1,716	1,773	14,540
Total current assets	137,004	125,231	1,160,560
Investments and long-term receivables:			
Investments in securities (Note 5)	19,977	23,179	169,233
Investments in non-consolidated subsidiaries and affiliates	2,641	2,582	22,379
Deferred tax assets (Note 8)	1,560	886	13,221
Other investments	4,257	4,151	36,068
Allowance for doubtful accounts	(201)	(111)	(1,703)
Total investments and long-term receivables	28,237	30,687	239,199
Property, plant and equipment, at cost:			
Land (Note 12)	14,064	13,745	119,135
Buildings and structures	38,164	36,059	323,292
Machinery and equipment	32,678	25,005	276,822
Construction in progress	9,840	2,115	83,356
Other facilities	10,733	10,231	90,923
Total	105,481	87,155	893,531
Accumulated depreciation	(38,192)	(33,163)	(323,531)
Property, plant and equipment, net	67,288	53,991	569,999
Intangible assets	2,607	2,863	22,088
Total assets	¥235,137	¥212,774	$1,991,848

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term borrowings and current portion of long-term borrowings (Note 7)	¥ 333	¥ 320	$ 2,820
Notes and accounts payable, trade (Note 4)	34,752	30,411	294,389
Accounts payable, other	12,157	11,651	102,983
Income taxes payable	7,498	4,376	63,521
Advances received	4,920	2,055	41,680
Accrued employees' bonuses	2,327	2,362	19,718
Allowance for product warranty	1,230	739	10,421
Other current liabilities	2,276	2,960	19,283
Total current liabilities	65,496	54,877	554,819
Long-term liabilities:			
Long-term borrowings (Note 7)	96	180	813
Accrued employees' retirement benefits (Note 9)	8,392	8,261	71,095
Accrued retirement benefits for directors and corporate auditors	696	488	5,899
Deferred tax liabilities on revaluation of land (Note 12)	1,526	1,526	12,928
Other long-term liabilities (Note 7)	729	777	6,177
Total long-term liabilities	11,440	11,233	96,913
Total liabilities	76,937	66,111	651,733
Contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity (Note 11)			
Common stock, 2007 and 2006			
Authorized: 531,000,000 shares			
Issued: 2007–132,800,256 shares			
2006–132,800,256 shares	13,450	13,450	113,941
Capital surplus	11,426	11,426	96,796
Retained earnings	133,446	122,350	1,130,422
Treasury stock, at cost			
2007–4,131,802 shares			
2006–4,127,639 shares	(4,803)	(4,793)	(40,694)
Total shareholders' equity	153,519	142,434	1,300,465
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities	3,662	3,873	31,028
Unrealized gains (losses) on revaluation of land (Note 12)	(740)	(740)	(6,274)
Foreign currency translation adjustments	330	(200)	2,799
Total valuation and translation adjustments	3,252	2,932	27,553
Minority interests in consolidated subsidiaries	1,427	1,295	12,095
Total net assets	158,200	146,662	1,340,114
Total liabilities and net assets	¥235,137	¥212,774	$1,991,848

CONSOLIDATED STATEMENTS OF INCOME

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Net sales (Note 15)	¥197,146	¥173,683	¥160,896	$1,670,028
Cost of sales	137,819	122,630	112,077	1,167,470
Gross profit	59,326	51,052	48,819	502,558
Selling, general and administrative expenses (Note 13)	35,050	33,741	32,867	296,909
Operating income (Note 15)	24,276	17,311	15,951	205,648
Other income (expenses):				
Interest and dividend income	566	451	356	4,797
Interest expenses	(50)	(41)	(38)	(428)
Impairment loss (Note 14)	—	(846)	—	—
Gain on sales of investments in securities	—	1,205	128	—
Equity in earnings of non-consolidated subsidiaries and affiliates	172	266	244	1,462
Loss on sales of properties	—	(150)	—	—
Loss on disposal of properties	(145)	(279)	(477)	(1,231)
Loss on sales and disposal of inventories	(61)	(23)	(90)	(519)
Surcharges and penalties	(488)	—	—	(4,141)
Other, net	322	306	301	2,728
	315	889	425	2,669
Income before income taxes and minority interests	24,591	18,200	16,376	208,318
Income taxes:				
Current	11,131	7,395	6,603	94,295
Deferred	(1,061)	100	234	(8,989)
	10,070	7,496	6,838	85,306
Minority interests in earnings of consolidated subsidiaries	314	184	154	2,660
Net income	¥ 14,207	¥ 10,519	¥ 9,383	$ 120,351

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	2007
Per share of common stock:				
Net income	¥110.42	¥81.76	¥71.76	$0.93
Cash dividends applicable to the year	28.00	22.00	18.00	0.23

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For years ended March 31, 2007, 2006 and 2005

	Millions of yen										
	Shareholders' equity (Note 11)					Evaluation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Unrealized gains (losses) on revaluation of land (Note 12)	Foreign currency translation adjustment	Total evaluation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2004	¥13,450	¥11,398	¥108,180	¥(4,890)	¥128,138	¥1,625	¥(257)	¥(829)	¥538	¥1,031	¥129,708
Changes during the year											
Cash dividends paid			(2,185)		(2,185)						(2,185)
Bonuses to directors and corporate auditors			(148)		(148)						(148)
Net increase in retained earnings due to change in scope of equity method application			93		93						93
Contribution to employees' incentive and welfare fund			(4)		(4)						(4)
Net income for the year			9,383		9,383						9,383
Disposal of treasury stock		11		59	71						71
Net changes of net assets other than shareholders' equity						442	—	38	480	79	559
Total changes during the year	—	11	7,138	59	7,209	442	—	38	480	79	7,769
Balance as of March 31, 2005	13,450	11,409	115,318	(4,830)	135,348	2,067	(257)	(790)	1,018	1,110	137,477
Changes during the year											
Cash dividends paid			(2,572)		(2,572)						(2,572)
Bonuses to directors and corporate auditors			(164)		(164)						(164)
Net decrease in retained earnings due to change in scope of equity method application			(14)		(14)						(14)
Reversal of Unrealized (losses) gains on revaluation of land			(724)		(724)						(724)
Contribution to employees' incentive and welfare fund			(11)		(11)						(11)
Net income for the year			10,519		10,519						10,519
Acquisition of treasury stock		17		36	54						54
Net changes of net assets other than shareholders' equity						1,806	(482)	590	1,913	184	2,098
Total changes during the year	—	17	7,032	36	7,086	1,806	(482)	590	1,913	184	9,185
Balance as of March 31, 2006	13,450	11,426	122,350	(4,793)	142,434	3,873	(740)	(200)	2,932	1,295	146,662
Changes during the year											
Cash dividends paid			(3,088)		(3,088)						(3,088)
Bonuses to directors and corporate auditors			(8)		(8)						(8)
Contribution to employees' incentive and welfare fund			(15)		(15)						(15)
Net income for the year			14,207		14,207						14,207
Acquisition of treasury stock				(10)	(10)						(10)
Net changes of net assets other than shareholders' equity						(210)	—	530	320	132	452
Total changes during the year	—	—	11,095	(10)	11,085	(210)	—	530	320	132	11,538
Balance as of March 31, 2007	¥13,450	¥11,426	¥133,446	¥(4,803)	¥153,519	¥3,662	¥(740)	¥330	¥3,252	¥1,427	¥158,200

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity (Note 11)					Evaluation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Unrealized gains (losses) on revaluation of land (Note 12)	Foreign currency translation adjustment	Total evaluation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2006	$113,941	$96,796	$1,036,432	$(40,609)	$1,206,560	$32,812	$(6,274)	$(1,696)	$24,840	$10,973	$1,242,375
Changes during the year											
Cash dividends paid			(26,159)		(26,159)						(26,159)
Bonuses to directors and corporate auditors			(73)		(73)						(73)
Contribution to employees' incentive and welfare fund			(127)		(127)						(127)
Net income for the year			120,351		120,351						120,351
Acquisition of treasury stock				(85)	(85)						(85)
Net changes of net assets other than shareholders' equity						(1,783)	0	4,496	2,713	1,121	3,834
Total changes during the year	0	0	93,990	(85)	93,905	(1,783)	0	4,496	2,713	1,121	97,739
Balance as of March 31, 2007	$113,941	$96,796	$1,130,422	$(40,694)	$1,300,465	$31,028	$(6,274)	$2,799	$27,553	$12,095	$1,340,114

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
I. Cash flows from operating activities:				
Income before income taxes and minority interests	¥24,591	¥18,200	¥16,376	$208,318
Depreciation and amortization (Note 15)	6,512	4,906	4,361	55,164
Impairment loss (Note 14)	—	846	—	—
Increase (decrease) in allowance for employees' retirement benefits	103	(447)	(463)	876
Gain on sales of investments in securities	—	(1,205)	(128)	—
Equity in earnings of non-consolidated subsidiaries and affiliates	(172)	(266)	(244)	(1,462)
Interest and dividend income	(566)	(452)	(356)	(4,797)
Interest expense	50	41	38	428
Payments of bonuses to directors and corporate auditors	—	(180)	(138)	—
Increase (decrease) in accrued employees' bonus	(66)	238	—	(562)
Increase (decrease) in other allowances, accrual and non-cash items, net	1,294	(196)	235	10,966
Changes in assets and liabilities:				
(Increase) decrease in trade receivables	3,555	(4,182)	(4,494)	30,117
(Increase) decrease in inventories	(3,945)	156	(1,375)	(33,422)
Increase in trade payables	2,192	2,314	848	18,570
Others, net	1,124	325	(334)	9,525
	34,673	20,096	14,323	293,721
Interest and dividends received	649	589	424	5,505
Interest paid	(45)	(43)	(36)	(387)
Income taxes paid	(8,032)	(6,981)	(6,479)	(68,042)
Others, net	(175)	195	65	(1,485)
Net cash provided by operating activities	27,070	13,856	8,297	229,311
II. Cash flows from investing activities:				
(Increase) decrease in time deposits, net	(78)	9	(1,924)	(667)
Payments for purchase of property, plant and equipment	(18,846)	(10,962)	(5,905)	(159,645)
Proceeds from sales of property, plant and equipment	43	817	100	370
Payments for purchase of marketable securities and investment in securities	(12,349)	(14,721)	(13,134)	(104,608)
Proceeds from sales and redemption of marketable securities and investments in securities	15,358	13,024	10,554	130,098
Others, net	(581)	(486)	(361)	(4,925)
Net cash used in investing activities	(16,453)	(12,318)	(10,669)	(139,377)
III. Cash flows from financing activities:				
Increase (decrease) in short-term debt, net	(81)	220	(60)	(687)
Decrease in long-term debt, net	(192)	(84)	(125)	(1,626)
Cash dividends paid	(3,086)	(2,572)	(2,185)	(26,149)
Cash dividends paid to minority interests in consolidated subsidiaries	(88)	(106)	(42)	(751)
Contribution from minority interests in consolidated subsidiaries	—	38	—	—
Payments for purchase of treasury stock, net	(10)	(11)	(10)	(85)
Net cash used in financing activities	(3,458)	(2,516)	(2,422)	(29,300)
IV. Effect of exchange rate changes on cash and cash equivalents	280	173	22	2,377
V. Net increase (decrease) in cash and cash equivalents	7,438	(804)	(4,772)	63,011
VI. Cash and cash equivalents at beginning of year (Note 3)	29,871	30,365	35,137	253,041
VII. Cash and cash equivalents of newly consolidated subsidiaries, net of excluded subsidiaries from consolidation	132	310	—	1,120
VIII. Cash and cash equivalents at end of year (Note 3)	¥37,442	¥29,871	¥30,365	$317,174

The accompanying notes are an integral part of these statements.

1. Basis of presenting 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 accompanying 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 Securities 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. These reclassifications and modifications have no effect on net income or shareholders' equity.

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 into U.S. dollar amounts is included solely for the convenience of readers and has been made for 2007, as a matter of arithmetical computation only, at the rate of ¥118.05 to US$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2007. The translation should not be construed as a representation that yen 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

Consolidation

(1) Scope of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. For the years ended March 31, 2007 and 2006, 36 and 34 subsidiaries, respectively, were 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., and Kuritec Service Co. Ltd.

In the year ended March 31, 2007, 2 companies (Kurita Chemicals Tokai Co., Ltd., and Miyoshi Industries Co., Ltd. which had been accounted for by the equity method until the previous fiscal year) were newly consolidated due to those subsidiaries' increased significance to the consolidated financial statements of the Company.

Name of principal non-consolidated subsidiary: Kurita Sogo Service Co., Ltd.

Combined assets, net sales, net income and retained earnings of all the non-consolidated subsidiaries in the aggregate are not significant in terms of the consolidated financial statements.

(2) Revaluation of assets and liabilities of the consolidated subsidiaries in the consolidation process

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to the minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(3) Fiscal year of consolidated subsidiaries

The following consolidated subsidiaries' fiscal year ends December 31:

Kurita (Singapore) Pte. Ltd.
Kurita do Brasil LTDA.
Kurita America Inc.
Kuritec Europe GmbH
Kurita Europe GmbH
Kurita Water (Malaysia) Sdn. Bhd.
Kurita (Taiwan) Co., Ltd.
Kurita-GK Chemical Co. Ltd.
Kurita Water Industries (Dalian) Co., Ltd.
P.T. Kurita Indonesia
Kurita Water Industires (Suzhou) Ltd.
Hansu Technical Service Ltd.
Kuritec Singapore Pte. Ltd.
Kuritec (Shanghai) Co., Ltd.

For these consolidated subsidiaries, the financial statements as of December 31 were used for consolidation purpose. However, material transactions that have occurred during in the period from January 1 to March 31 of the following year have been adjusted upon consolidation.

(4) Amortization of goodwill

The goodwill and negative goodwill are amortized using the straight-line method, over practically estimated effective years where applicable or otherwise 3 years, except for minor amounts that are charged to income in the period of acquisition.

Equity method

(1) Scope of equity method application

Significant investments in unconsolidated subsidiaries and affiliated companies over which the Company has the ability to exercise significant influence with regard to operating and financial policies of the investees, are accounted for by the equity method. For the years ended March 31, 2007 and 2006, 6 and 7 companies, respectively, were accounted for by the equity method.

Name of principal company applying the equity method: Kurita Sogo Service Co., Ltd.

In the year ended March 31, 2007, one affiliated company, Miyoshi Industries Co., Ltd., was excluded from the scope of equity method application, as it was included in the scope of consolidation from the fiscal year ended March 31, 2007.

Land Management Co., Ltd. and other non-consolidated subsidiaries and affiliated companies which are not accounted for by the equity method were excluded from the scope of the equity method application, due to

the minimal impact to net income (equity share) and retained earnings (equity share) of the consolidated financial statements, and are considered immaterial as a whole.

(2) Fiscal year 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.

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.

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.

Inventories

Inventories are stated at cost determined by the moving-average method, except for work in process whose costs are determined by the specific identification method.

Derivatives transactions

When necessary, the Company enters into forward currency contracts to hedge the risk of future foreign exchange rate fluctuations related to monetary obligations denominated in foreign currencies. These are basically conducted within the range of ordinary business transactions denominated in foreign currencies. The Company believes that the risk of counterparty default is negligible because its forward currency contracts are conducted with highly creditworthy Japanese banks. 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.

Depreciation of property, plant and equipment

Property, plant and equipment are 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 the 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 2–13 years

Impairment of long-lived assets

On August 9, 2002, the Business Accounting Council of Japan issued a new accounting standard entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets."

Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6, "Implementation Guidance on Accounting Standards for Impairment of Fixed Assets." Effective from the fiscal year ended March 31, 2006, the Company adopted these new accounting standards for impairment of fixed assets.

As a result of adopting the new accounting standards, income before income taxes and minority interests decreased by ¥846 million for the year ended March 31, 2006, compared with what would have been recorded under the previous accounting method. Accumulated impairment losses are directly deducted from the values of the relevant assets in accordance with the revised consolidated financial statement rules.

Accrued employees' bonuses

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

Accrued employees' retirement benefits

Accrued employees' retirement benefits are recorded based on the estimated projected benefit obligation and the fair value of the pension assets at the balance sheet date, except for some of the consolidated subsidiaries which use the simplified method for computing projected benefit obligations. Actuarial differences are subject to amortization over a period of 1–2 years from the year when they are incurred.

Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by the same method as that of operating leases.

Consumption taxes

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

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 the balance sheet date and their income and expenses are translated using the average exchange rate. The translation differences are shown as a separate component of net assets.

Presentation of net assets in the consolidated balance sheets

Effective from the fiscal year ended March 31, 2007, the Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, ASBJ Statement No. 5, December 9, 2005) and "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, ASBJ Guidance No. 8, December 9, 2005).

The new accounting standard and its implementation guideline require that a balance sheet should be divided into sections of assets, liabilities and net assets, and that the net assets section of a consolidated balance sheet should be classified into shareholders' equity and items other than shareholders' equity. Items

other than shareholders' equity in a consolidated balance sheet consist of valuation and translation adjustments, stock acquisition rights and minority interests.

The adoption of the new accounting standards does not have any impact on the results of operations.

The accompanying consolidated balance sheet and consolidated statements of changes in net assets for the fiscal years ended March 31, 2006 and 2005 have been reclassified to conform to the requirement of the new accounting standards described above.

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.

Earnings per share

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation for the year ended March 31, 2007. These changes had no impact on previously reported results of operations.

3. Reconciliation between cash and cash equivalents

Reconciliation between the cash and cash equivalents in the consolidated statements of cash flows and the consolidated balance sheet items is as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Cash and time deposits	¥37,761	¥30,107	¥30,679	$319,878
Time deposits with original maturity of more than three months	(319)	(236)	(313)	(2,704)
Cash and cash equivalents	¥37,442	¥29,871	¥30,365	$317,174

4. Trade notes with maturity on the balance sheet date

The following amount of trade notes had March 31, 2007 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
Notes receivable	¥1,049	$8,892
Notes payable	¥ 219	$1,863

5. Marketable securities and investment in securities

(1) Available-for-sale securities with fair value at March 31, 2007 and 2006, are summarized as follows:

	Millions of yen		
At March 31, 2007	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:	¥ 8,995	¥15,256	¥6,261
Stocks			
Bonds:			
Corporate bonds	300	301	1
Subtotal	9,295	15,557	6,262
Book value not exceeding acquisition cost:			
Stocks	939	854	(85)
Bonds:			
National and local government bonds	1,600	1,599	(0)
Corporate bonds	4,049	4,016	(33)
Other	2,199	2,199	(0)
Subtotal	8,788	8,669	(119)
Total	¥18,083	¥24,226	¥6,143

	Millions of yen		
At March 31, 2006	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stocks	¥ 8,869	¥15,434	¥6,564
Bonds:			
National and local government bonds	799	800	0
Corporate bonds	300	301	1
Other	2,999	2,999	0
Subtotal	12,969	19,535	6,566
Book value not exceeding acquisition cost:			
Stocks	17	15	(1)
Bonds:			
National and local government bonds	3,200	3,192	(7)
Corporate bonds	4,579	4,514	(64)
Subtotal	7,797	7,723	(73)
Total	¥20,766	¥27,259	¥6,492

At March 31, 2007	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stocks	$ 76,199	$129,240	$53,040
Bonds:			
Corporate bonds	2,541	2,550	9
Subtotal	78,741	131,791	53,049
Book value not exceeding acquisition cost:			
Stocks	7,961	7,239	(721)
Bonds:			
National and local government bonds	13,554	13,547	(7)
Corporate bonds	34,301	34,020	(281)
Other	18,629	18,628	1
Subtotal	74,446	73,435	(1,011)
Total	$153,187	$205,226	$52,038

(2) Available-for-sale securities sold during the years ended March 31, 2007, 2006 and 2005, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Sales amount	¥ —	¥2,460	¥210	$ —
Total gains on sales	—	1,205	148	—
Total losses on sales	—	—	—	—

(3) The schedule of redemption for available-for-sale securities with maturity at March 31, 2007 and 2006, is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2007		March 31, 2006		March 31, 2007	
	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years
Bonds:						
National and local government bonds	¥1,599	¥ —	¥2,398	¥1,594	$13,547	$ —
Corporate bonds	1,894	2,422	763	4,052	16,050	20,520
Other	2,199	—	2,999	—	18,628	—
Total	¥5,693	¥2,422	¥6,162	¥5,647	$48,226	$20,520

(4) Available-for-sale securities with no available fair value

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Available-for-sale securities:				
Non-public company				
(excluding over-the-counter bulletin board)	¥1,580	¥2,082	¥3,082	$13,391

6. Inventories

Inventories at March 31, 2007 and 2006, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products	¥ 1,509	¥1,508	$ 12,789
Raw materials	1,166	1,090	9,881
Work in process	9,389	5,471	79,535
Total	¥12,065	¥8,070	$102,205

7. Short-term and long-term borrowings

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

The short-term borrowings and current portion of long-term borrowings at March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Short-term borrowings	¥ 239	¥236	$2,025
Current portion of long-term borrowings	93	84	795
Total	¥333	¥320	$2,820

The weighted-average annual interest rates of short-term borrowings and current-portion of long-term borrowings for the years ended March 31, 2007 were 6.18% and 5.40%, respectively.

(2) Long-term borrowings

Long-term borrowings at March 31, 2007 and 2006 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loan from banks at weighted-average annual interest rates of:	¥189	¥264	$1,608
2007–5.57%			
2006–4.50%			
Less: Current portion	(93)	(84)	(795)
Total	¥ 96	¥180	$ 813

The annual maturities of long-term borrowings at March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥96	$813
2010 and thereafter	—	—
Total	¥96	$813

(3) Other interest-bearing debts

Other than the short- and long-term borrowings described above, ¥672 million (US$5,695 thousands) and ¥740 million of interest-bearing long-term deposits received were included in other long-term liabilities as of March 31, 2007 and 2006, respectively. The weighted-average annual interest rates for such deposits received for the years ended March 31, 2007 and 2006 were 0.89% and 0.13%, respectively.

8. Income taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Excess provision for accrued employees' retirement benefits	¥3,248	¥3,304	$27,516
Excess depreciation of property, plant and equipment	1,017	592	8,620
Excess provision for accrued bonuses to employees	954	901	8,084
Unrealized gains on sales of property, plant and equipment	706	423	5,987
Accrued enterprise taxes not deductible	570	289	4,835
Excess provision of allowance for product warranty	490	286	4,153
Impairment loss	348	343	2,951
Excess portion of design expenses	336	291	2,851
Accrued retirement benefits for directors and corporate auditors	273	189	2,320
Loss on revaluation of golf club membership	134	129	1,139
Other	764	611	6,474
Subtotal	8,846	7,363	74,934
Valuation allowances	(454)	(366)	(3,847)
Total deferred tax assets	8,391	6,996	71,087
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(2,493)	(2,634)	(21,126)
Capital gain on properties deferred for tax purposes	(747)	(757)	(6,328)
Estimated income taxes pertaining to retained earnings of overseas consolidated subsidiaries	(876)	(546)	(7,422)
Total deferred tax liabilities	(4,117)	(3,939)	(34,877)
Deferred tax assets, net	¥4,274	¥3,057	$36,209

9. Retirement benefits and pension plans

The Company and 24 consolidated subsidiaries provide lump-sum retirement benefits or qualified pension plans as defined benefit pension plans. The Company and 3 domestic consolidated subsidiaries have both plans, and 6 domestic consolidated subsidiaries have only qualified pension plans.

As in Note 17. Subsequent events, the Company transferred its qualified pension plan to a defined contribution pension plan as of April 1, 2007.

(1) Benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation	¥(23,704)	¥(23,195)	$(200,801)
Fair value of pension plan assets	15,363	15,059	130,143
Unfunded retirement benefit obligation	(8,341)	(8,135)	(70,657)
Unrecognized actuarial (gain) loss	(51)	(125)	(437)
Accrued employees' retirement benefits	¥ (8,392)	¥ (8,261)	$ (71,095)

(2) Net periodic benefit costs

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Service cost	¥1,344	¥1,163	¥1,109	$11,392
Interest cost	535	537	532	4,533
Expected return on plan assets	(85)	(85)	—	(726)
Amortization of actuarial differences	138	(115)	(39)	1,173
Additional retirement payments	31	13	52	268
Net periodic benefit cost	¥1,964	¥1,514	¥1,654	$16,642

Benefit cost incurred for the consolidated subsidiaries which use the simplified method for computing benefit obligations is included in service cost in the above table.

(3) Assumptions to determine above obligation and cost:

	2007	2006
Periodic allocation of projected benefit obligation	Equal amount over each period	Equal amount over each period
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	0.8%	0.8%
Amortization period of actuarial differences	1–2 years	1–2 years

10. Leases

(1) The Company and consolidated subsidiaries use certain machinery and equipment and other tangible fixed assets under lease arrangements. The following pro forma amounts describe the finance leases which would have been reflected in the consolidated financial statements if leased assets had been capitalized to the finance lease transactions currently accounted for as operating leases:

a) Leased assets (as lessee)

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Acquisition costs	¥1,384	¥1,537	¥1,572	$11,726
Accumulated depreciation	(687)	(924)	(777)	(5,822)
Net book value	¥ 696	¥ 612	¥ 794	$ 5,903

The amounts of acquisition costs include the interest portion due to immateriality of lease obligations to the net book value of property, plant and equipment at fiscal year end.

b) Lease obligations (net book value)

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Due within one year	¥234	¥224	¥303	$1,989
Due over one year	462	388	490	3,914
Total	¥696	¥612	¥794	$5,903

The amounts of lease obligations include the interest portion due to immateriality of lease obligations to the net book value of property, plant and equipment at fiscal year end.

c) Lease payments relating to finance lease transactions accounted for as operating leases

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Lease payments	¥284	¥270	¥338	$2,411
Depreciation	284	270	338	2,411

Depreciation of the leased assets is computed by the straight-line method over the lease terms with zero residual value.

(2) Future lease payments relating to operating lease transactions:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Due within one year	¥122	¥146	¥ 78	$1,035
Due over one year	164	208	101	1,396
Total	¥287	¥355	¥180	$2,431

11. Shareholders' equity

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replace the former Commercial Code with various revisions that is, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ended/ending on or after May 1, 2006. The summary of the Corporate Law that affect financial statements and accounting matters are as follows:

(1) Distribution to the shareholders

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

The Corporate Law 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 and transfer of common stock, reserve and surplus

The Corporate Law 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 Corporate Law, these legal reserve and additional paid-in capital may be reversed without limitation.

The Corporate Law 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 and treasury stock acquisition rights

The Corporate Law provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Directors' meetings. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are deducted directly from stock acquisition rights which were previously presented as a liability but now are presented as a separate component of shareholders' equity in net assets.

12. Unrealized gains on revaluation of land

The Company carried out a revaluation of land for business use in accordance with the Land Revaluation Law (enacted on March 31, 1998). The revaluation difference is stated as "Unrealized gains on revaluation of land" in the shareholders' equity account, net of taxes. The tax equivalent is stated as deferred tax assets or liabilities in long-term liabilities.

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

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

Revaluation date: March 31, 2002

13. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Salaries and allowances	¥12,780	¥12,620	¥11,850	$108,261
Provision for accrued employees' bonuses	1,242	1,320	1,496	10,522
Retirement benefit expenses	1,153	734	894	9,768
Travel expenses	2,527	2,517	2,416	21,411
Research and development expenses	4,421	4,213	4,228	37,450
Other	12,925	12,334	11,981	109,494
Total	¥35,050	¥33,741	¥32,867	$296,909

14. Impairment loss

The Company categorizes business assets by type of business structures, and leased assets and idle assets by individual property type. Along with a restructure of the research and development divisions, Kurita Technology Center, the previous Corporate Research & Development Center (Atsugi-shi, Kanagawa) was taken over and integrated into Kurita Global Technology Center (Shimotsuga-gun, Tochigi). As a result, Kurita Technology Center in Atsugi-shi, Kanagawa became an idle asset. Due to substantial declines in the fair market value of land and buildings, book values are written down to the recoverable amount, and such write-downs are recorded as an impairment loss of ¥846 million in the fiscal year ended March 31, 2006, of which buildings and structures accounted for ¥522 million, land for ¥297 million and other for ¥27 million.

Recoverable amounts for relevant assets are measured at their net selling price and evaluated in accordance with real estate appraisal standards.

15. Segment information

(1) Business segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007, 2006 and 2005, is outlined as follows:

	Millions of yen				
Year ended March 31, 2007	Water Treatment Chemicals Business	Water Treatment Facilities Business	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	¥56,667	¥140,479	¥197,146	¥ —	¥197,146
2) Intersegment sales	262	78	340	(340)	—
Total	56,930	140,557	197,487	(340)	197,146
Operating costs and expenses	48,123	125,086	173,209	(339)	172,870
Operating income	¥ 8,806	¥ 15,471	¥ 24,278	¥ (1)	¥ 24,276
II. Assets, depreciation, impairment loss and capital expenditures					
Assets	¥37,726	¥141,952	¥179,679	¥55,458	¥235,137
Depreciation and amortization	1,648	4,864	6,512	—	6,512
Capital expenditures	1,324	18,238	19,563	—	19,563

	Millions of yen				
Year ended March 31, 2006	Water Treatment Chemicals Business	Water Treatment Facilities Business	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	¥54,549	¥119,133	¥173,683	¥ —	¥173,683
2) Intersegment sales	322	573	895	(895)	—
Total	54,872	119,706	174,578	(895)	173,683
Operating costs and expenses	46,910	110,357	157,268	(895)	156,372
Operating income	¥ 7,961	¥ 9,349	¥ 17,310	¥ 0	¥ 17,311
II. Assets, depreciation, impairment loss and capital expenditures					
Assets	¥46,191	¥124,280	¥170,471	¥42,302	¥212,774
Depreciation and amortization	1,608	3,298	4,906	—	4,906
Impairment loss	—	—	—	846	846
Capital expenditures	2,018	14,519	16,537	—	16,537

Year ended March 31, 2005	Millions of yen				
	Water Treatment Chemicals Business	Water Treatment Facilities Business	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	¥50,637	¥110,259	¥160,896	¥ —	¥160,896
2) Intersegment sales	199	681	881	(881)	—
Total	50,837	110,941	161,778	(881)	160,896
Operating costs and expenses	43,403	102,425	145,829	(883)	144,945
Operating income	¥ 7,433	¥ 8,515	¥ 15,949	¥ 1	¥ 15,951
II. Assets, depreciation, impairment loss and capital expenditures					
Assets	¥43,433	¥108,025	¥151,459	¥40,969	¥192,428
Depreciation and amortization	1,465	2,895	4,361	—	4,361
Capital expenditures	1,322	5,383	6,706	—	6,706

Year ended March 31, 2007	Thousands of U.S. dollars				
	Water Treatment Chemicals Business	Water Treatment Facilities Business	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	$480,032	$1,189,996	$1,670,028	$ —	$1,670,028
2) Intersegment sales	2,222	662	2,885	(2,885)	—
Total	482,254	1,190,658	1,672,913	(2,885)	1,670,028
Operating costs and expenses	407,652	1,059,602	1,467,254	(2,874)	1,464,379
Operating income	$ 74,602	$ 131,056	$ 205,659	$ (10)	$ 205,648
II. Assets, depreciation, impairment loss and capital expenditures					
Assets	$319,582	$1,202,479	$1,522,062	$469,786	$1,991,848
Depreciation and amortization	13,960	41,204	55,165	—	55,165
Capital expenditures	11,223	154,500	165,724	—	165,724

Notes:

1. Principal products and services of each segment are as follows:

Water Treatment Chemicals Business

Boiler water treatment chemicals, cooling water treatment chemicals, wastewater treatment chemicals, process treatment chemicals, incinerator chemicals, equipment and systems for water treatment chemicals, and customized services, including a steam supply contract and blanket contracts for factories

Water Treatment Facilities Business

For the electronics industry:

Ultrapure water production systems, wastewater reclaim systems, wastewater treatment systems, tool cleaning, operation and maintenance services, and Ultrapure Water Supply Business

For general industries:

Pure water production systems, wastewater treatment systems, soil remediation, chemical cleaning, and maintenance services

For the public sector:

Sewage treatment facilities, human waste treatment facilities, waterworks facilities, landfill leachate treatment facilities, and operation and maintenance services

2. There were no costs and expenses that cannot be allocated to business segments included in "Elimination or corporate" for the years ended March 31, 2007 and 2006.
3. Total assets under "Elimination or corporate" include corporate assets, consisting primarily of surplus funds and long-term investment funds (deposits, marketable securities and investments in securities). Amounts of such corporate assets as of March 31, 2007 and 2006 were ¥55,585 million (US$470,865 thousand) and ¥42,362 million, respectively.
4. Until the fiscal year ended March 31, 2006, investment securities and long-term investment funds (deposits, marketable securities and investments in securities) held by consolidated subsidiaries had been allocated to the business segment to which the said subsidiaries belong. Starting from the fiscal year ended March 31, 2007, in order to indicate the fund management efficiency of each business segment more appropriately, such assets were included in "Elimination or corporate", in the same manner with those assets held by the Company. Accordingly, assets of Water Treatment Chemicals Business and Water Treatment Facilities Business decreased by ¥2,878 million (US$24,384 thousand) and ¥8,734 million (US$73,987 thousand), respectively, and the assets under "Elimination or corporate" increased by ¥11,612 million (US$98,372 thousand), compared with what would have been under the previous accounting method.
5. The impairment loss recorded for the fiscal year ended March 31, 2006 incurred for idle assets and therefore had no impact on each segment.

(2) Geographic segment information

Geographic segment information is not shown since the amounts of net sales and assets in Japan exceeded 90% of the amount of combined net sales for the years ended March 31, 2007, 2006 and 2005, and assets of all segments as of those dates.

(3) Overseas net sales

	Millions of yen					Thousands of U.S. dollars
For the year ended March 31, 2007	Asia	North America	Europe	Other	Total	Total
Overseas net sales	¥22,635	¥3,424	¥1,296	¥2,171	¥ 29,528	$ 250,133
Consolidated net sales	—	—	—	—	197,146	1,670,028
Percentage of overseas net sales to consolidated net sales	11.5%	1.7%	0.7%	1.1%	15.0%	15.0%
For the year ended March 31, 2006						
Overseas net sales	¥16,602	¥2,340	¥1,121	¥1,724	¥ 21,788	
Consolidated net sales	—	—	—	—	173,683	
Percentage of overseas net sales to consolidated net sales	9.6%	1.3%	0.6%	1.0%	12.5%	

Notes:

1. Countries and regions are classified into segments according to geography and proximity.
2. The major countries or regions classified in each geographic segment are as follows:
   Asia: South Korea, China, Taiwan, Singapore, Indonesia, Thailand
   North America: United States of America
   Europe: Germany
   Other: Brazil
3. Overseas net sales refers to sales outside Japan generated by the Company and its consolidated subsidiaries.

16. Contingent liabilities

Guarantees for employees' indebtedness from bank housing loans at March 31, 2007 and 2006, are as follows:

Millions of yen		Thousands of U.S. dollars
2007	2006	2007
¥ 3	¥10	$27

17. Subsequent events

(1) Transition of employees' retirement benefit plans

As of April 1, 2007, the Company transferred its qualified pension plan to a defined contribution pension plan. The effect of plan transition on the results of operations of the fiscal year ending March 31, 2008 is expected to be immaterial.

(2) Appropriation of retained earnings

The following appropriations of retained earnings for the year ended March 31, 2007, were approved at the general meeting of shareholders of the Company held on June 28, 2007.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,930	$16,349
Bonuses to directors and corporate auditors	—	—

18. Per share information

	Yen			U.S. dollars
	2007	2006	2005	2007
Net assets per share	¥1,218.42	¥1,129.74	¥1,058.90	$10.32
Earnings per share (EPS)	110.42	81.76	71.76	0.93

Basis of calculation for EPS is as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net income	¥14,207	¥10,519	¥9,383	$120,351
Net income attributable to common stock	14,207	10,519	9,229	120,351
Average number of shares	128,670,582	128,654,537	128,615,153	128,670,582

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GRANT THORNTON TAIYO ASG
AKASAKA DS Bldg. 9F
8-5-26 AKASAKA MINATO-KU TOKYO 107-0052 JAPAN
Tel: 03-5474-0111 Fax: 03-5474-0112

To the Board of Directors of
Kurita Water Industries Ltd.

We have audited the accompanying consolidated balance sheets of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated statements.

The consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo ASG

Tokyo, Japan
June 28, 2007

Nonconsolidated Balance Sheets, as of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Assets			
Current assets	¥106,382	¥100,714	$ 901,162
Investments and long-term receivables	34,129	36,276	289,107
Property, plant and equipment	58,214	45,247	493,134
Intangible assets	1,805	2,051	15,293
Total assets	200,531	184,290	1,698,698
Liabilities			
Current liabilities	¥ 54,592	¥ 46,320	$ 462,449
Long-term liabilities	9,707	9,439	82,231
Total liabilities	64,299	55,760	544,681
Net Assets			
Shareholders' equity			
Common stock	13,450	13,450	113,941
Capital surplus	11,426	11,426	96,796
Retained earnings	113,299	105,391	959,757
Treasury stock, at cost	(4,803)	(4,793)	(40,694)
Total shareholders' equity	133,372	125,474	1,129,800
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities	3,599	3,795	30,490
Unrealized gains (losses) on revaluation of land	(740)	(740)	(6,274)
Total valuation and translation adjustments	2,858	3,054	24,216
Total net assets	136,231	128,529	1,154,016
Total liabilities and net assets	¥200,531	¥184,290	$1,698,698

Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥118.05 to US$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2007.

Nonconsolidated Statements of Income, for the Years Ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Net sales	¥134,759	¥123,403	¥119,175	$1,141,544
Cost of sales	96,545	90,191	85,251	817,833
Gross profit	38,214	33,212	33,924	323,711
Selling, general and administrative expenses	22,968	23,255	23,904	194,562
Operating income	15,246	9,956	10,020	129,148
Other income	3,488	4,319	2,704	29,547
Other expenses	913	1,508	723	7,739
Income before income taxes	17,820	12,767	12,002	150,957
Income taxes	6,824	4,771	4,633	57,808
Net income	¥ 10,996	¥ 7,975	¥ 7,369	$ 93,148

Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥118.05 to US$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2007.

CORPORATE DATA

As of March 31, 2007

Company Name	Kurita Water Industries Ltd.
Address	4-7, Nishi-Shinjuku 3-chome, Shinjuku-ku, Tokyo 160-8383, Japan
Paid-in Capital	¥13,450,751,434
Date of Establishment	July 13, 1949
Number of Employees	1,519 (parent company) 3,992 (on a consolidated basis)
Domestic Offices	**Head Office:** 4-7, Nishi-Shinjuku 3-chome, Shinjuku-ku, Tokyo 160-8383 Tel.: 81 (3) 3347-3111 **Osaka Branch:** 2-22, Kitahama 2-chome, Chuo-ku, Osaka 541-0041 Tel.: 81 (6) 6228-4800 **Kurita Global Technology Center:** 1-1, Gochoyama, Kawada, Nogi-machi, Shimotsuga-gun, Tochigi 329-0105 Tel.: 81 (280) 54-1511 **Branches:** Sapporo, Tohoku, Nagoya, Hiroshima and Kyushu
Overseas Offices	**Singapore Branch:** 30 Joo Koon Road, Singapore 628984 Tel.: 65 (6861) 2622 **Taiwan Branch:** 5F-3, No. 295, Section 2, Kuang-Fu Road, (Empire Commercial Bldg.) Hsinchu, Taiwan, R.O.C. Tel.: 886 (3) 575-1157

Major Consolidated Subsidiaries and Affiliated Company

Company Name	Paid-in Capital (Millions)	Equity Ownership (%)	Main Business
OVERSEAS			
■ North America • South America			
Kurita do Brasil LTDA.	R$6.986	100.0	Manufacture & sale of water treatment chemicals
Kurita America Inc.	US$3.0	100.0	Sale of water treatment facilities, facility operation and maintenance services
■ Europe			
Kurita Europe GmbH	EUR2.301	95.0	Manufacture & sale of water treatment chemicals
Kuritec Europe GmbH	EUR0.959	100.0	Sale of water treatment facilities, facility operation and maintenance services
■ Asia			
Kurita (Singapore) Pte. Ltd.	S$4.0	100.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kuritec Singapore Pte. Ltd.	S$1.49	100.0	Ultrapure water supply for specified customer
Kurita Water (Malaysia) Sdn. Bhd.	RM$0.6	83.3	Sale of water treatment chemicals and water treatment facilities
Kurita Water Industries (Dalian) Co., Ltd.	¥550	90.1	Manufacture & sale of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Maintenance services and sale of small water treatment facilities
Kurita Water Industries (Suzhou) Ltd.	¥100	100.0	Manufacture & sale of water treatment facilities
Kurita (Taiwan) Co., Ltd.	NT$20	95.0	Manufacture & sale of water treatment chemicals
P.T. Kurita Indonesia	US$2.0	92.5	Manufacture & sale of water treatment chemicals and water treatment facilities
Kurita-GK Chemical Co., Ltd.	BAHT92	60.0	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	Sale of water treatment facilities and maintenance services
DOMESTIC			
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical cleaning
Kurita Creation Co., Ltd.	¥160	100.0	Manufacture & sale of household and industrial water purifiers
Kuritaz Co., Ltd.	¥220	100.0	Operation & maintenance of water treatment facilities, soil and groundwater assessment and remediation
Land Solution Inc.	¥450	51.0	Soil and groundwater contamination assessment and consulting, contamination risk-hedging support and post-remediation land usage support
Kuritec Service Co. Ltd.	¥50	100.0	Tool cleaning

INVESTOR INFORMATION

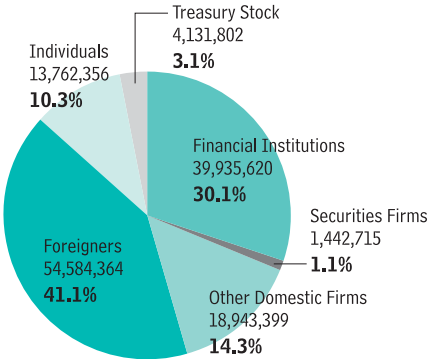
As of March 31, 2007

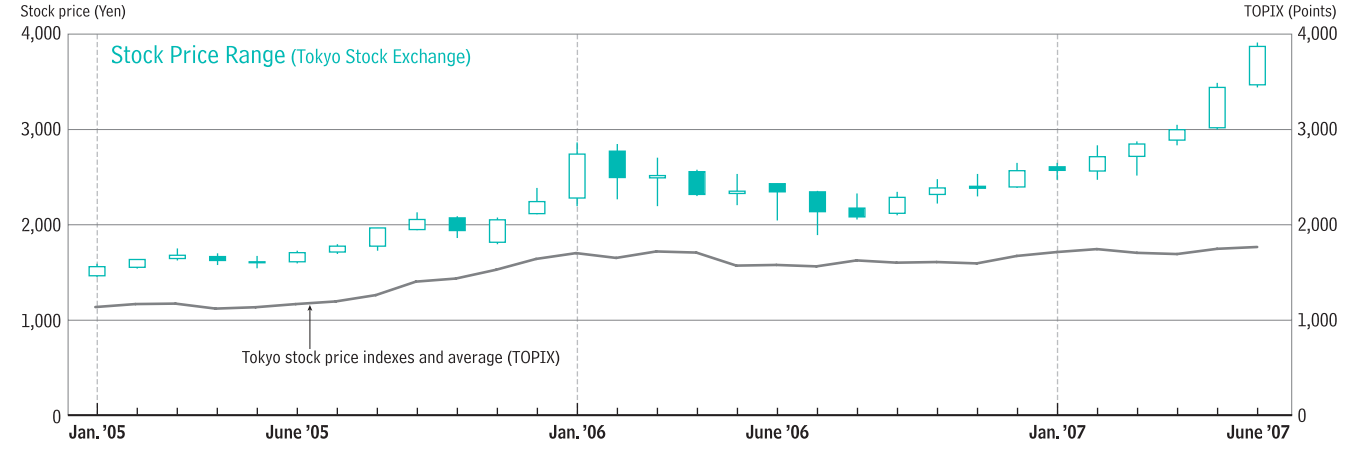
Stock Exchange Listings	First Section of the Tokyo Stock Exchange First Section of the Osaka Securities Exchange
Common Stock	Authorized: 531,000,000 shares Issued: 132,800,256 shares (Stock trading unit: 100 shares)
Number of Shareholders	18,440
Independent Auditor	Grant Thornton Taiyo ASG Akasaka Oji Bldg., 8F, 1-22, Akasaka 8-chome, Minato-ku, Tokyo 107-0052, Japan
Transfer Agent	The Chuo Mitsui Trust and Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

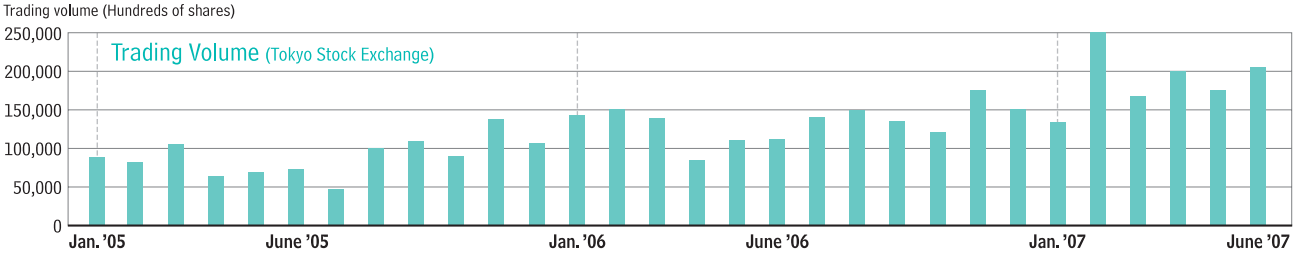
Main Shareholders

	Shareholdings (Thousands of Shares)	Percentage of total shares issued (%)
Itochu Corporation	10,268	7.73
Nippon Life Insurance Company	7,284	5.48
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,802	4.36
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,311	3.24
Kurita Water Industries Ltd.	4,131	3.11
Japan Trustee Services Bank, Ltd. (Trust Account)	3,713	2.79
Pictet & Cie (Europe) S.A.	3,117	2.34
The Bank of Tokyo Mitsubishi UFJ, Ltd.	2,936	2.21
The Bank of New York, Treaty Jasdec Account	2,140	1.61
Designated Separately Managed Account. Trustee is Mitsui Asset Trust and Banking Company, Ltd. (Trust Account 1)	1,883	1.41

Distribution of Shares







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