KURITA

ANNUAL REPORT 2008

For the Year Ended March 31, 2008

Continuing Innovation for Sustainable Growth

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, based on 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.

CONTENTS

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements regarding forecasts, plans, strategies and business performance in the future. These forward-looking statements represent judgments made by the Company based on information currently available to it and involve a variety of risks and uncertainties. Actual results may be materially different from these forward-looking statements. Such risks and uncertainties include (but are not limited to) changes in the economic environment, business conditions, market, demand and currency exchange rates.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

Years ended March 31

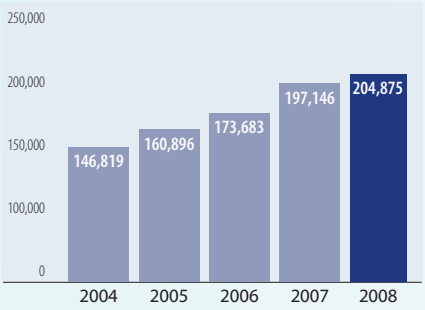
	Milions of yen		Percentage change	Thousands U.S. dollars
	2008	2007	2008/2007	**2008**
For the year:				
Net sales	**¥204,875**	¥197,146	+3.9%	**$2,044,865**
Operating income	**30,468**	24,276	+25.5	**304,102**
Income before income taxes and minority interests	**31,279**	24,591	+27.2	**312,197**
Net income	**18,297**	14,207	+28.8	**182,631**
At year-end:				
Total assets	**231,498**	235,137	-1.5	**2,310,598**
Equity	**169,402**	156,772	+8.1	**1,690,815**

Per share of common stock:		Yen		U.S. dollars
Net income	**¥142.21**	¥110.42		**$1.42**
Cash dividends applicable to the year	**32.00**	28.00		**0.321**

Notes: The U.S. dollar amounts are given solely for convenience at the rate of ¥100.19 to US$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2008.
Equity represents net assets less minority interests.

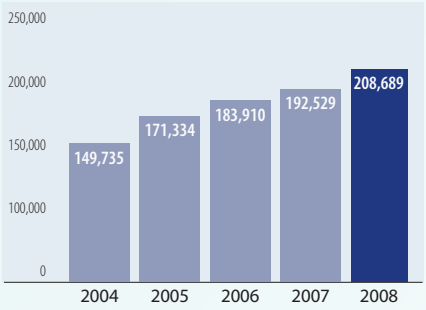
Years ended March 31 (¥ Million)

Net Sales



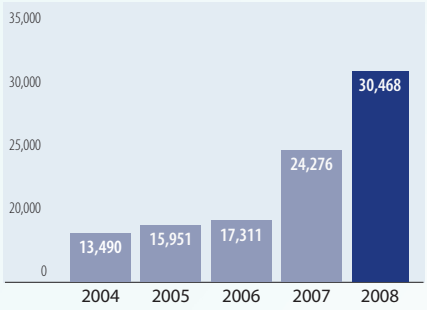
Years ended March 31 (¥ Million)

Orders



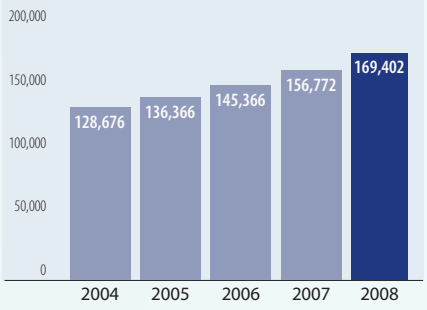
Years ended March 31 (¥ Million)

Operating Income



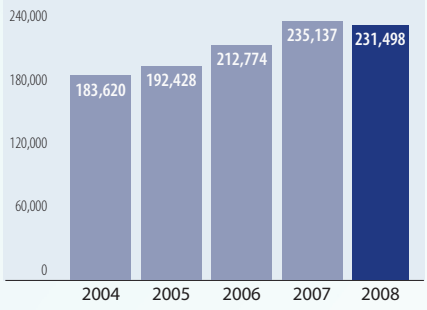
As of March 31 (¥ Million)

Equity *



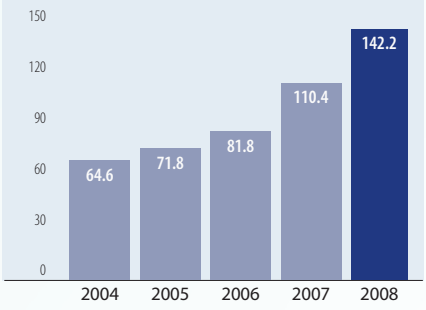
As of March 31 (¥ Million)

Total Assets



Years ended March 31 (¥ Million)

Net Income per Share



* Equity represents net assets less minority interests.

AN INTERVIEW WITH THE PRESIDENT

As a business that is contributing to society in the fields of "water and the environment," we are aiming to break the shackles of old ways of thinking to become a truly "advanced water and environmental management company" through the creation of new value.

Q **Now that Kurita has reached the midway point of the medium-term management plan, Growth 2008 (G-8 plan), please outline the Company's achievements in the year ended March 31, 2008.**

A **The Kurita Group has already achieved the performance targets it had set for the year ending March 31, 2009 (¥200.0 billion in sales and ¥27.0 billion in operating income) a full year ahead of schedule.**

Consolidated results for the year ended March 31, 2008 were the highest on record, as net sales increased 3.9% from the previous fiscal year to ¥204.9 billion, operating income jumped 25.5% to ¥30.5 billion, and net income rose 28.8% to ¥18.3 billion. During the year ended March 31, 2009, the final year of the G-8 plan, Kurita is hoping to maintain its growth with high profitability. The fiscal year under review was notable for achievements made in the Ultrapure Water Supply Business as a result of aggressive efforts to "shift to a service-based business," a key measure under the G-8 plan. For example, we stepped-up capital investment aimed at meeting increased demand from customers in the electronics industry sector, gaining a significant increase in sales. Our business in this sector is highly valued and greatly needed by customers; therefore, we plan to continue to pursue further aggressive capital investment in our Ultrapure Water Supply Business.

Regarding hardware, in the Water Treatment Facilities Business, orders received from the steel, oil refining and petrochemical industries have been solid. In addition, growth in orders received from domestic wafer and semiconductor manufacturers contributed to strong sales. Consequently, the Water Treatment Facilities Business, including service businesses, experienced a 10% rise in orders received compared with the previous fiscal year, a 4% increase in sales and a 35% leap in operating income.

In the Water Treatment Chemicals Business, sales from overseas operations rose 26% compared with the previous fiscal year. Domestic sales in this segment remained steady, with sales of cooling water treatment chemicals and wastewater treatment chemicals increasing. Also contributing to results were sales of process treatment chemicals for the pulp and paper industry, which increased significantly, reflecting customers' demand for improved productivity. With many customer needs still to be met, this area has high potential for growth. Given the high profitability of cooling water treatment chemicals and process treatment chemicals, further developing these businesses both at home and abroad is key to the continued growth in the Water Treatment Chemicals Business.

Q What is the business model for the Ultrapure Water Supply Business, and how does it benefit customers as well as Kurita?

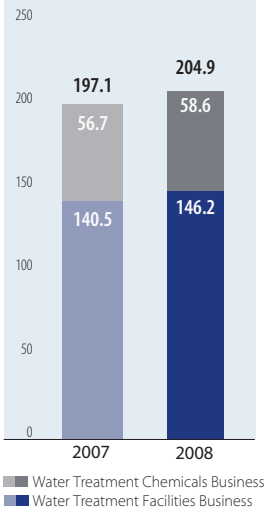
A Kurita's Ultrapure Water Supply Business model offers a variety of benefits for customers. From equipment installation and retention at customer facilities to operation management and maintenance, Kurita makes it possible for customers to obtain a reliable supply of ultrapure water as required.

First of all, customers are in control of their initial investment in water treatment equipment and thus can hold down their cash outflow. Next, because Kurita undertakes all daily operations management and maintenance, not only do customers benefit from minimized input requirements, they are able to reduce the expense and time associated with developing and training human resources for these tasks. Therefore, customer savings are made possible thanks to Kurita's efficient operations management know-how.

For Kurita, the business risk associated with customer capital investment in the electronics industry sector has stemmed from market conditions for liquid crystal displays (LCDs) and semiconductors, specifically, the impact of the "silicon cycles" and "crystal cycles" has had on performance. To counter this, we adhere to a general principle of entering into 10-year contracts in this business. This makes it possible to maintain stable long-term income from fees on water usage, which is relatively unaffected by fluctuations in customer capital investment. Furthermore, by fulfilling various customer needs at the locations of those customers, benefits can be gained from accumulating expertise in efficient operations management, customization or standardization of product specifications.

Years ended March 31 (¥ Billion)

Net Sales





Q How would you describe the planning and management measures which Kurita intends to implement during the last year of the medium-term management plan (the year ending March 31, 2009)?

A Turning to earnings targets, Kurita aims to increase sales 4.0% to ¥213.0 billion and operating income 5.0% to ¥32.0 billion. We believe that achieving steady earnings growth is key to meeting investor expectations.

To this end, for the current fiscal year ¥51.0 billion is being earmarked for capital investment centering on equipment acquisition for the Ultrapure Water Supply Business. This is in accordance with measures to accelerate what Kurita refers to as the "shift to a service-based business." Although sales in the Ultrapure Water Supply Business are expected to total ¥24.0 billion in the current fiscal year, expanding this business further will be the catalyst for "accelerating Kurita's shift to a service-based business."

Next, expanding business overseas is another key measure of the G-8 plan. Focusing on increased water treatment chemical sales in the Asian region, we plan to achieve ¥32.5 billion in overseas sales.

In the Water Treatment Chemicals Buisiness, Kurita is aiming for increased growth. To this end, we are providing solutions and other services, process treatment chemicals for petrochemical complexes and high-yield chemicals for cooling water treatment while efficiently allocating the human resources essential for business expansion in all regions Kurita Group companies serve, including Brazil and Europe. Kurita is focusing particularly on China and the Southeast Asian region, which are expected to continue to enjoy high economic growth.

Additionally, in the Water Treatment Facilities Business, we expect the need for ultrapure water production systems to expand based on increased indications overseas that capital investment in LCDs is recovering.

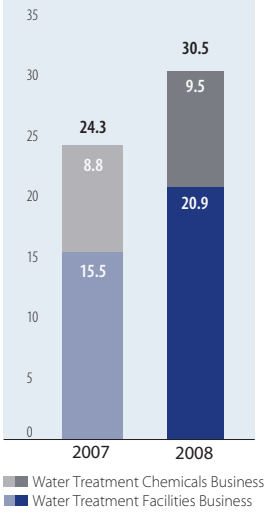
Q What are the challenges and risks you face while working toward the goals of the G-8 plan?

A **There are concerns that customers may begin to cut back on capital investment and that production levels may wane as the world economy slows under the influence of rising raw material and energy prices, beginning with the price of crude oil.**

However, Kurita is promoting management measures aimed at minimizing the influence of these changes in the business environment. Moreover, drawing on our considerable knowledge of our customers' manufacturing processes, we are working to provide solutions for reducing customers' environmental burdens and improving production efficiency through energy conservation. By working together with customers to solve problems, Kurita is striving to create opportunities within the overall business environment.

Years ended March 31 (¥ Billion)

Operating Income



Q What is your dividend policy, taking into account sustained earnings growth?

A **Based on efforts to maintain stable dividends, capital investments aimed at further expansion were made in the year ended March 31, 2008, while dividends were increased for the fourth consecutive fiscal year.**

Specifically, the per share dividend was ¥32, up ¥4 from the previous year. An additional ¥2 increase to ¥34 per share is planned for the year ending March 31, 2009. As mentioned earlier, we are aggressively investing in the Ultrapure Water Supply Business in anticipation of future growth. Going forward, we will continue to strive to provide stable returns to investors when considering new investments in promising business opportunities.

As a business that is contributing to society in the fields of "water and the environment," we are aiming to break the shackles of old ways of thinking to become a truly "advanced water and environmental management company" through the creation of new value.

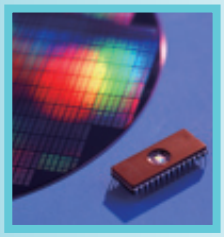
I look forward to the continuing support of shareholders and other stakeholders in Kurita's future endeavors.

July 2008

Hiroshi Fujino, President

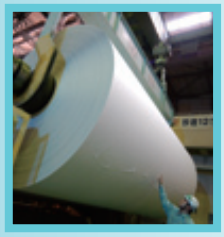
KURITA AT A GLANCE

Our main customer industries



Semiconductor

LCD



Pulp & Paper

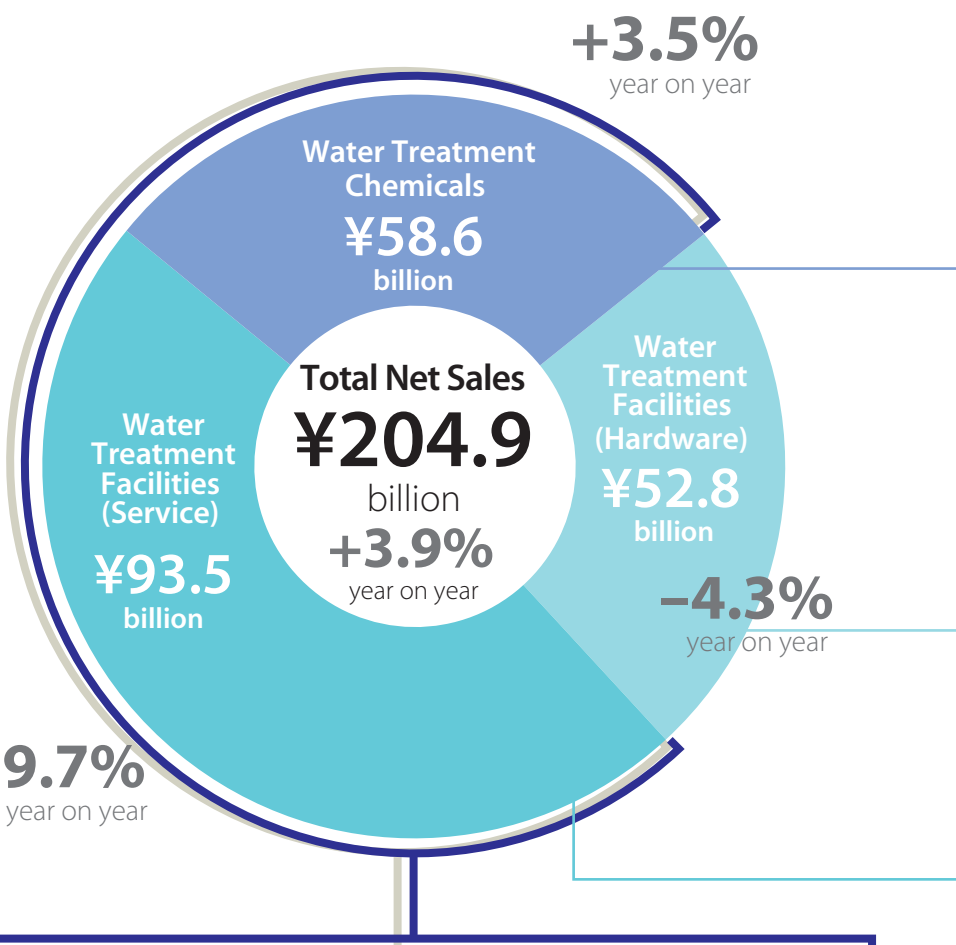
Steel

Oil refining & Petrochemical

Pharmaceutical

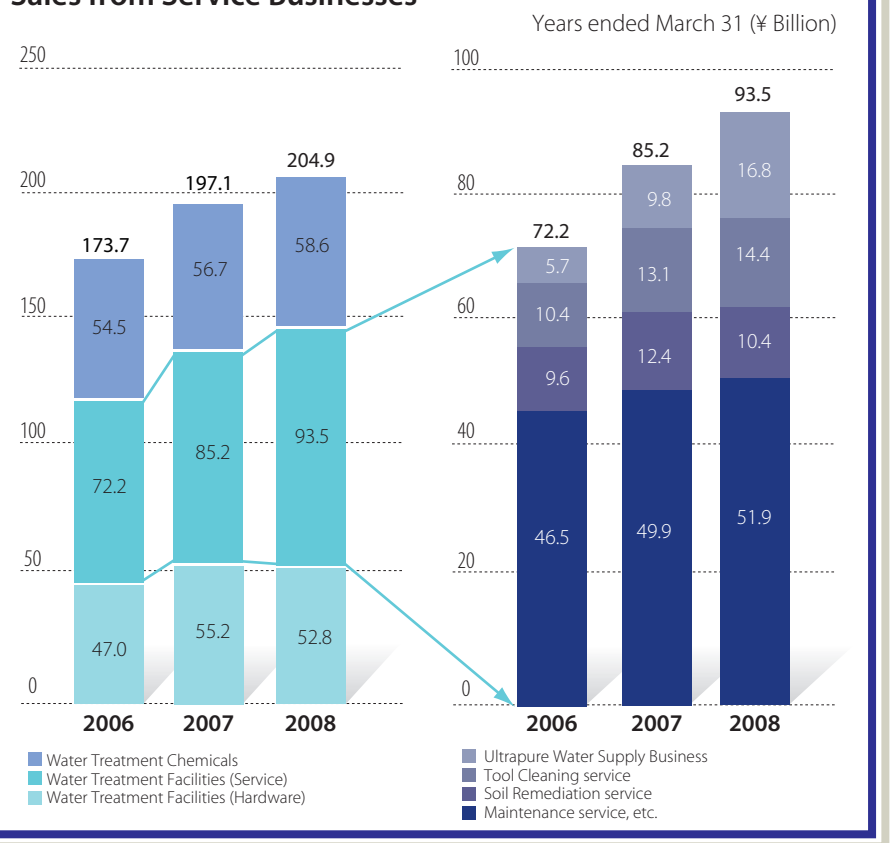
Food & Beverage

Real Estate



Shift to Stable Service Businesses in Three Years

Sales from Service Businesses



Kurita has positioned itself for further growth by expanding its service businesses.

Kurita has expanded the sales of its service businesses, including chemicals, to ¥152 billion, more than 70% of net sales, in the fiscal year under review.

Water Treatment Chemicals Business

PRINCIPAL PRODUCTS and SERVICES

- Boiler water treatment chemicals
- Cooling water treatment chemicals
- Wastewater treatment chemicals
- Process treatment chemicals
- Incinerator chemicals
- Equipment and systems for water treatment chemicals
- Customized services

Water Treatment Facilities Business (Hardware)

PRINCIPAL PRODUCTS

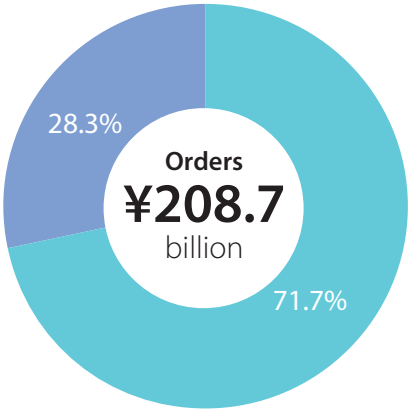
- Ultrapure water production systems
- Wastewater treatment facilities
- Wastewater reclamation systems
- Deionized water production systems

Water Treatment Facilities Business (Service)

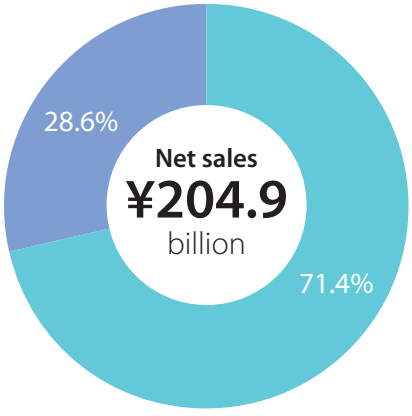
PRINCIPAL SERVICES

- Maintenance services
- Ultrapure Water Supply Business
- Tool Cleaning service
- Soil Remediation service
- Chemical Cleaning service
- Operations Management and Maintenance services

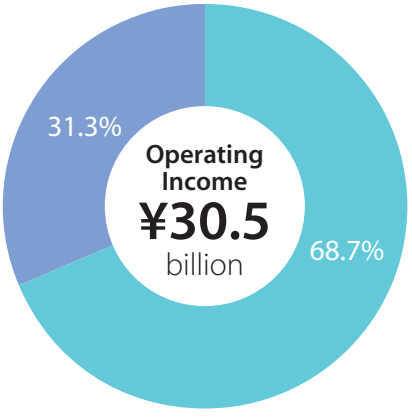
Percentage of Orders



Percentage of Net Sales

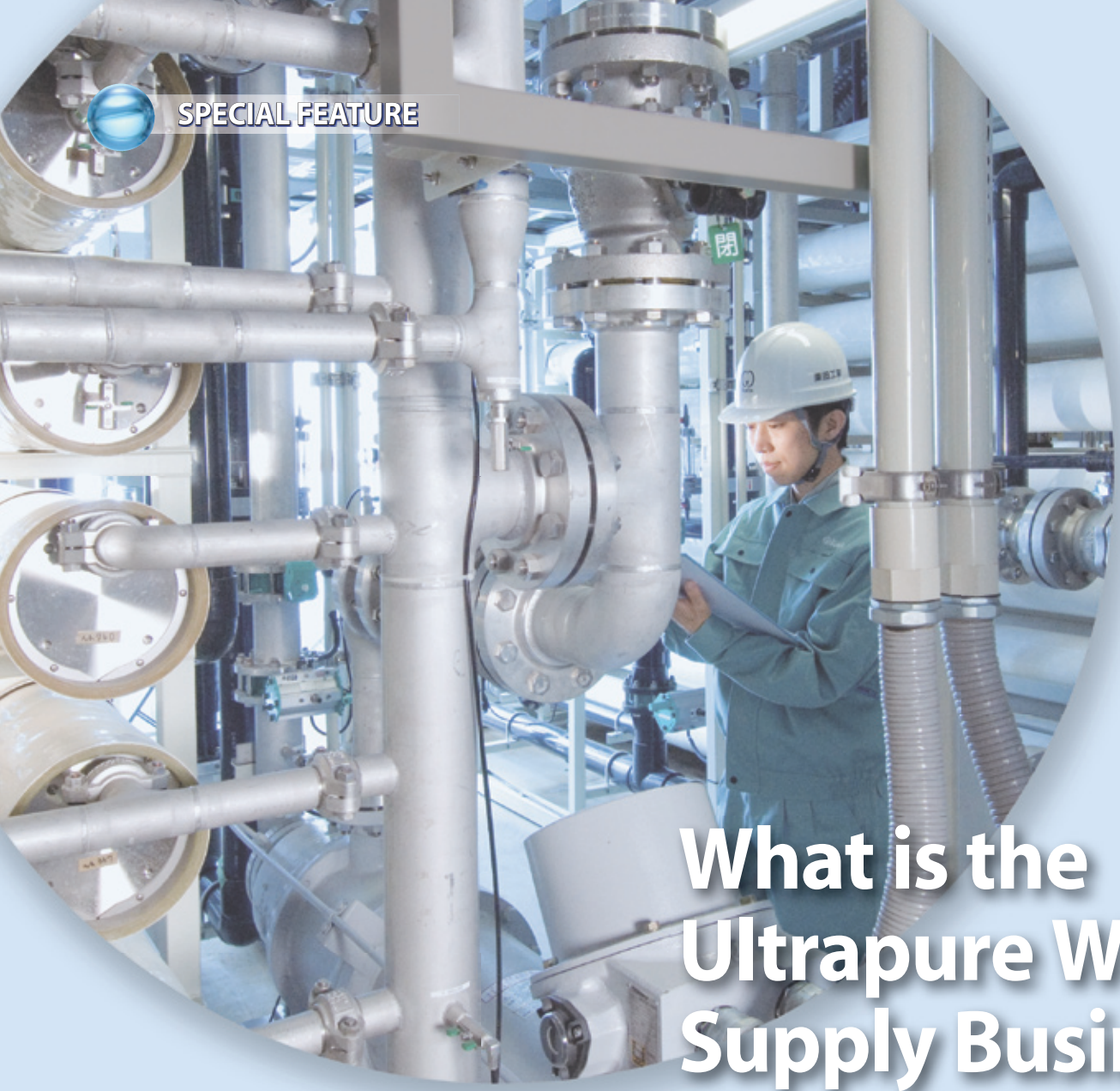


Percentage of Operating Income



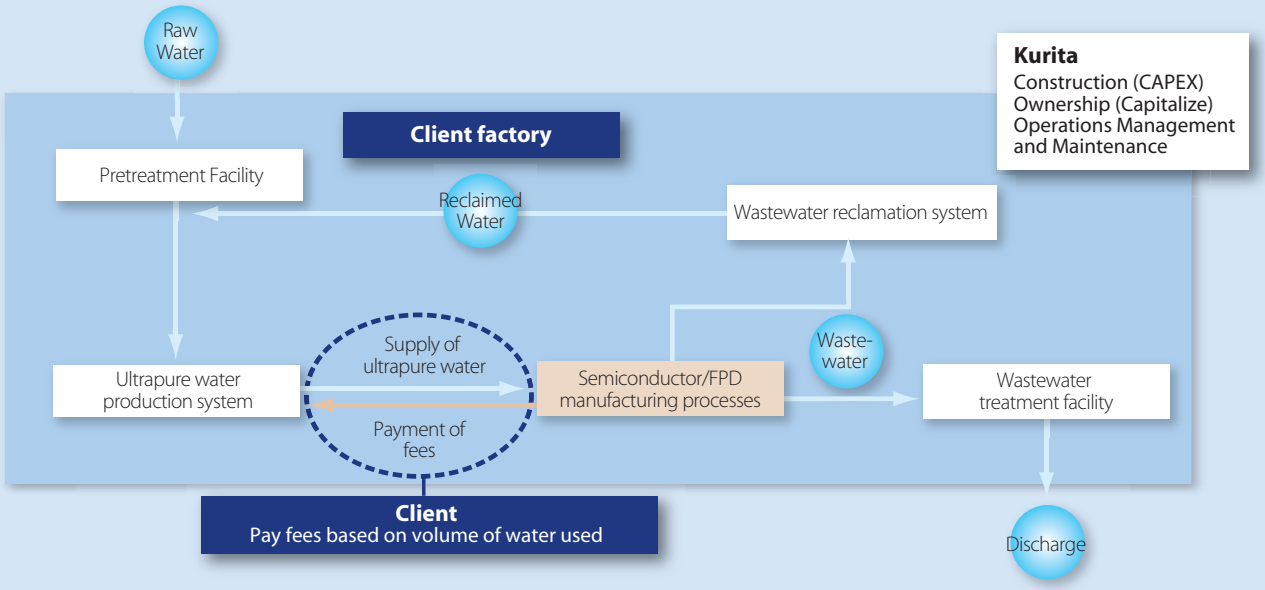
Water Treatment Chemicals Business
Water Treatment Facilities Business

(Fiscal year ended March 31, 2008)



What is the Ultrapure Water Supply Business?

Overview of the Ultrapure Water Supply Business



The Ultrapure Water Supply Business is a business model unique to Kurita. Under this model, customers pay fees in return for the provision of a reliable supply of ultrapure water.

From construction and installation to operations management and maintenance, Kurita takes care of every aspect of ultrapure water production.

Until recently, the only choice for semiconductor and flat-panel display (FPD) manufacturers was to purchase ultrapure water production systems from water treatment facilities manufacturers. Once the purchase was made, the customer was burdened with hiring and training staff knowledgeable in water treatment in addition to all costs associated with operations management and maintenance. But now, through Kurita's Ultrapure Water Supply Business, customers are no longer required to either purchase or retain facilities. Not only does Kurita construct the ultrapure water production system at the customer site, the Company retains ownership these units on the customer's behalf. In addition, we provide complete operations management through our 24-hour system in conjunction with meticulous maintenance. Customers simply purchase the ultrapure water supplied by these facilities. In principle, with 10-year contracts, Kurita receives fees from customers based on the volume of water used on a monthly basis. To summarize, Kurita's Ultrapure Water Supply Business is about selling "water," not "facilities."

Because Kurita oversees all aspects of ultrapure water usage, customers are able to devote such management resources as capital and personnel toward their core businesses. This is the most important benefit for our customers.

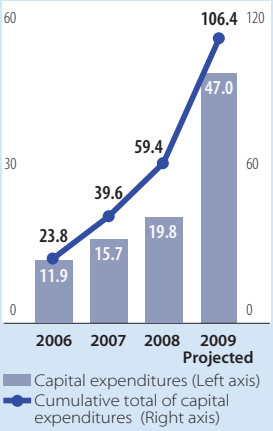
Also, because the use of ultrapure water in the manufacturing process has a significant impact on product yields, it cannot be overstated how much trust customers invest in Kurita to provide complete management of every aspect of their ultrapure water supply needs. In addition to possessing a wide variety of cutting-edge ultrapure water technology, Kurita has accumulated a vast amount of data and know-how related to systems operation management and maintenance. Moreover, our financial strength is an important element enabling this business model.

Owing to a wealth of operating data and expertise accumulated on-site, this business is able to efficiently supply ultrapure water with greater stability and develop optimal system configurations. In addition, Kurita has gained a lot from the trusting customer relationships built by this business. Most importantly, the stable earnings structure yielded by the Ultrapure Water Supply Business' long-term contract system is helping us to establish a solid business foundation unaffected by the fluctuations in customer capital investment like the "silicon cycle" or "crystal cycle."

Ultrapure Water Supply Business

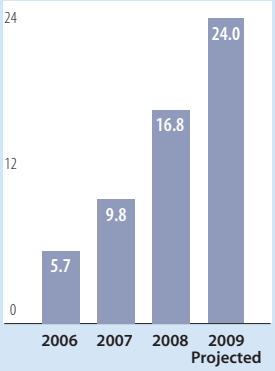
Years ended March 31 (¥ Billion)

Capital Expenditures



Years ended March 31 (¥ Billion)

Sales



Water Treatment Chemicals Business

In the year ended March 31, 2008, while domestic sales remained virtually unchanged, overseas Water Treatment Chemicals Business sales expanded 26%, raising the ratio of overseas sales to segment sales from 16% to 19% compared with the previous fiscal year. Owing to improvements in the domestic product mix and increased overseas revenues, Kurita was able to absorb the impact of raw materials price hikes, helping to increase operating income and improve the operating income ratio.

Japan

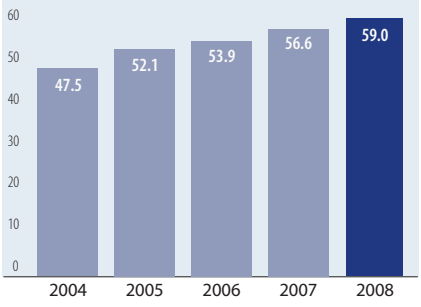
By customer industry, in addition to revenue increases from the steel and electronics industries, major growth was experienced in sales of process treatment chemicals used in the manufacturing processes of the pulp and paper industry.

Regarding specific products, we strove to take advantage of strong sales of relatively profitable cooling water treatment chemicals to almost all customer industries by improving the product mix.

In the maturing domestic market, by meeting the essential needs of our customers, we can increase our market share and improve the profitability of products, which is the key to future income growth.

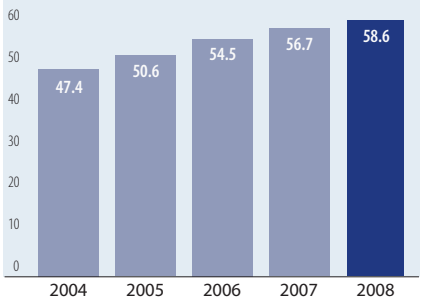
Years ended March 31 (¥ Billion)

Orders



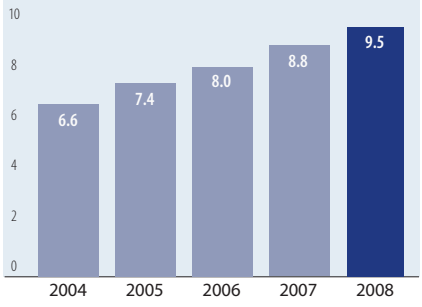
Years ended March 31 (¥ Billion)

Sales



Years ended March 31 (¥ Billion)

Operating Income



Overseas

In the Asian region, which accounts for 63% of Water Treatment Chemicals Business overseas sales, performance was buoyed by market expansion accompanying high economic growth rates during the year under review. In China, in particular, sales soared 31% over the previous year, especially to the pulp and paper and petrochemical industries, and we expect business in this country to continue to enjoy sustained growth. Overseas, because production and sales are conducted locally by Group companies, the influence of fluctuations in exchange rates on performance is immaterial.

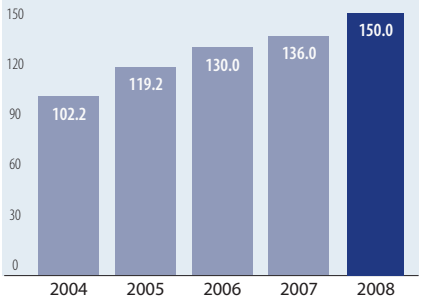
Overseas operations are critical to the ongoing growth of the Kurita Group's Water Treatment Chemicals Business. In the chemicals business, which is characterized by a marketing style that emphasizes close relationships with customers, our enhanced sales network and knowledgeable sales staff play a vital role. Therefore, to ensure ongoing business expansion, we continue to deploy personnel and provide sophisticated training.

Water Treatment Facilities Business

In the year ended March 31, 2008, growth in sales of hardware to the domestic electronics industry and the Ultrapure Water Supply Business boosted orders and sales. In addition, concerted efforts to improve profitability in general industries operations resulted in a significant improvement in earnings and the operating income ratio.

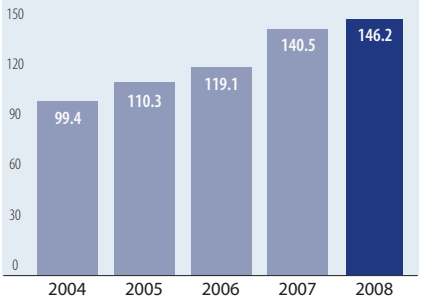
Years ended March 31 (¥ Billion)

Orders



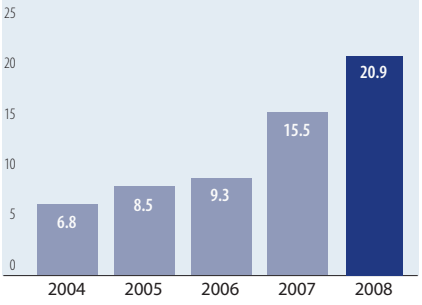
Years ended March 31 (¥ Billion)

Sales



Years ended March 31 (¥ Billion)

Operating Income



Domestic Hardware Operations

Orders and sales for ultrapure water production systems for use in the electronics industry remained favorable. A high level of sales accompanied by increased orders from wafer, semiconductor, electronic component and LCD related-product manufacturers, contributed significantly to earnings increases.

In general industries operations, Kurita experienced an expansion of orders mainly for wastewater treatment equipment used in basic material industries such as steel manufacturing, petroleum refining and petrochemicals. Despite increased orders, sales declined because of the relatively long production lead times of equipment for general industries. However, as a result of our efforts in recent years to assess project profitability when receiving orders and to enhance production management, profit margins have improved, contributing to income increases.

In the wastewater treatment field, Kurita is making efforts to provide wastewater recycling proposals and waste reduction in expectation of greater customer investment directed toward reducing environmental burdens, for example, through energy and water conservation. We will also continue to implement measures focusing on profitability.

Overseas Hardware Operations

In overseas hardware operations, the semiconductor and LCD industries in South Korea and Taiwan are a mainstay market for ultrapure water production systems. Due to a slump in investment in LCD production facilities by customers, orders received and sales both decreased slightly.

Uncertainty will likely remain for investment in the semiconductor industry, but orders are expected to recover, given that we are seeing signs that investment related to LCD production is about to make a comeback.

Service Businesses

Sales in the Ultrapure Water Supply Business, along with expanding customer needs, rose from ¥9.8 billion to ¥16.8 billion, significantly contributing to increases in earnings. Due to the magnitude of potential demand for this business, Kurita expects the Ultrapure Water Supply Business to play a key role in performance increases. Therefore, we continue to aggressively invest in this business.

With a focus on responding to increased production capabilities among existing customers, capital investment in this business totalled ¥19.8 billion during the year ended in March 31, 2008.

Maintenance services have experienced moderate but steady growth in the electronics industry both in Japan and overseas as have operations related to general industries. With stable growth expected into the future, Kurita is striving to sustain profitability.

The Tool Cleaning service for cleaning semiconductor and LCD manufacturing equipment components saw increased sales as customers expanded their production facilities. Kurita expects steady business expansion to continue, and growth should accelerate with the launch of a customer's large-scale LCD complex in the year ending March 31, 2010.

For the Chemical Cleaning service as well, which involves cleaning heat exchangers and boilers at electric power generation stations and factories, increases in sales and earnings are connected to successful efforts to sustain efficiency.

RESEA RCH AND DE VELOPMENT

Aiming to fulfill its role as an "advanced water and environmental management company," Kurita is conducting research and development in a wide range of technologies in such fields as environmental preservation, water reclamation and productivity enhancement in order to meet the needs of industry and society.

(1) Water Treatment Chemicals Business

In this segment, Kurita focuses on developing not only water treatment chemicals, but also sensing technology for monitoring and diagnosing processes in order to address such customer issues as saving energy and resources while bolstering the productivity of their utilities and manufacturing processes.

Achievements during the year ended March 31, 2008 include the development of heat-exchanger fouling prevention technology for the petroleum preheating process using our antifouling chemicals and diagnostic systems. This treatment technology has the effect of reducing fuel consumption and CO_2 emissions at petroleum refining plants. Total research and development expenses for the year ended March 31, 2008 in this business segment amounted to ¥1,405 million.

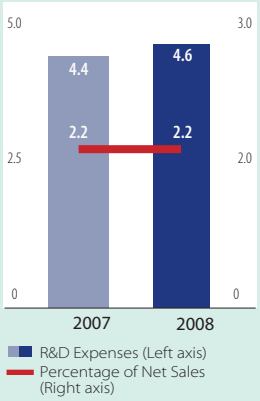
(2) Water Treatment Facilities Business

Kurita is developing wastewater reclamation and environmental preservation technologies that contribute to sustainable development. Along with this are Kurita's continuing efforts to further upgrade the quality of ultrapure water and develop wastewater treatment and soil remediation technologies that exceed current environmental regulatory requirements.

Accomplishments for the year ended March 31, 2008 include the development of trace oxidant removal technology for ultrapure water production systems, which further improve ultrapure water quality. We also developed reverse osmosis (RO) membrane surface modification technologies that improve the removal efficiency of organic molecules and inorganic ions from water. Total research and development expenses for the year ended March 31, 2008 in this business segment amounted to ¥3,146 million.

Years ended March 31 (¥ Billion, %)

R&D Expenses



Kurita's sense of social responsibility is based on the concept of an "advanced water and environmental management company."

Reflecting society's increasing awareness of environmental issues in recent years, the Kurita Group's sense of social responsibility has become greater than ever, prompting us to adopt the corporate vision of being an "advanced water and environmental management company." By solving problems related to "water and the environment" that are common to all people, the Kurita Group believes that it can make a contribution to building a sustainable society.

In 1999, the Kurita Group adopted the management principle of "building transparent and fair relationships with stakeholders, including shareholders, customers, employees, local communities and business partners, by complying with regulations in accordance with ethics in all our business activities." Currently, this management policy serves as a basis for our ongoing efforts to, among other things, undertake environmental improvement activities; strengthen internal control, which includes compliance; upgrade the corporate governance structure; and disclose information to shareholders and investors in an adequate and timely manner.

Kurita takes a three-pronged approach to the promotion of environmental improvement activities

In March 2004, Kurita established its Basic Environmental Improvement Policy. In April 2004, we established a three-pronged approach to promote environmental improvement activities, that comprises (1)"responding to customer needs," (2) "changing society" and (3)"changing Kurita." From April 2006, we have further developed the scope of our environmental improvement activities at 19 domestic Group companies and held the Environmental Improvement Activities Promotion Meeting to lead activities related to these three approaches. The Environmental Improvement Activities Promotion Meeting is responsible for ensuring the consistent use of the PDCA (plan, do, check, action) cycle in all phases of operations by overseeing the setting of targets for each Group company, monitoring progress, reporting on and discussing results, and identifying issues to be resolved.

The Kurita Group's environmental improvement activities are divided into two main categories. The first of these comprises the Kurita Group's efforts aimed at "responding to customer needs" and "changing society," in which we contribute to our customers' environmental improvement activities through our business. The second comprises Kurita's efforts to make environmental improvements by "changing Kurita" in which we work to reduce the environmental burden at offices and production facilities in our Group.

Kurita's activities contributing to customers' environmental improvement

From the perspective of "responding to customers' needs," Kurita is making efforts to expand the reduction of CO_2 emissions and waste output through the unique approach of evaluating "the environmental benefits to our customers" by using Kurita's water treatment chemicals and facilities. From actions taken during the fiscal year ended March 2008, Kurita helped in customers' environmental improvement activities that reduced CO_2 emissions by 29,000 tons and waste output by 42,000 tons.

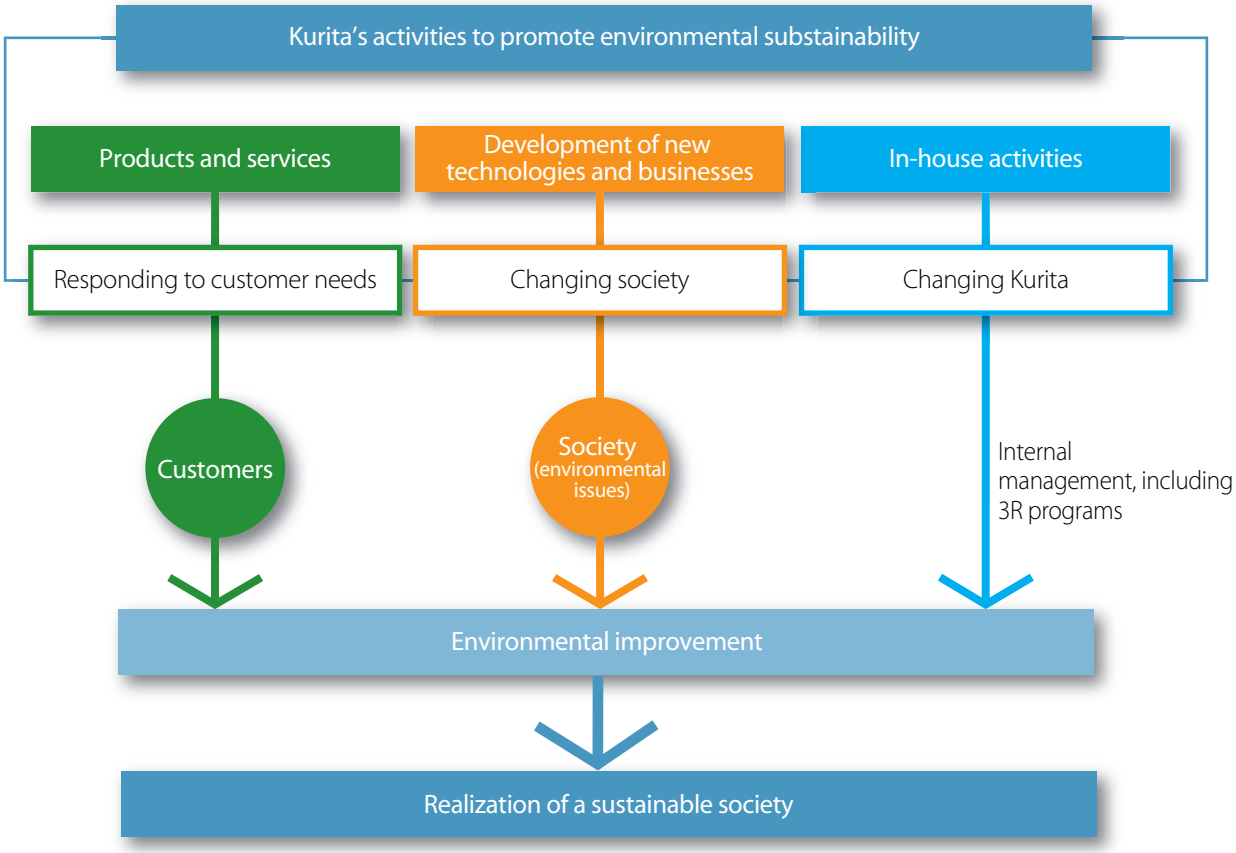
Taking the approach of "changing society," Kurita is working hard to develop new technologies and products that bring environmental benefits to customers. To that end, we developed 12 technologies for reducing environmental burdens.

Environmental improvement activities within the Group

As for environmental improvement activities within the Group, we constantly strive to reduce CO_2 emissions and waste output by optimizing our manufacturing and logistical systems for water treatment chemicals and water treatment facilities, as well as the safe management of chemical substances. Each domestic group company has set targets and measures to reduce CO_2 emissions and waste output and is continuously working on environmental improvement activities towards achieving each of these targets.

In the year ended March 31, 2008, the amount of CO_2 emissions and waste output increased 0.5% and 3.6%, respectively, from the previous fiscal year due to business expansion. However, on a per unit sales basis, CO_2 emissions dropped 3.3% and waste output decreased 0.3% due to our promoting energy conservation and redoubling recycling efforts. Detailed results of our environmental improvement activities during the year ended March 31, 2008 will be presented in *Kurita's Environmental Report 2008* to be published in October 2008.

Overview of Kurita's Activities to Promote Environmental Sustainability



Basic Stance

Guided by the corporate philosophy "study the properties of water, master them, and create an environment in which nature and man are in harmony," Kurita and Kurita Group companies pursue operations in the fields of water and environmental management with the aim of broadly contributing to society while meeting the expectations of shareholders and other stakeholders, including customers, local communities, business partners and employees. To effectively realize these objectives, our basic stance with respect to corporate governance is to establish systems that enhance corporate value by improving operating efficiency in the long term and to rigorously oversee business management and operations.

Composition and Management of the Board of Directors

Chaired by the president, Kurita's Board of Directors presently consists of 13 members, including one outside director. Board meetings are held basically every month, and extraordinary sessions are convened when deemed necessary (two such meetings were held during the year ended March 31, 2008). The Board makes decisions on Kurita and the Kurita Group's management policies and other important managerial matters, and monitors and audits the operational execution of representative directors. As a mechanism to reinforce the Board's decision making functions, an authorization system has been established and is being managed based on regulations pertaining to approval and review.

To ensure sound decision making based on objective and diverse viewpoints, one of the members of the Board is an outside director.

Corporate Auditors and the Corporate Auditor System

Kurita has adopted the corporate auditor system. Presently, the Board of Corporate Auditors comprises three corporate auditors, including two outside auditors. In addition to conducting audits based on the policies, schedules and division of responsibilities determined by the Board of Corporate Auditors, the corporate auditors monitor and audit the operational execution of representative directors and the management performance of directors. More specifically, corporate auditors attend meetings of the Board of Directors and other important company conferences. Corporate auditors observe and examine the conditions by which directors make decisions and the execution of the Board of Directors' duty to supervise representative directors. In addition, corporate auditors survey the asset status for the entire Group, verify the maintenance situation of the Board's internal control systems and oversee the accounting auditors' independence and performance.

From the standpoint of being objective, two outside auditors have been entrusted to hold the post of corporate auditor due to their ability to furnish broad insights based on an abundance of experience and knowledge in corporate and legal affairs.

In addition, Kurita has contracted Grant Thornton Taiyo ASG as independent accounting auditors. Corporate Auditors and the Board of Corporate Auditors conduct consultations and exchanges of opinions with accounting auditors on both a regular and as needed basis, reinforcing accounting audit structures.

Maintaining Internal Control Systems

In order to increase business trustworthiness and operational efficiency, Kurita is consistently promoting the structural maintenance of internal control systems.

Regarding the establishment of internal control systems as required under Japanese corporate law, in May 2006 the Board of Directors established the "Fundamental Policy Regarding the Establishment of Internal Control Systems" for Kurita and Kurita Group companies.

In the year under review, a system for internal control over financial reporting based on the Financial Instruments and Exchange Act was introduced in April. The Auditing Department, which reports directly to the president, monitors, makes corrective proposals for and assists in the operation of this system. The Auditing Department conducts internal audits, including within each Group company, pinpoints issues and problems related to the execution of business and submits corrective proposals to the president. The same accounting auditors who are in charge of financial reports also audit the Internal Control Report.

In addition, the following are revisions to the Fundamental Policy Regarding the Establishment of Internal Control Systems:

(1) Initiate internal control reporting system operations in combination with monitoring, and stipulate the department responsible for providing corrective proposals and assistance.
(2) Maintain risk management structures and stipulate the department responsible for risk monitoring.
(3) Carry out additional structural maintenance to eliminate anti-social forces.

Regarding compliance structures, as committees reporting directly to the president, we have established the companywide Compliance Committee and Group Compliance Committee, the latter of which comprises the representative directors of all Group companies in Japan. In order to ensure a high level of effectiveness in compliance activities, in accordance with whistleblower protection rules, Kurita maintains an internal consultation desk while contracting an outside party to provide a confidential consultation and reporting function.

To maintain safety and hygiene for employees and at customer locations, Kurita has established a Safety & Hygiene Committee that reports directly to the president and subordinate Safety & Hygiene Committees in various workplaces and manufacturing departments as well as in the head office, branch offices and other places of business. From the viewpoint of encompassing all Group companies and subcontractors, Kurita is striving to prevent accidents by performing safety-and hygiene-related activities in the workplace and in all business operations as well as conducting risk assessments prior to commencing construction and regular safety patrols afterward. This Committee is also actively involved in health management, including the mental health of employees.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

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 Director
Toshiaki Deguchi
General Manager of Research and Development Division

Managing Director
Mitsuru Ogawa
General Manager of Administrative Division

Managing Director
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

Kazuma Yura

*Representative Director

As of June 27, 2008

SIX-YEAR FINANCIAL SUMMARY

Kurita Water Industries Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millons of yen					
	2008	2007	2006	2005	2004	2003
For the year:						
Net sales	**¥204,875**	¥197,146	¥173,683	¥160,896	¥146,819	¥141,628
Water Treatment Chemicals Business	**58,646**	56,667	54,549	50,637	47,442	47,116
Water Treatment Facilities Business	**146,228**	140,479	119,133	110,259	99,377	94,512
Cost of sales	**138,549**	137,819	122,630	112,077	101,433	97,846
Selling, general and administrative expenses	**35,857**	35,050	33,741	32,867	31,895	31,474
Operating income	**30,468**	24,276	17,311	15,951	13,490	12,307
Income before income taxes and minority interests	**31,279**	24,591	18,200	16,376	14,918	10,263
Net income	**18,297**	14,207	10,519	9,383	8,444	5,476
Capital expenditures	**24,097**	19,563	16,537	6,706	9,718	6,198
Research and development (R&D) expenses	**4,551**	4,421	4,213	4,228	4,289	4,484
Depreciation and amortization	**9,425**	6,512	4,906	4,361	3,872	3,307
At year-end:						
Total current assets	**121,562**	137,004	125,231	116,400	118,923	107,180
Total current liabilities	**49,080**	65,496	54,877	44,465	42,954	38,643
Equity	**169,402**	156,772	145,366	136,366	128,676	120,969
Total assets	**231,498**	235,137	212,774	192,428	183,620	173,689
Number of shares issued outstanding (in thousands of shares)	**132,800**	132,800	132,800	132,800	132,800	132,800
Number of employees	**4,249**	3,992	3,668	3,382	3,383	3,346
Amounts per share of common stock (yen):						
Net income	**142.2**	110.4	81.8	71.8	64.6	40.7
Equity	**1,316.7**	1,218.4	1,129.7	1,058.9	999.7	939.8
Cash dividends applicable to the year	**32.0**	28.0	22.0	18.0	16.0	16.0
Ratios:						
Total assets turnover (times)	**0.88**	0.88	0.86	0.86	0.82	0.82
Equity ratio (%)	**73.2**	66.7	68.3	70.9	70.1	69.6
Return on sales (%)	**8.9**	7.2	6.1	5.8	5.8	3.9
Return on assets (ROA) (%)	**7.8**	6.3	5.2	5.0	4.7	3.2
Return on equity (ROE) (%)	**11.2**	9.4	7.5	7.1	6.8	4.5

Notes: Equity represents net assets less minority interests.
Return on Assets = Net Income ÷ Total Assets (Average) × 100

CONTENTS

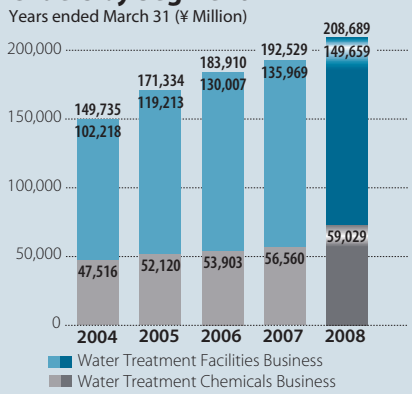
Business Overview

In the year ended March 31, 2008, the Japanese economy, bolstered by private sector demand, performed steadily as a result of improved corporate earnings and increased capital investment. In the second half of the fiscal year, concerns over economic trends have been fueled by the negative impact of the U.S. subprime loan problem as well as rising crude oil and raw material costs.

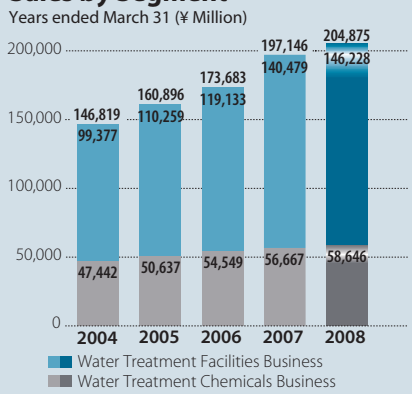
In the electronics industry sector, against the backdrop of favorable demand for semiconductor- and LCD-related products, capital investment steadily continued. Experiencing a drop in semiconductor prices overseas, there was a softening in capital investment in Taiwan. Among general industries in Japan, capacity utilization levels and capital expenditure have remained firm, centered on the basic materials producing industries such as steel, oil refining and petrochemicals. Overseas, capacity utilization levels were strong overall, especially in Asia.

At the mid-point of G-8, the three-year medium-term management plan initiated in April 2006, the Kurita Group carried out aggressive initiatives for growth and innovation throughout the entire Group. Kurita successfully recorded all-time highs in net sales and operating income in the year ended March 31, 2008 and achieved targets for the final year of the G-8 Plan, ending March 31, 2009, a full year ahead of schedule.

Orders by Segment
Years ended March 31 (¥ Million)



Sales by Segment
Years ended March 31 (¥ Million)



Operating Results

a) Orders

In the Water Treatment Chemicals Business, the Company expanded sales of the mainstay boiler water treatment chemicals and cooling water treatment chemicals, and promoted a proposal-oriented business, responding to such customer issues as reducing environmental burdens, enhancing operational stability and improving productivity.

In the Water Treatment Facilities Business we endeavored to secure orders by strengthening marketing to such priority customers as the electronics and steel industries and actively invested in service businesses, such as the Ultrapure Water Supply Business and Tool Cleaning service. As a result, orders received in the Water Treatment Chemicals Business segment and Water Treatment Facilities Business segment in the year ended March 31, 2008 increased 8.4% over the previous fiscal year to ¥208,689 million overall.

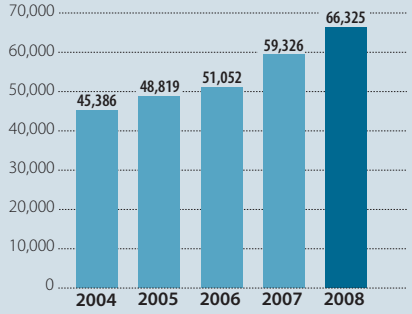
b) Net Sales

Net sales for the year ended March 31, 2008 rose 3.9% compared with the previous fiscal year, to ¥204,875 million, following increases in orders and growth of the Water Treatment Chemicals Business segment and Water Treatment Facilities Business segment.

c) Cost of Sales and Gross Profit

Along with increased sales, the cost of sales rose 0.5% from ¥137,819 million in the provious fiscal year to ¥138,549 million. The cost of sales ratio improved 2.3 percentage points from 69.9% in the previous fiscal year to 67.6%. This is attributable to two main factors. The first is the successful absorption of sharp rises in raw material costs through the increased sales expansion of high-value added products in Japan and increased overseas sales in the Water Treatment Chemicals Business. The second is a result of concerted efforts to reduce costs and improve the profitability of hardware used in the Water Treatment Facilities Business in Japan. As a result, gross profit increased 11.8% from ¥59,326 million in the previous fiscal year to ¥66,325 million.

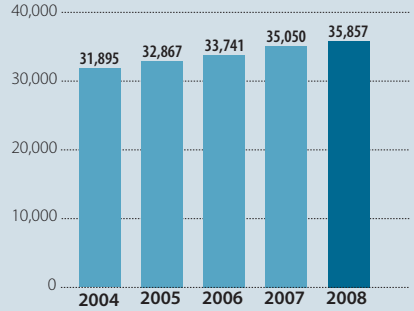
Gross Profit
Years ended March 31 (¥ Million)



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

SG&A expenses increased 2.3% from ¥35,050 million compared with the previous fiscal year to ¥35,857 million due primarily to increases in personnel and research and development expenses. The ratio of SG&A expenses to net sales improved 0.3 percentage points from the previous fiscal year from 17.8% to 17.5%.

SG&A Expenses
Years ended March 31 (¥ Million)



e) Operating Income and Operating Income Ratio

Operating income for the year ended March 31, 2008 climbed 25.5% compared with the previous fiscal year from ¥24,276 million to ¥30,468 million. In addition, the operating income ratio rose from 12.3% to 14.9%.

f) Business Results by Segment

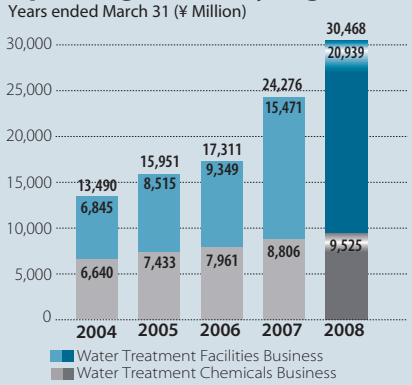
Water Treatment Chemicals Business

Orders

In Japan, core products, such as boiler water treatment chemicals, remained stable while orders for cooling water treatment chemicals and wastewater treatment chemicals increased over the previous fiscal year. Packaged water treatment management contracts remained stable, while orders for process treatment chemicals used in the pulp and paper industry increased significantly owing to customer needs for increased productivity.

Overseas, major increases in orders occurred in every area that the Kurita Group is developing, focusing on related water treatment and process treatment chemical products for petroleum complexes. These efforts in Japan and overseas resulted in a 4.4% rise in orders received to ¥59,029 million.

Operating Income by Segment
Years ended March 31 (¥ Million)



Note: Total operating income includes elimination or corporate

Net Sales and Operating Income

The Kurita Group worked to absorb the rise in raw material costs by promoting sales of high value-added products and cost reductions in manufacturing and distribution. Overall operations resulted in a 3.5% increase in sales to ¥58,646 million and an 8.2% increase in operating income from the previous fiscal year to ¥9,525 million.

Water Treatment Facilities Business

Orders

In Japan, orders received for core products, such as ultrapure water production systems for the electronics industry sector, increased slightly, while overseas orders remained stable.

Orders received for water treatment facilities used in general industries increased significantly owing to rises in orders from the oil refining and petrochemical industries along with large-scale orders from the steel industry.

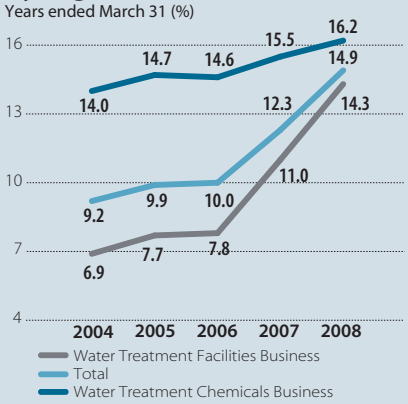
In service businesses, orders in the Ultrapure Water Supply Business rose substantially due to increased customer production in the electronics industry sector. In addition, the Tool Cleaning service for semiconductors and LCD manufacturing equipment made modest gains, together with Maintenance services. The Soil Remediation service experienced a significant decrease in orders due to a slowdown in land transactions. These efforts resulted in a 10.1% increase in orders received to ¥149,659 million.

Net Sales and Operating Income

In this business segment, Kurita made continuous efforts to improve productivity in designing and construction work, reduce costs through integrated purchasing and enhance quality. Overall operations yielded in a 4.1% rise in sales to ¥146,228 million and a 35.3% jump in operating income from the previous fiscal year to ¥20,939 million.

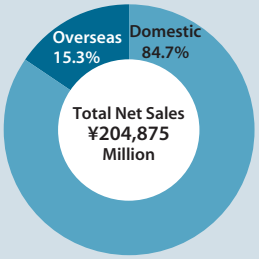
Operating Income Ratio by Segment

Years ended March 31 (%)



Percentage of Net Sales

Fiscal year ended March 31, 2008



Business Segment Information

Years ended March 31

	Millions of yen				
	2008	2007	2006	2005	2004
Orders (Note)					
Water Treatment Chemicals	**¥ 59,029**	¥ 56,560	¥ 53,903	¥ 52,120	¥ 47,516
Water Treatment Facilities	**149,659**	135,969	130,007	119,213	102,218
Total	**¥208,689**	¥192,529	¥183,910	¥171,334	¥149,735
Net sales					
Water Treatment Chemicals	**¥ 58,646**	¥ 56,667	¥ 54,549	¥ 50,637	¥ 47,442
Water Treatment Facilities	**146,228**	140,479	119,133	110,259	99,377
Total	**¥204,875**	¥197,146	¥173,683	¥160,896	¥146,819
Operating income					
Water Treatment Chemicals	**¥ 9,525**	¥ 8,806	¥ 7,961	¥ 7,433	¥ 6,640
Water Treatment Facilities	**20,939**	15,471	9,349	8,515	6,845
Elimination or Corporate	**2**	(1)	0	1	5
Total	**¥ 30,468**	¥ 24,276	¥ 17,311	¥ 15,951	¥ 13,490

Note: Orders are not included in the consolidated statements of income and shown for reference purposes only.

g) Overseas Sales

Sales by Region

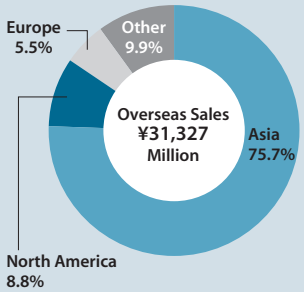
Overseas sales in the year ended March 31, 2008 increased 6.1% to ¥31,327 million. The ratio of overseas net sales to total consolidated net sales increased year on year from 15.0% to 15.3%.

A breakdown of overseas sales by region for the year ended March 31, 2008, is as follows:

Asian sales increased 4.8% from the previous fiscal year to ¥23,723 million (percentage of overseas sales: 75.7%); North American sales decreased 19.4% from the previous fiscal year to ¥2,759 million (percentage of overseas sales: 8.8%); European sales increased 34.0% from the previous fiscal year to ¥1,736 million (percentage of overseas sales: 5.5%); and sales in other regions increased 43.1% from the previous fiscal year to ¥3,107 million (percentage of overseas sales: 9.9%).

Overseas Sales by Area

Fiscal year ended March 31, 2008

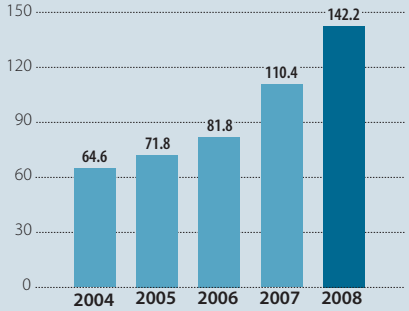


h) Other Income and Expenses

Other income and expenses (net) improved 157.5% from ¥315 million in the previous fiscal year to ¥811 million. This improvement is attributable mainly to increased net financial income (interest and dividend income minus interest paid), which improved from ¥516 million in the previous fiscal year to ¥607 million due to increased interest and dividend income.

Net Income per Share

Years ended March 31 (Yen)



i) Income before Income Taxes and Minority Interests

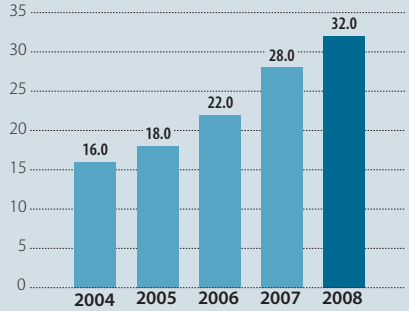
Income before income taxes and minority interests rose 27.2% from the previous fiscal year from ¥24,591 million to ¥31,279 million. As a result, the pretax profit ratio on sales improved from 12.5% in the previous fiscal year to 15.3%.

j) Net Income and Net Income per Share

Net income after income taxes and minority interests increased 28.8% from the previous fiscal year from ¥14,207 million to ¥18,297 million. Net income per share rose from ¥110.42 in the previous fiscal year to ¥142.21, resulting in the return on sales increasing from 7.2% in the previous fiscal year to 8.9%. Return on equity in the year ended March 31, 2008 improved from 9.4% to 11.2%.

Dividends per Share

Years ended March 31 (Yen)



k) Dividend Policy and Dividend

In the distribution of profits, our basic policy is to maintain stable dividends while giving due consideration to shifts in full-year business performance and investment for future business expansion. Based on this, we are making efforts to increase dividends.

In the year under review, Kurita declared a total year-end dividend of ¥32 (including an interim dividend of ¥15), up ¥4 from the previous fiscal year. The total year-end dividend for the previous fiscal year was ¥28 per share (including an interim dividend of ¥13).

Capital Expenditures

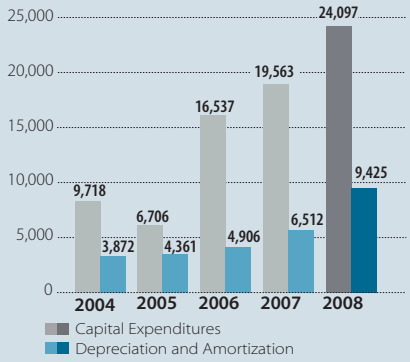
The Kurita Group is committed to making the investments necessary to enhance its technological innovation and production capacity and to respond to the ongoing intensification of sales competition. During the year under review, capital expenditures totaled ¥24,097 million. Of this amount, ¥23,305 million was used for the acquisition of tangible fixed assets, including facilities for the Ultrapure Water Supply Business. This was an increase of 22.8% from the previous fiscal year.

In the Water Treatment Chemicals Business, capital expenditures increased 22.1% from the previous fiscal year to ¥1,617 million, and were made for renovating water treatment chemical product manufacturing facilities and purchasing analysis equipment for water quality analysis operations.

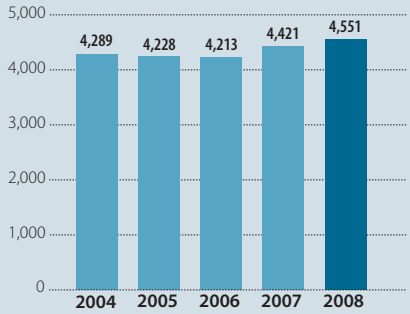
In the Water Treatment Facilities Business, capital expenditures rose 23.3% from the previous fiscal year to ¥22,480 million, and were used for such purposes as the acquisition of facilities for the Ultrapure Water Supply Business, facility construction and the expansion of the Tool Cleaning service.

Depreciation and amortization jumped in 44.7% from the previous fiscal year to ¥9,425 million.

Capital Expenditures and Depreciation and Amortization
Years ended March 31 (¥ Million)



R&D Expenses
Years ended March 31 (¥ Million)



Research and Development

Kurita's Research and Development (R&D) activities are conducted principally by the parent company's Research and Development Division and the technical development departments of each operating division. Total research and development expenses for the year ended March 31, 2008 increased 2.9% to ¥4,551 million, equivalent to 2.2% of net sales. The number of R&D personnel of the Group as a whole reached approximately 170, which is 4.0% of all Group personnel (4,249 on a consolidated basis).

In the Water Treatment Chemicals Business, focusing on developing products that contribute to the reduction of customer energy usage, expenses and environmental impact, we are promoting the development of sensing technology for monitoring and diagnosis. During the year under review, R&D expenses rose 0.9% to ¥1,405 million.

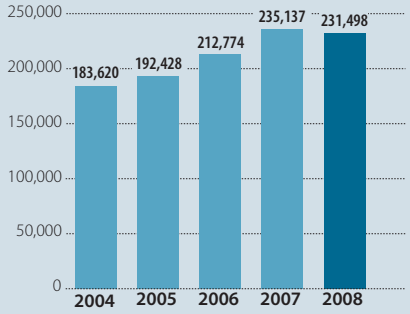
In the Water Treatment Facilities Business, Kurita focuses mainly on such themes as improving the quality of ultrapure water, enhancing such environmental technologies as soil remediation and wastewater treatment to surpass current environmental regulatory requirements, and developing technologies to reclaim and reuse water in response to a recycling society. R&D expenses increased 3.9% from the previous fiscal year to ¥3,146 million.

Financial Position

a) Total Assets

Total assets as of March 31, 2008 were down ¥3,639 million from ¥235,137 million at the end the previous fiscal year to ¥231,498 million as a result of streamlining current assets.

Total Assets
As of March 31 (¥ Million)

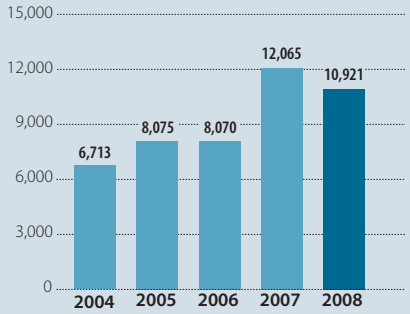


Current Assets

Current assets as of March 31, 2008 were down ¥15,442 million from ¥137,004 million at the end of the previous fiscal year to ¥121,562 million. Factors contributing to this decline include reductions of ¥27,445 million in cash and time deposits, ¥4,865 million in notes and accounts receivable trade and ¥1,144 million in inventories.

Cash and time deposits decreased mainly due to increases in capital expenditures and the settlement of trade accounts payable as well as the change in classification of negotiable deposits to marketable securities, previously included in cash and time deposits. This resulted in a ¥18,155 million increase in marketable securities compared with the previous fiscal year-end.

Inventories
As of March 31 (¥ Million)



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

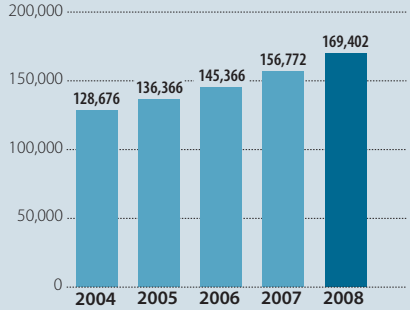
Property, plant and equipment, as of March 31, 2008, increased ¥14,696 million from ¥67,288 to ¥81,984 million. This increase is primarily attributable to capital investment growth as described above.

Investments and long-term receivables, as of March 31, 2008, decreased ¥2,783 million, from ¥28,237 million at the end of the previous fiscal year, to ¥25,454 million. This is primarily attributable to reductions in investment securities accompanying slumping prices.

b) Liabilities

Total liabilities as of March 31, 2008 declined ¥16,500 million from ¥76,937 million at the previous fiscal year-end to ¥60,437 million.

Equity
As of March 31 (¥ Million)



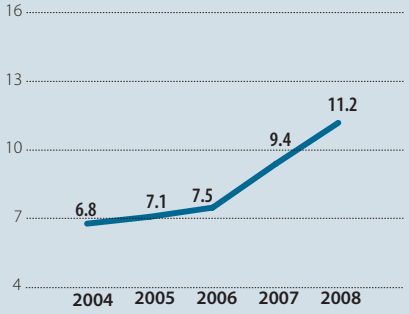
Note: Equity represents net assets less minority interests.

Current Liabilities

Current liabilities decreased ¥16,416 million from ¥65,496 million at the previous fiscal year-end to ¥49,080 million primarily owing to reductions of ¥11,418 million in notes and accounts payable, trade, and ¥4,044 million in accounts payable, other.

Accounts payable decreased mainly due to changes in payment terms and as a result of the previous year-end falling on a holiday. The decrease in accounts payable, other, was due to the settlement of accounts payable for the purchase of properties.

Return on Equity
Years ended March 31 (%)



Note: Equity represents net assets less minority interests.

Long-term liabilities

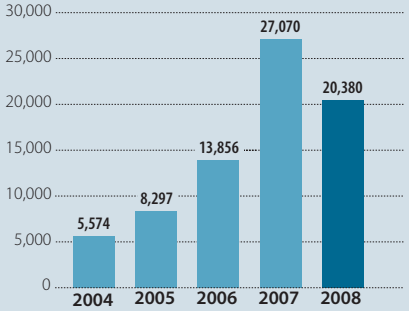
Long term liabilities as of March 31, 2008 remained almost unchanged from the previous fiscal year, dipping slightly from ¥11,440 million to ¥11,357 million.

c) Net Assets

Net assets at fiscal year-end rose ¥12,861 million, from ¥158,200 million at the previous fiscal year-end to ¥171,061 million. This is due mainly to ¥18,297 million in net income recorded in the year ended March 31, 2008 along with an increase of ¥14,428 million in retained earnings.

The equity ratio as of March 31, 2008 rose 6.5 percentage points compared with the previous fiscal year-end from 66.7% to 73.2%. Equity per share increased ¥98.23 compared with the previous fiscal year-end from ¥1,218.42 to ¥1,316.65.

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



Cash Flows

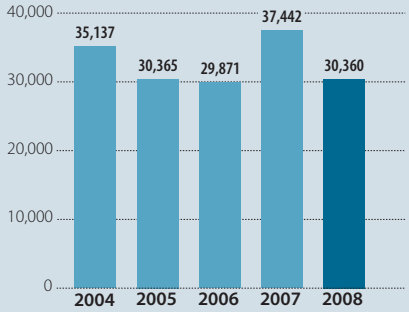
Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥20,380 million, a decrease of ¥6,690 million compared with the previous fiscal year. Factors supporting operating cash flows include increases in income before income taxes and minority interests, depreciation and amortization, and a decrease in trade receivables. However, reductions in funds are related to such factors as corporate tax payments and a decrease in trade payables.

Cash Flows from Investing Activities

Net cash used in investment activities increased ¥6,703 million compared with the previous fiscal year to ¥23,156 million. This resulted from increased payments for acquisition of property, plant and equipment, including systems for the Ultrapure Water Supply Business, despite proceeds from sale and redemption of marketable securities and investments in securities.

Cash and Cash Equivalents at End of Year
As of March 31 (¥ Million)



Cash Flows from Financing Activities

Net cash used in financial activities rose ¥907 million from the previous fiscal year to ¥4,365 million. This is primarily due to the increases in cash dividends paid.

Cash and Cash Equivalents at End of Year

At the end of the fiscal year, cash and cash equivalents stood at ¥30,360 million, which is a decrease of ¥7,082 million from previous fiscal year.

Business Risks

Important risks affecting the Kurita Group include domestic and overseas economic trends, customer capital expenditure trends in water treatment and factory operating rates, and price movements in crude oil and raw materials. Since unforeseen risks may occur, risks are not necessarily limited to those listed below:

(1) Factors Affecting Business Performance

Water Treatment Chemicals Business

The performance of the Water Treatment Chemicals Business is affected by fluctuations in demand that reflect changes in factory operating rates at companies in the steel, petroleum refining and petrochemical, and pulp and paper industries, the Group's main source of clients for the business. Business performance is also affected by movements in prices of basic materials caused by movements in crude oil prices.

Water Treatment Facilities Business

The performance of the Water Treatment Facilities Business is affected by fluctuations in demand caused by trends in capital expenditures at companies in electronics-related industries, the Group's main source of clients for the business. Business performance is also affected by changes in equipment production costs caused by movements in prices of construction materials and outsourcing costs.

(2) Concentration of Water Treatment Facilities Business Income in Second Half of Fiscal Year

In the Water Treatment Facilities Business, Kurita's withdrawal from the public-sector construction business and its shift to the service business resulted in decreases in sales which intensified toward fiscal year-end. However, operating income remains disproportionally concentrated in the second half of the fiscal year, given the continuation of this trend.

(3) Exchange Rate Fluctuations

With a smaller percentage of foreign currency transactions accounting for overall sales and purchases, the Kurita Group considers the influence of exchange fluctuations on operating results to be minor.

CONSOLIDATED BALANCE SHEETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

As of March 31, 2008 and 2007

Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash and time deposits (Note 3)	**¥ 10,316**	¥ 37,761	**$ 102,973**
Notes and accounts receivable, trade (Note 4)	**72,215**	77,080	**720,783**
Allowance for doubtful accounts	**(159)**	(164)	**(1,590)**
Marketable securities (Note 5)	**23,945**	5,830	**238,995**
Inventories (Note 6)	**10,921**	12,065	**109,010**
Deferred tax assets (Note 8)	**2,912**	2,713	**29,074**
Other current assets	**1,410**	1,716	**14,075**
Total current assets	**121,562**	137,004	**1,213,323**
Investments and long-term receivables:			
Investment securities (Note 5)	**15,319**	19,977	**152,904**
Investments in non-consolidated subsidiaries and affiliates	**3,109**	2,641	**31,033**
Deferred tax assets (Note 8)	**3,127**	1,560	**31,217**
Other investments	**3,991**	4,257	**39,836**
Allowance for doubtful accounts	**(93)**	(201)	**(934)**
Total investments and long-term receivables	**25,454**	28,237	**254,058**
Property, plant and equipment, at cost:			
Land (Note 12)	**13,965**	14,064	**139,394**
Buildings and structures	**43,711**	38,164	**436,286**
Machinery and equipment	**53,744**	32,678	**536,426**
Construction in progress	**4,664**	9,840	**46,555**
Other facilities	**11,125**	10,733	**111,046**
Total	**127,212**	105,481	**1,269,710**
Accumulated depreciation	**(45,227)**	(38,192)	**(451,420)**
Property, plant and equipment, net	**81,984**	67,288	**818,289**
Intangible assets	**2,497**	2,607	**24,946**
Total assets	**¥231,498**	¥235,137	**$2,310,598**

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term borrowings and current portion of long-term borrowings (Note 7)	**¥ 102**	¥ 333	**$ 1,027**
Notes and accounts payable, trade (Note 4)	**23,334**	34,752	**232,903**
Accounts payable, other	**8,113**	12,157	**80,981**
Income taxes payable	**8,128**	7,498	**81,127**
Advances received	**3,584**	4,920	**35,779**
Accrued employees' bonuses	**2,401**	2,327	**23,968**
Provision for product warranties	**1,131**	1,230	**11,297**
Other current liabilities	**2,283**	2,276	**22,788**
Total current liabilities	**49,080**	65,496	**489,873**
Long-term liabilities:			
Long-term borrowings (Note 7)	**0**	96	**9**
Accrued employees' retirement benefits (Note 9)	**8,358**	8,392	**83,424**
Accrued retirement benefits for directors and corporate auditors	**709**	696	**7,086**
Deferred tax liabilities on revaluation of land (Note 12)	**1,519**	1,526	**15,162**
Other long-term liabilities (Note 7)	**768**	729	**7,672**
Total long-term liabilities	**11,357**	11,440	**113,356**
Total liabilities	**60,437**	76,937	**603,230**
Contingent liabilities (Note 17)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock, 2008 and 2007			
Authorized: 531,000,000 shares			
Issued: 2008–132,800,256 shares			
2007–132,800,256 shares	**13,450**	13,450	**134,252**
Capital surplus	**11,426**	11,426	**114,051**
Retained earnings	**147,874**	133,446	**1,475,945**
Treasury stock, at cost			
2008–4,138,621 shares			
2007–4,131,802 shares	**(4,827)**	(4,803)	**(48,188)**
Total shareholders' equity	**167,924**	153,519	**1,676,061**
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities	**1,773**	3,662	**17,704**
Unrealized gains (losses) on revaluation of land (Note 12)	**(750)**	(740)	**(7,495)**
Foreign currency translation adjustments	**455**	330	**4,545**
Total valuation and translation adjustments	**1,478**	3,252	**14,753**
Minority interests	**1,658**	1,427	**16,553**
Total net assets	**171,061**	158,200	**1,707,368**
Total liabilities and net assets	**¥231,498**	¥235,137	**$2,310,598**

CONSOLIDATED STATEMENTS OF INCOME

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Net sales (Note 15)	**¥204,875**	¥197,146	¥173,683	**$2,044,865**
Cost of sales	**138,549**	137,819	122,630	**1,382,865**
Gross profit	**66,325**	59,326	51,052	**661,999**
Selling, general and administrative expenses (Note 13)	**35,857**	35,050	33,741	**357,897**
Operating income (Note 15)	**30,468**	24,276	17,311	**304,102**
Other income (expenses):				
Interest and dividend income	**652**	566	451	**6,507**
Interest expense	**(45)**	(50)	(41)	**(457)**
Impairment loss (Note 14)	**—**	—	(846)	**—**
Gain on sale of properties	**204**	—	—	**2,045**
Gain on sale of investment securities	**97**	—	1,205	**968**
Equity in earnings of non-consolidated subsidiaries and affiliates	**115**	172	266	**1,157**
Loss on sale of properties	**—**	—	(150)	**—**
Loss on disposal of properties	**(162)**	(145)	(279)	**(1,626)**
Loss on sale and disposal of inventories	**(108)**	(61)	(23)	**(1,086)**
Loss on valuation of investment securities	**(103)**	—	—	**(1,031)**
Surcharges and penalties	**—**	(488)	—	**—**
Other, net	**161**	322	306	**1,616**
	811	315	889	**8,094**
Income before income taxes and minority interests	**31,279**	24,591	18,200	**312,197**
Income taxes:				
Current	**13,113**	11,131	7,395	**130,889**
Deferred	**(469)**	(1,061)	100	**(4,688)**
	12,644	10,070	7,496	**126,200**
Minority interests in earnings of consolidated subsidiaries	**337**	314	184	**3,364**
Net income	**¥ 18,297**	¥ 14,207	¥ 10,519	**$ 182,631**

	Yen			U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Per share of common stock:				
Net income	**¥142.21**	¥110.42	¥81.76	**$1.42**
Cash dividends applicable to the year	**32.00**	28.00	22.00	**0.32**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2008, 2007 and 2006

	Millions of yen										
	Shareholders' equity (Note 11)					Valuation 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 valuation and translation adjustments	Minority interests	Total net assets
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 gains (losses) 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
Disposal 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**
Changes during the year											
Cash dividends paid			**(3,859)**		**(3,859)**						**(3,859)**
Bonuses to directors and corporate auditors			**(9)**		**(9)**						**(9)**
Reversal of unrealized gains (losses) on revaluation of land			**10**		**10**						**10**
Contribution to employees' incentive and welfare fund			**(10)**		**(10)**						**(10)**
Net income for the year			**18,297**		**18,297**						**18,297**
Acquisition of treasury stock				**(24)**	**(24)**						**(24)**
Net changes of net assets other than shareholders' equity						**(1,889)**	**(10)**	**124**	**(1,774)**	**230**	**(1,543)**
Total changes during the year	**—**	**—**	**14,428**	**(24)**	**14,404**	**(1,889)**	**(10)**	**124**	**(1,774)**	**230**	**12,860**
Balance as of March 31, 2008	**¥13,450**	**¥11,426**	**¥147,874**	**¥(4,827)**	**¥167,924**	**¥ 1,773**	**¥(750)**	**¥ 455**	**¥ 1,478**	**¥1,658**	**¥171,061**

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity (Note 11)					Valuation 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 valuation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2007	**$134,252**	**$114,051**	**$1,331,933**	**$(47,948)**	**$1,532,288**	**$ 36,559**	**$(7,393)**	**$3,298**	**$ 32,465**	**$14,251**	**$1,579,005**
Changes during the year											
Cash dividends paid			**(38,526)**		**(38,526)**						**(38,526)**
Bonuses to directors and corporate auditors			**(90)**		**(90)**						**(90)**
Reversal of unrealized gains (losses) on revaluation of land			**102**		**102**						**102**
Contribution to employees' incentive and welfare fund			**(105)**		**(105)**						**(105)**
Net income for the year			**182,631**		**182,631**						**182,631**
Acquisition of treasury stock				**(239)**	**(239)**						**(239)**
Net changes of net assets other than shareholders' equity						**(18,855)**	**(102)**	**1,246**	**(17,711)**	**2,301**	**(15,409)**
Total changes during the year	**—**	**—**	**144,012**	**(239)**	**143,772**	**(18,855)**	**(102)**	**1,246**	**(17,711)**	**2,301**	**128,362**
Balance as of March 31, 2008	**$134,252**	**$114,051**	**$1,475,945**	**$(48,188)**	**$1,676,061**	**$ 17,704**	**$(7,495)**	**$4,545**	**$ 14,753**	**$16,553**	**$1,707,368**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
I. Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 31,279**	¥ 24,591	¥ 18,200	**$ 312,197**
Depreciation and amortization (Note 15)	**9,425**	6,512	4,906	**94,074**
Impairment loss (Note 14)	**—**	—	846	**—**
Increase (decrease) in accrued employees' retirement benefits	**(42)**	103	(447)	**(428)**
Gain on sale of investment securities	**—**	—	(1,205)	**—**
Equity in earnings of non-consolidated subsidiaries and affiliates	**(115)**	(172)	(266)	**(1,157)**
Interest and dividend income	**(652)**	(566)	(451)	**(6,507)**
Interest expense	**45**	50	41	**457**
Payments of bonuses to directors and corporate auditors	**(14)**	—	(180)	**(146)**
Increase (decrease) in accrued employees' bonuses	**59**	(66)	238	**593**
Increase (decrease) in other allowances, accrual and non-cash items, net	**(329)**	1,294	(196)	**(3,286)**
Changes in assets and liabilities:				
(Increase) decrease in trade receivables	**3,648**	3,555	(4,182)	**36,417**
(Increase) decrease in inventories	**1,073**	(3,945)	156	**10,713**
Increase (decrease) in trade payables	**(11,203)**	2,192	2,314	**(111,818)**
Others, net	**(1,216)**	1,124	325	**(12,143)**
	31,957	34,673	20,096	**318,965**
Interest and dividends received	**747**	649	589	**7,463**
Interest paid	**(45)**	(45)	(43)	**(456)**
Income taxes paid	**(12,475)**	(8,032)	(6,981)	**(124,514)**
Others, net	**196**	(175)	195	**1,958**
Net cash provided by operating activities	**20,380**	27,070	13,856	**203,416**
II. Cash flows from investing activities:				
(Increase) decrease in time deposits, net	**(34)**	(78)	9	**(344)**
Payments for purchase of property, plant and equipment	**(26,101)**	(18,846)	(10,962)	**(260,522)**
Proceeds from sale of property, plant and equipment	**350**	43	817	**3,494**
Payments for purchase of marketable securities and investment securities	**(12,043)**	(12,349)	(14,721)	**(120,209)**
Proceeds from sale and redemption of marketable securities and investment securities	**15,213**	15,358	13,024	**151,846**
Others, net	**(539)**	(581)	(486)	**(5,389)**
Net cash used in investing activities	**(23,156)**	(16,453)	(12,318)	**(231,124)**
III. Cash flows from financing activities:				
Increase (decrease) in short-term borrowings, net	**(235)**	(81)	220	**(2,352)**
Decrease in long-term borrowings, net	**(139)**	(192)	(84)	**(1,395)**
Cash dividends paid	**(3,857)**	(3,086)	(2,572)	**(38,497)**
Cash dividends paid to minority shareholders of consolidated subsidiaries	**(108)**	(88)	(106)	**(1,086)**
Proceeds from stock issuance to minority shareholders of consolidated subsidiaries	**—**	—	38	**—**
Payments for purchase of treasury stock, net	**(24)**	(10)	(11)	**(239)**
Net cash used in financing activities	**(4,365)**	(3,458)	(2,516)	**(43,572)**
IV. Effect of exchange rate changes on cash and cash equivalents	**(18)**	280	173	**(187)**
V. Net increase (decrease) in cash and cash equivalents	**(7,160)**	7,438	(804)	**(71,467)**
VI. Cash and cash equivalents at beginning of year (Note 3)	**37,442**	29,871	30,365	**373,714**
VII. Cash and cash equivalents of newly consolidated subsidiaries, net of excluded subsidiaries from consolidation	**78**	132	310	**779**
VIII. Cash and cash equivalents at end of year (Note 3)	**¥ 30,360**	¥ 37,442	¥ 29,871	**$ 303,025**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

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

Certain reclassifications of accounts and modifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. 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 as of or for the year ended March 31, 2008 into U.S. dollars is included solely for the convenience of readers and has been made, as a matter of arithmetical computation only, at the rate of ¥100.19 to US$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2008. The translation should not be construed as a representation that yen amounts have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

2. Significant accounting policies

(1) Consolidation

Scope of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. For the years ended March 31, 2008 and 2007, 38 and 36 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, 2008, 2 companies (San-ei Industries Co., Ltd. and one other company, both of 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 (the proportion of the Company's interest) and retained earnings (the proportion of the Company's interest) of all the non-consolidated subsidiaries in the aggregate are not significant in terms of the consolidated financial statements.

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 portions attributable to the minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Fiscal years of consolidated subsidiaries

The fiscal years of Kurita (Singapore) Pte. Ltd. and 14 other consolidated subsidiaries end on December 31. For these consolidated subsidiaries, the financial statements as of December 31 were used for consolidation purposes. However, material transactions that have occurred during the three-month period from January 1 to March 31 of the following year have been adjusted as necessary for consolidation.

Amortization of goodwill

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

(2) Equity method

Scope of equity method application

Significant investments in non-consolidated subsidiaries and affiliated companies over which the Company has the ability to exercise significant influence with regard to the operating and financial policies of the investees, are accounted for by the equity method. For the years ended March 31, 2008 and 2007, 3 and 6 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, 2008, 2 companies were excluded from the scope of equity method application, as they were included in the scope of consolidation from the fiscal year ended March 31, 2008.

Land Management Co., Ltd. and other non-consolidated subsidiaries which are not accounted for by the equity method were excluded from the scope of equity method application, because such exclusion has minimal impact to net income (the proportion of the Company's interest) and retained earnings (the proportion of the Company's interest) of the consolidated financial statements and is considered immaterial as a whole.

Fiscal years of companies accounted for by the equity method

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

(3) Cash and cash equivalents

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

(4) Available-for-sale securities

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

(5) Inventories

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

(6) Derivative transactions

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

(7) Depreciation of property, plant and equipment

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

Accounting policy change

Effective from the year ended March 31, 2008, pursuant to the revision made to the Japanese Corporation Tax Law, the Company and its domestic consolidated subsidiaries changed their depreciation method for the property, plant and equipment acquired on and after April 1, 2007 to the method stipulated by the revised Tax Law. The effect of this change to income or loss for the year ended March 31, 2008 is insignificant.

Additional information on depreciation

From the year ended March 31, 2008, pursuant also to the above-mentioned revision to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries began full depreciation of the residual value for the property, plant and equipment which was acquired on or before March 31, 2007 and for which depreciation has completed up to the maximum limit (95% of the acquisition cost) by using the depreciation method stipulated by the Corporation Tax Law in effect before the revision. Such depreciation of the residue is made by equal installments over the five-year period commencing the fiscal year immediately following the fiscal year in which the accumulated depreciation reached the maximum depreciable amount permitted by the previous Tax Law provisions. The effect of this change to income or loss for the year ended March 31, 2008 is insignificant.

(8) 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 year ended March 31, 2006, the Company adopted the new accounting standard and guidance for the 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.

(9) Accrued employees' bonuses

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

(10) Accrued employees' retirement benefits

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

(11) Leases

Finance leases 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.

(12) Consumption taxes

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

(13) Foreign currency translation

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

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

(14) 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).

These accounting standards and implementation guidelines 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, valuation and translation adjustments, stock acquisition rights and minority interests.

The adoption of the new accounting standards did not have any material impact on the results of operations for the years ended March 31, 2007 and 2008.

(15) Appropriation of retained earnings

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

(16) Earnings per share

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

(17) Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation for the year ended March 31, 2008. These changes had no impact on previously reported results of operations.

(18) Changes during the year

Tax effect accounting in balance sheets

In the year ended March 31, 2008, the Company adopted the revised Practical Guideline on Tax Effect Accounting in the Balance Sheet (the Accounting System Committee Report No. 6), whereby certain deferred tax assets previously recorded to eliminate unrealized gains on inter-consolidated-company sales/purchases of shares of subsidiaries and affiliated companies have been reversed, with the reversed amount charged to deferred income taxes. This accounting change caused a decrease in net income by ¥465 million.

Reclassification of cash and time deposits and marketable securities in balance sheets

From the year ended March 31, 2008, in accordance with the amendments to the "Special Considerations in the Interpretation of the 'Regulations Concerning Terminology, Formats and Preparation Methods of Financial Statements,'" certificates of deposit previously included in "cash and time deposits" have been transferred to "marketable securities" and now constitute part of this line item. Certificates of deposit held at the end of the previous fiscal year (March 31, 2007) totaled ¥25,436 million.

Transition of employees' pension plan

Effective from April 1, 2007, the Company transferred its qualified pension plan from the traditional defined benefit pension plan to a defined contribution pension plan. The effect of the profit at plan transition on the results of operations for the year ended March 31, 2008 was immaterial.

3. Reconciliation between cash and cash equivalents

The reconciliation between the fiscal year-end cash and cash equivalents (See Note 2 (3) and (18) above) in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheet items is as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Cash and time deposits	**¥10,316**	¥37,761	¥30,107	**$102,973**
Time deposits with original maturity of more than three months	**(343)**	(319)	(236)	**(3,426)**
Certificates of deposit included in marketable securities	**20,386**	—	—	**203,479**
Cash and cash equivalents	**¥30,360**	¥37,442	¥29,871	**$303,025**

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
Notes receivable	¥1,049
Notes payable	¥ 219

5. Marketable securities and investment in securities

(1) Available-for-sale securities with fair value at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		
At March 31, 2008	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:	**¥ 7,696**	**¥11,040**	**¥3,343**
Stocks			
Bonds:			
Corporate bonds	**300**	**300**	**0**
Other	**999**	**999**	**0**
Subtotal	**8,995**	**12,339**	**3,343**
Book value not exceeding acquisition cost:			
Stocks	**3,228**	**2,895**	**(333)**
Bonds:			
Corporate bonds	**2,625**	**2,549**	**(76)**
Other	**998**	**998**	**(0)**
Subtotal	**6,853**	**6,443**	**(410)**
Total	**¥15,849**	**¥18,782**	**¥2,933**

At March 31, 2007	Millions of yen		
	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

At March 31, 2008	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:	**$ 76,816**	**$110,191**	**$33,374**
Stocks			
Bonds:			
Corporate bonds	**2,994**	**2,994**	**0**
Other	**9,977**	**9,977**	**0**
Subtotal	**89,788**	**123,163**	**33,374**
Book value not exceeding acquisition cost:			
Stocks	**32,227**	**28,897**	**(3,329)**
Bonds:			
Corporate bonds	**26,206**	**25,443**	**(762)**
Other	**9,969**	**9,969**	**0**
Subtotal	**68,402**	**64,310**	**(4,092)**
Total	**$158,191**	**$187,473**	**¥29,282**

(2) Available-for-sale securities sold during the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Sales amount	**¥578**	¥—	¥2,460	**$5,772**
Total gains on sales	**61**	—	1,205	**613**
Total losses on sales	**0**	—	—	**4**

(3) The schedule for the redemption of available-for-sale securities with maturities at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2008		March 31, 2007		**March 31, 2008**	
	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	¥ —	**$ —**	**$ —**
Corporate bonds	**1,398**	**1,450**	1,894	2,422	**13,961**	**14,477**
Other	**1,998**	**—**	2,199	—	**19,946**	**—**
Other:						
Certificates of deposit (See Note 2 (18) and Note 3)	**20,386**	**—**	—	—	**203,479**	**—**
Total	**¥23,783**	**¥1,450**	¥5,693	¥2,422	**$237,386**	**$14,477**

(4) Available-for-sale securities with no available fair value at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Available-for-sale securities:			
Certificates of deposit (See Note 2 (18) and Note 3)	**¥20,386**	¥ —	**$203,479**
Unlisted stocks	**94**	1,580	**947**

6. Inventories

Inventories at March 31, 2008 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished products	**¥ 1,428**	¥ 1,509	**$ 14,254**
Raw materials	**1,365**	1,166	**13,629**
Work in process	**8,128**	9,389	**81,125**
Total	**¥10,921**	¥12,065	**$109,010**

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, 2008 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Short-term borrowings	**¥ 1**	¥239	**$ 14**
Current portion of long-term borrowings	**101**	93	**1,012**
Total	**¥102**	¥333	**$1,027**

The weighted-average annual interest rates of short-term borrowings and current-portion of long-term borrowings for the year ended March 31, 2008 are 10.25% and 6.18%, respectively.

(2) Long-term borrowings

Long-term borrowings at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loan from banks at weighted-average annual interest rates of:	**¥102**	¥189	**$1,022**
2008–10.25%			
2007–5.57%			
Less: Current portion	**101**	(93)	**1,012**
Total	**¥ 0**	¥ 96	**$ 9**

(3) Other long-term liabilities

Other than the short- and long-term borrowings described above, ¥719 million (US$7,177 thousands) and ¥672 million of interest-bearing long-term deposits received were included in other long-term liabilities as of March 31, 2008 and 2007, respectively. The weighted-average annual interest rates for such deposits received for the years ended March 31, 2008 and 2007 were 0.92% and 0.89%, respectively.

8. Income taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Excess provision for accrued employees' retirement benefits	**¥ 3,361**	¥ 3,248	**$ 33,554**
Excess depreciation of property, plant and equipment	**1,989**	1,017	**19,854**
Excess provision for accrued bonuses to employees	**947**	954	**9,454**
Accrued enterprise taxes not deductible	**653**	570	**6,518**
Excess provision of allowance for product warranty	**466**	490	**4,653**
Excess portion of design expenses	**391**	336	**3,905**
Impairment loss	**312**	348	**3,114**
Accrued retirement benefits for directors and corporate auditors	**273**	273	**2,733**
Unrealized gain on sale of property, plant and equipment	**237**	706	**2,369**
Unrealized gain on sale of inventories	**154**	—	**1,538**
Loss on revaluation of golf club membership	**—**	134	**—**
Other	**651**	764	**6,501**
Subtotal	**9,437**	8,846	**94,197**
Valuation allowances	**(430)**	(454)	**(4,297)**
Total deferred tax assets	**9,007**	8,391	**89,899**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**(1,191)**	(2,493)	**(11,888)**
Estimated income taxes pertaining to retained earnings of overseas consolidated subsidiaries	**(1,034)**	(876)	**(10,328)**
Capital gains on properties deferred for tax purposes	**(740)**	(747)	**(7,390)**
Total deferred tax liabilities	**(2,966)**	(4,117)	**(29,607)**
Deferred tax assets, net	**¥ 6,040**	¥ 4,274	**$ 60,292**

9. Retirement benefits and pension plans

The Company provides a lump-sum retirement benefit plan and a defined contribution pension plan. (As in Note 2 (17), the Company transferred its qualified pension plan to a defined contribution pension plan, effective from April 1, 2007.) Of the consolidated subsidiaries, 26 companies (23 domestic and 3 overseas companies) provide lump-sum retirement benefit or qualified pension plans, 3 domestic companies provide both types of plan, and 6 domestic companies have only qualified pension plans.

(1) Benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Retirement benefit obligation	**¥(19,586)**	¥(23,704)	**$(195,496)**
Fair value of pension plan assets	**11,264**	15,363	**112,430**
Unfunded retirement benefit obligations	**(8,322)**	(8,341)	**(83,066)**
Unrecognized actuarial gain	**(35)**	(51)	**(358)**
Accrued employees' retirement benefits	**¥ (8,358)**	¥ (8,392)	**$ (83,424)**

(2) Net periodic benefit costs

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Service cost	**¥ 968**	¥1,344	¥1,163	**$ 9,661**
Interest cost	**258**	535	537	**2,579**
Expected return on plan assets	**—**	(85)	(85)	**—**
Amortization of actuarial differences	**(34)**	138	(115)	**(339)**
Additional retirement payments	**7**	31	13	**76**
Profit at transition to defined contribution pension plan	**(17)**	—	—	**(175)**
Other	**471**	—	—	**4,707**
Net periodic benefit cost	**¥1,654**	¥1,964	¥1,514	**$16,510**

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

(3) Assumptions to determine above obligation and cost:

	2008	2007
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	**0.0%**	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:

(1) As lessee

a) Leased assets (as lessee)

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Acquisition costs	**¥1,366**	¥1,384	¥1,537	**$13,636**
Accumulated depreciation	**(578)**	(687)	(924)	**(5,769)**
Net book value	**¥ 788**	¥ 696	¥ 612	**$ 7,867**

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 the fiscal year-end.

b) Lease obligations (net book value)

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Due within one year	**¥248**	¥234	¥224	**$2,482**
Due over one year	**539**	462	388	**5,384**
Total	**¥788**	¥696	¥612	**$7,867**

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 the fiscal year-end.

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

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Lease payments	**¥242**	¥284	¥270	**$2,417**
Depreciation	**242**	284	270	**2,417**

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

(2) As lessor

Future lease payments relating to operating lease transactions

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Due within one year	**¥119**	¥122	¥146	**$1,189**
Due over one year	**123**	164	208	**1,232**
Total	**¥242**	¥287	¥355	**$2,422**

11. Shareholders' equity

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced 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 Board of 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

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

12. Unrealized gains on revaluation of land

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

When any 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, 2008, 2007 and 2006 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Salaries and allowances	**¥12,804**	¥12,780	¥12,620	**$127,806**
Provision for employees' bonuses	**1,648**	1,242	1,320	**16,454**
Retirement benefit expenses	**825**	1,153	734	**8,237**
Travel expenses	**2,642**	2,527	2,517	**26,376**
Research and development expenses	**4,551**	4,421	4,213	**45,431**
Other	**13,384**	12,925	12,334	**133,591**
Total	**¥35,857**	¥35,050	¥33,741	**$357,897**

14. Impairment loss

The Company categorizes business assets by type of business structure, and leased assets and idle assets by individual property type. Along with the restructuring 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 writedowns 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, 2008, 2007 and 2006, is outlined as follows:

	Millions of yen				
Year ended March 31, 2008	Water Treatment Chemicals Business	Water Treatment Facilities Business	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	**¥58,646**	**¥146,228**	**¥204,875**	**¥ —**	**¥204,875**
2) Intersegment sales	**310**	**87**	**397**	**(397)**	**—**
Total	**58,957**	**146,315**	**205,272**	**(397)**	**204,875**
Operating costs and expenses	**49,431**	**125,375**	**174,807**	**(400)**	**174,407**
Operating income	**¥ 9,525**	**¥ 20,939**	**¥ 30,465**	**¥ 2**	**¥ 30,468**
II. Assets, depreciation and capital expenditures					
Assets	**¥37,791**	**¥150,225**	**¥188,017**	**¥43,481**	**¥231,498**
Depreciation and amortization	**1,732**	**7,692**	**9,425**	**—**	**9,425**
Capital expenditures	**1,617**	**22,480**	**24,097**	**—**	**24,097**

	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 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

Year ended March 31, 2006	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	¥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 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, 2008	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	**$585,357**	**$1,459,507**	**$2,044,865**	**$ —**	**$2,044,865**
2) Intersegment sales	**3,101**	**869**	**3,971**	**(3,971)**	**—**
Total	**588,459**	**1,460,377**	**2,048,836**	**(3,971)**	**2,044,865**
Operating costs and expenses	**493,380**	**1,251,382**	**1,744,762**	**(3,999)**	**1,740,762**
Operating income	**$ 95,078**	**$ 208,995**	**$ 304,074**	**$ 28**	**$ 304,102**
II. Assets, depreciation and capital expenditures					
Assets	**$377,202**	**$1,499,406**	**$1,876,609**	**$433,988**	**$2,310,598**
Depreciation and amortization	**17,290**	**76,783**	**94,074**	**—**	**94,074**
Capital expenditures	**16,141**	**224,374**	**240,516**	**—**	**240,516**

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 used in oil refining and pulp and paper 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 reclamation 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 included in "Elimination or corporate" that cannot be allocated to business segments for the years ended March 31, 2008 and 2007.
3. Total assets under "Elimination or corporate" include corporate assets, consisting primarily of deposits with banks, marketable portfolio securities and long-term investment funds (deposits, marketable securities and investment securities). Such corporate assets as of March 31, 2008 and 2007 amounted to ¥43,547 million (US$434,651 thousand) and ¥55,585 million, respectively.
4. Until the fiscal year ended March 31, 2006, investment securities and long-term investment funds (deposits, marketable securities and investment 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, in the year ended March 31, 2007, assets of Water Treatment Chemicals Business and Water Treatment Facilities Business decreased by ¥2,878 million and ¥8,734 million, respectively, and the assets under "Elimination or corporate" increased by ¥11,612 million, 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 up until the fiscal year ended March 31, 2007 is not shown since the amounts of net sales and assets in Japan exceeded 90% of the amount of combined net sales and assets of all segments in those years.

Geographical segment information for the fiscal year ended March 31, 2008 is as follows:

	Millions of yen				
Year ended March 31, 2008	Japan	Other regions	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	**¥183,867**	**¥21,007**	**¥204,875**	**¥ —**	**¥204,875**
2) Intersegment sales	**2,272**	**802**	**3,075**	**(3,075)**	**—**
Total	**186,139**	**21,810**	**207,950**	**(3,075)**	**204,875**
Operating costs and expenses	**158,222**	**19,600**	**177,822**	**(3,415)**	**174,407**
Operating income	**¥ 27,917**	**¥ 2,210**	**¥ 30,127**	**¥ 340**	**¥ 30,468**
II. Assets	**¥178,960**	**¥10,028**	**¥188,989**	**¥42,509**	**¥231,498**

Year ended March 31, 2008	Thousands of U.S. dollars				
	Japan	Other regions	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	**$1,835,187**	**$209,677**	**$2,044,865**	**$ —**	**$2,044,865**
2) Intersegment sales	**22,681**	**8,011**	**30,693**	**(30,693)**	**—**
Total	**1,857,868**	**217,689**	**2,075,558**	**(30,693)**	**2,044,865**
Operating costs and expenses	**1,579,226**	**195,630**	**1,774,856**	**(34,094)**	**1,740,762**
Operating income	**$ 278,642**	**$ 22,059**	**$ 300,701**	**$ 3,401**	**$ 304,102**
II. Assets	**$1,786,214**	**$100,093**	**$1,886,307**	**$424,290**	**$2,310,598**

Notes: 1. Countries and regions are classified into segments according to geography and proximity.
2. "Other regions" are composed primarily of Asia.
3. There were no costs and expenses under "Elimination or corporate" that cannot be allocated to geographical segments.
4. Assets under "Elimination or corporate" include corporate assets, the amount and components of which are the same as those provided in Note 3 to the above (1) Business segment information.

(3) Overseas sales

For the year ended March 31, 2008	Millions of yen					Thousands of U.S. dollars
	Asia	North America	Europe	Other	Total	Total
Overseas net sales	**¥23,723**	**¥2,759**	**¥1,736**	**¥3,107**	**¥ 31,327**	**$ 312,685**
Consolidated net sales	**—**	**—**	**—**	**—**	**204,875**	**2,044,865**
Percentage of overseas net sales to consolidated net sales	**11.6%**	**1.3%**	**0.9%**	**1.5%**	**15.3%**	**15.3%**

For the year ended March 31, 2007	Millions of yen				
	Asia	North America	Europe	Other	Total
Overseas net sales	¥22,635	¥3,424	¥1,296	¥2,171	¥ 29,528
Consolidated net sales	—	—	—	—	197,146
Percentage of overseas net sales to consolidated net sales	11.5%	1.7%	0.7%	1.1%	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 according to geography and proximity.
2. The major countries or regions included in respective categories 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. Subsequent events

Appropriation of retained earnings

The following appropriation of retained earnings for the year ended March 31, 2008 was approved at the ordinary general meeting of shareholders of the Company held on June 27, 2008.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (year-end dividends)	¥2,187	$19,847

17. Contingent liabilities

Guarantees for employees' indebtedness from bank housing loans at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
	—	¥3	—

18. Per share information

	Yen			U.S. dollars
	2008	2007	2006	**2008**
Net assets per share	**¥1,316.65**	¥1,218.42	¥1,129.74	**$13.14**
Net income per share (EPS)	**142.21**	110.42	81.76	**1.42**

The basis of calculation for EPS is as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Net income	**¥18,297**	¥14,207	¥10,519	**$182,631**
Net income attributable to common stock	**18,297**	14,207	10,519	**182,631**
Average number of shares outstanding	**128,664,115**	128,670,582	128,654,537	**128,664,115**

(The Company has no dilutive shares.)

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, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008 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, 2008 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 18, 2008

CORPORATE DATA

As of March 31, 2008

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 4,249 (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-shi, 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.) Shinchu, 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 America Inc.	US$3.0	100.0	Manufacture & sale of water treatment facilities, operation & maintenance of systems and facilities
Kurita do Brasil LTDA.	R$6.986	100.0	Manufacture & sale of water treatment chemicals
■ Europe			
Kurita Europe GmbH	EUR2.301	95.0	Manufacture & sale of water treatment chemicals
Kuritec Europe GmbH	EUR0.959	100.0	Operation & maintenence of systems and facilities
■ Asia			
Kurita Water Industries (Dalian) Co., Ltd.	¥550	90.1	Manufacture & sale of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Operation & maintenance of systems and 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
Hansu Ltd.	W2,500	33.2	Manufacture & sale of water treatment chemicals
Hansu Technical Service Ltd.	W400	59.4	Manufacture & sale of water treatment facilities
Kurita-GK Chemical Co., Ltd.	BAHT92	60.0	Manufacture & sale of water treatment chemicals
Kurita (Singapore) Pte. Ltd.	S$4.0	100.0	Manufacture & sale of water treatment chemicals and water treatment facilities, operation & maintenance of systems and 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
P.T. Kurita Indonesia	US$2.0	92.5	Manufacture & sale of water treatment chemicals
DOMESTIC			
Kurita Creation Co., Ltd.	¥160	100.0	Manufacture & sale of water purifiers
Kuritec Service Co. Ltd.	¥50	100.0	Tool cleaning
Kuritaz Co., Ltd.	¥220	100.0	Operation & maintenance of water treatment facilities
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical cleaning
Land Solution Inc.	¥450	51.0	Soil remediation

INVESTOR INFORMATION

As of March 31, 2008

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 22,802

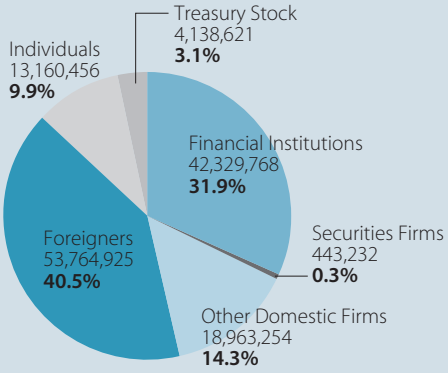
Independent Auditor Grant Thornton Taiyo ASG
Akasaka DS Bldg. 9F, 5-26, Akasaka 8-chome, Minato-ku, Tokyo 107-0052, Japan

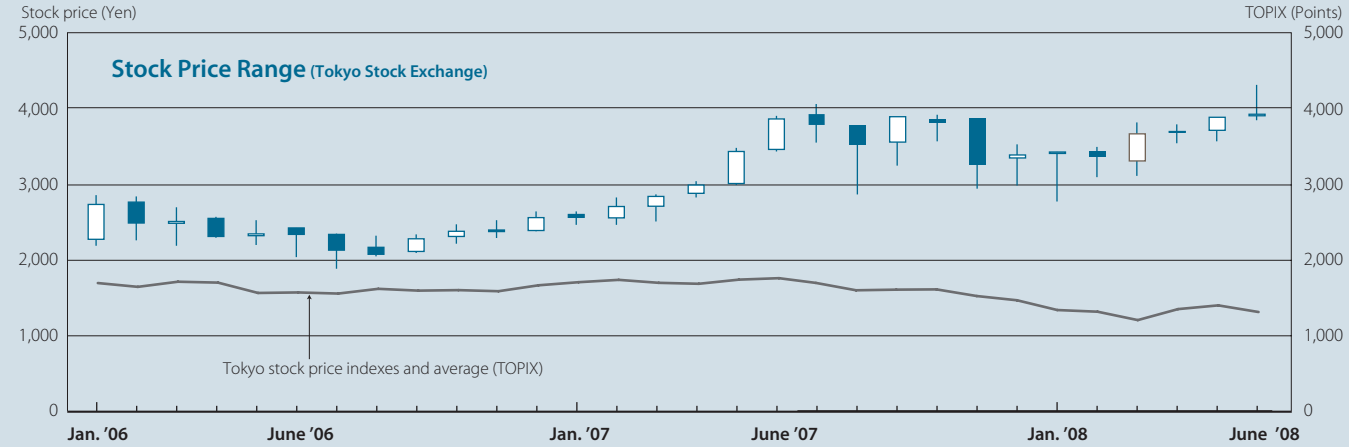
Transfer Agent The Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

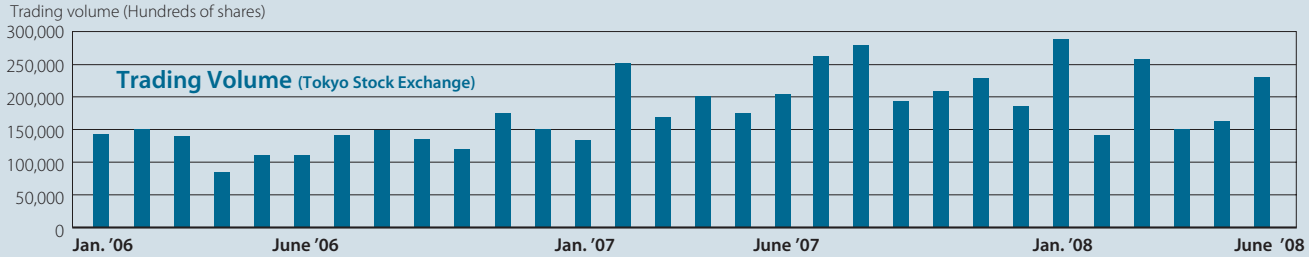
Main Shareholders

	Shareholdings (Thousands of Shares)	Percentage of total shares issued (%)
Itochu Corporation	10,268	7.73
Nippon Life Insurance Company	7,284	5.48
Japan Trustee Services Bank, Ltd. (Trust Account)	5,906	4.44
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,803	3.82
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,311	3.24
Kurita Water Industries Ltd.	4,138	3.11
Mellon Bank, N.A. Treaty Clinents Omnibus	2,941	2.21
The Bank of Tokyo Mitsubishi UFJ, Ltd.	2,936	2.21
Pictet & Cie (Europe) S.A.	2,843	2.14
State Street Bank and Trust Company 505041	2,725	2.05

Distribution of Shares







URL:http://www.kurita.co.jp/english/

KURITA WATER INDUSTRIES LTD.
4-7, Nishi-Shinjuku 3-chome, Shinjuku-ku, Tokyo 160-8383, Japan
Tel: 81 (3) 3347-3111

PRINTED WITH SOY INK™
Trademark of American Soybean Association
This annual report is printed using soy ink.
Printed in Japan