KURITA

1. Cutting-Edge Technological Capabilities

2. Unique Business Mix

3. Strong and Diverse Customer Base

4. Solution-Providing Capabilities

5. Direct Contributions to Environmental Burden Reduction

ANNUAL REPORT 2010

For the year ended March 31, 2010

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- Maintenance services
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Profile

Kurita Water Industries Ltd. has been a leader in the field of water treatment since its establishment in 1949, providing a broad range of water management products and services for over half a century.

In accordance with its corporate philosophy, "Study the properties of water, master them, and we will create an environment in which nature and man are in harmony," Kurita has expanded the scope of its activities from water management to water and environmental management, capitalizing on its unique technology and know-how and the comprehensive strengths of the Kurita Group as a whole.

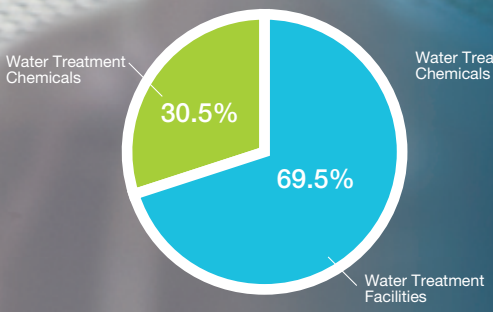
Kurita not only supplies products, such as water treatment chemicals and facilities, but also provides maintenance, outsourcing services, and other high-value-added solutions to help customers solve their water and environmental challenges.

The 21st century has been called the "century of the environment." Kurita will also endeavor to develop new functionality for water to contribute to solving energy, food and water problems and realizing a sustainable society.

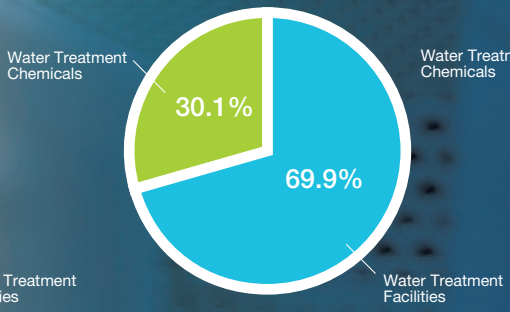
Cautionary Statement with Respect to Forward-Looking Statements

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.

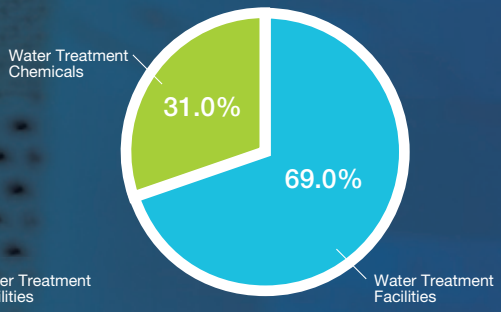
Breakdown of Orders
Orders ¥175.2 billion



Breakdown of Net Sales
Net Sales ¥178.5 billion



Breakdown of Operating Income
Operating Income ¥26.4 billion



(Fiscal year ended March 31, 2010)

What are Kurita's strengths?

Kurita satisfies customers' needs in the fields of water and environmental management by providing total solutions.

1. Cutting-Edge Technological Capabilities

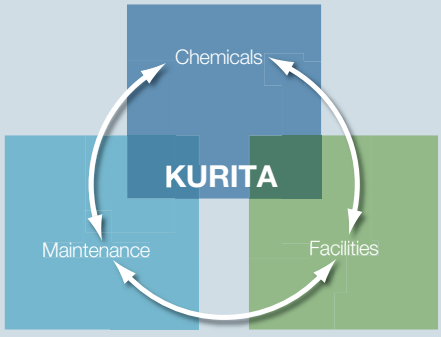
Kurita's core technologies cover the wide-ranging fields of water and environmental management, including membrane separation, microbe control, anticorrosion and dispersion, analysis and monitoring.

Core technologies

2. Unique Business Mix

Kurita is one of the few companies in the world that appropriately balances the three business pillars of water treatment chemicals, water treatment facilities and maintenance services.

This enables Kurita to offer a broad lineup of water treatment-related products and services.



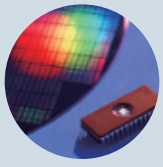
3. Strong and Diverse Customer Base

Kurita possesses a strong customer base extending across a diverse range of customer industries, including electronics, oil refining and petrochemicals, pulp and paper, steel, food and beverages and pharmaceuticals.

Kurita boasts the number-one market share for water treatment chemicals and facilities in Japan and high market shares in Asia and Brazil.


Pulp & Paper


Steel


Semiconductors


LCDs


Oil Refining & Petrochemicals


Pharmaceuticals


Food & Beverages


Real Estate

4. Solution-Providing Capabilities

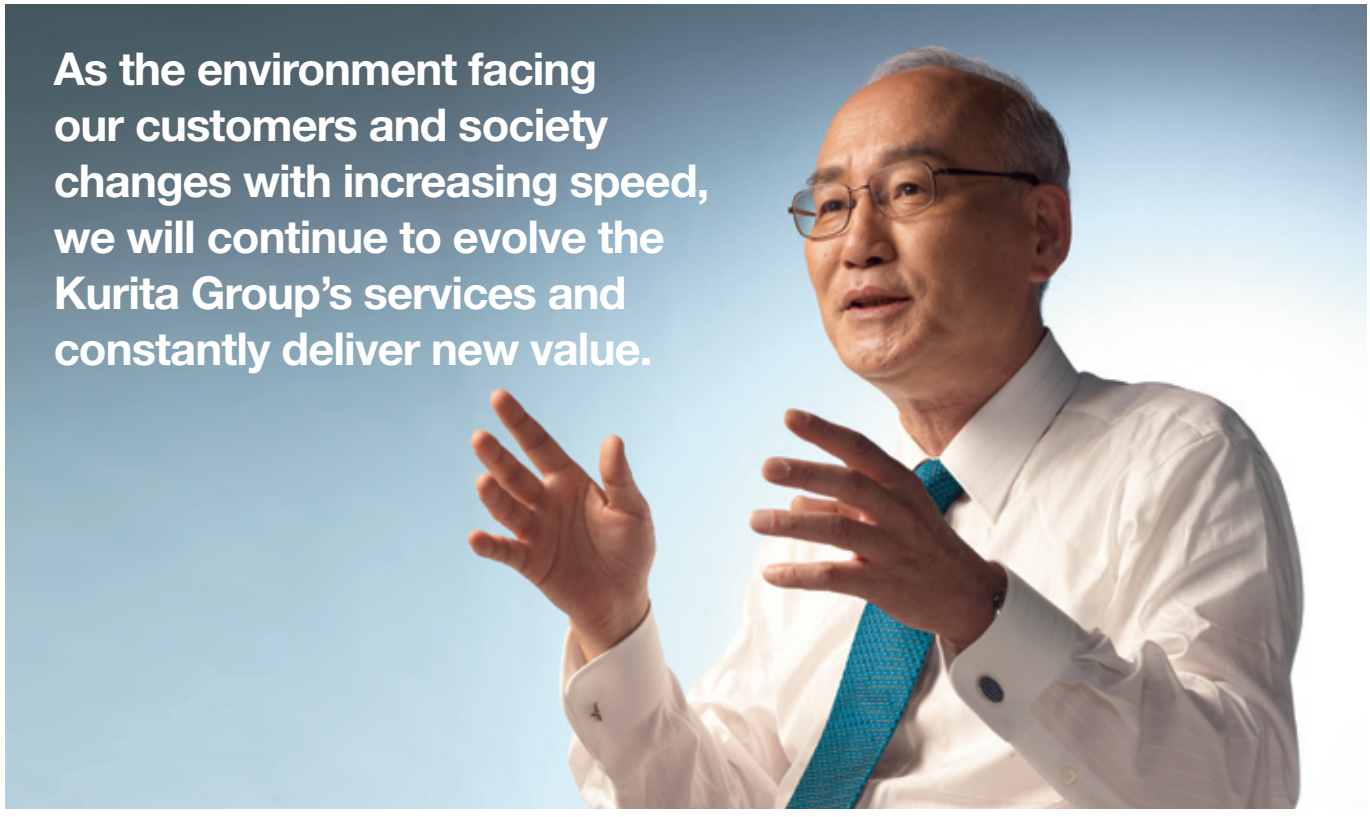
Utilizing its advanced technological capabilities, accumulated know-how, balanced business mix and its sales network, Kurita consistently proposes a range of high-value-added solutions to meet the challenges of increasing productivity, reducing environmental burdens and conserving energy.

Kurita maintains well-staffed operating bases, located near customer sites, that respond swiftly and meticulously to meet customers' real needs.

5. Direct Contributions to Environmental Burden Reduction

Kurita's unique business structure leads directly to the reduction of the customers' environmental burdens. Through its business operations, Kurita contributes to its customers' water management, resulting in water and energy conservation and the reduction of CO_2 emissions.

An Interview with the President



Hiroshi Saito, President

Q1 The fiscal year ended March 2010, was your inaugural year as president. Looking back, how do you assess the year?

A1: During this fiscal year, the Kurita Group demonstrated its capacity to weather an economic downturn in an adverse market environment. Although the worst of the recession was behind us, uncertainty about the future was pervasive, and capital expenditure fell sharply in Japan and abroad. Customers' capacity utilization increased through the fiscal second half but failed to improve substantially.

As a result, consolidated order bookings decreased 10.2% from the previous fiscal year to ¥175,162 million, and net sales declined 10.6% to ¥178,520 million. However, profits were down only slightly despite this revenue decline. Operating income fell 5.6% to ¥26,358 million. The operating income margin improved by 0.8 of a percentage point in both the Chemicals and Facilities segments, reaching 14.8% overall and approaching its highest level ever.

We were able to maintain high profitability despite a sharp decline in demand for two reasons. First, we rigorously reduced total costs on a group-wide basis. We achieved a more robust cost structure by reducing selling, general and administrative expenses by ¥1.0 billion from the previous fiscal year and improving our cost of sales ratio by 2.3 percentage points. Second, we changed our business mix by expanding the highly profitable service businesses. I attribute this success to the years of effort we have devoted to bolstering our service businesses.

This year is the second year of Make Progress 2011 (MP-11), the medium-term management plan Kurita launched in April 2009. What are you doing to expand and evolve the service businesses, one of the plan's key strategies?

A2: The starting point for Kurita's services is a desire to contribute to enhancing productivity for customers and society and improving the environment. When I reconsider the nature of business services, it strikes me that the salient characteristics of services are that they are intangible, they finish instantaneously, and they cease to be services when new alternative services appear. As the environment facing our customers and society at large changes with increasing speed, we will continue to evolve the Kurita Group's services and constantly deliver new value.

Although revenue from maintenance services declined due to low capacity utilization rates in the fiscal year ended March 31, 2010, we were able to dramatically increase sales of the ultrapure water supply business's sales, mainly by virtue of sales to a domestic large complex for LCD manufacturing. As a result, the contribution of service businesses to total sales rose to 85%, and we are gradually building a business model that is resistant to fluctuations in customers' capital expenditure and capable of generating stable earnings.

In the Water Treatment Chemicals segment, by adopting methods of visualizing all issues related to utilitiy facilities at customer plants, we are working together with customers to implement solutions to those issues. We also developed chemicals for reverse osmosis (RO) membranes to expand and enhance our product line, targeting the Chinese wastewater reclamation market and the Middle Eastern seawater desalination market.

Consolidated Financial Highlights

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

	Millions of yen		Percentage Change	Thousands of U.S. dollars (Note 1)
	2010	2009	2010/2009	**2010**
For the year:				
Net sales	**¥178,520**	¥199,706	–10.6%	**$1,918,753**
Operating income	**26,358**	27,935	–5.6	**283,300**
Income before income taxes and minority interests	**28,178**	26,103	+7.9	**302,863**
Net income	**17,288**	16,299	+6.1	**185,815**
At year-end:				
Total assets	**251,620**	245,406	+2.5	**2,704,434**
Equity (Note 2)	**192,589**	177,291	+8.6	**2,069,959**
Per share of common stock:	Yen			U.S. dollars
Net income	**¥134.88**	¥126.69		**$1.44**
Cash dividends applicable to the year	**36.00**	34.00		**0.38**

Notes: 1. The U.S. dollar amounts are given solely for convenience at the rate of ¥93.04 to US$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2010.
2. Equity represents net assets less minority interests.

Q3 What measures have you taken to expand global operations, another of MP-11's key strategies, and what results have they yielded?

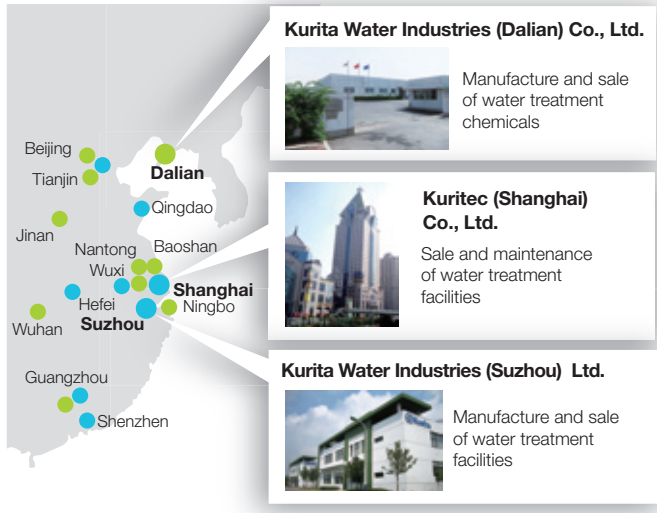
A3: The Kurita Group branched into overseas operations early on, establishing operating subsidiaries in Brazil and Singapore in the 1970s, so we already have a structural foundation in place. With an eye to accelerating economic growth, we intend to reexamine the functions of each of our sites and localize in the true sense of the word by structuring operations to optimally suit each region's characteristics.

In the fiscal year ended March 31, 2010, we obtained several major orders, including orders for ultrapure water production systems for LCD-panel production in China. We will continue to pursue orders with the aim of acquiring the leading share of the Chinese water treatment facilities market for electronics market.

An unfortunate consequence of China's striking economic growth is emerging environmental problems, and we expect significant demand for wastewater treatment and reclamation to arise. Without fail, we intend to take advantage of this once-in-a-lifetime opportunity. We have newly established a Water and Resource Reclamation Project Department in April 2010 and will work with unprecedented urgency to capture this demand. One of the target markets of the Water and Resource Reclamation Project Department is general industries in China. Untapped demand in China is enormous among Japanese companies operating there. We will concentrate on capturing demand for industrial wastewater reclamation and recycling from the food, automotive, plating, pharmaceutical, and other general industries.

However, overcoming fierce cost competition in China is crucial. Maintaining profitability will require production innovations that overturn conventional thinking. To that end, our Water and Resource Reclamation Engineering Department, which was established in April 2010, will carry out local production and local procurement in China. In addition, we plan to expand the business domain of Kurita Water Industries (Suzhou) and fully integrate our production and maintenance operations. We will seek out collaborative ventures with customers and local companies also. As we have done in Japan, we will harness our comprehensive strengths, built on a balanced portfolio of facilities, chemicals, and maintenance businesses, in pursuit of a truly unique presence for Kurita in China's industrial water treatment market.

Comprehensive service provision in China



● Water Treatment Chemicals ● Water Treatment Facilities



Q4 Please tell us about Kurita's new product and technology development efforts.

A4: For many years, Kurita has engaged in wide-ranging R&D activities relevant to water and the environment, from research into basic technologies to new business creation. I intend to ensure that Kurita prevails amid severe competition. To accomplish this will require superb technological capabilities. With Kurita's uniquely brilliant technologies as our core competence, I believe that we must win customer trust by persevering until we reach successful outcomes even when customers present us with difficult problems.

In the fiscal year ended March 31, 2010, our efforts in the electronics industry began to yield results. For instance, we developed an electrolyzed sulfuric acid generator that contributes to productivity and environmental mitigation in the resist removal process in semiconductor manufacturing. We also applied our proprietary clathrate compound technology to develop an electrolyte blowout prevention material for aluminum electrolytic capacitors that contributes to electronic component safety.

Q5 What role should Kurita play in addressing the energy, food and water problems that plague humanity on a global scale?

A5: The Kurita Group aims to create new value by solving customers' problems through various forms of water management, with an emphasis on the industrial water sector. "Water regeneration" to enable wastewater reclamation and recycling not only contributes to customer productivity and environmental mitigation but also leads to the creation of new water resources in the sense of creating usable water. The Kurita Group has cultivated technological capabilities in a wide range of fields, including water treatment chemicals and water treatment facilities. It has also accumulated abundant experience and expertise through maintenance and operation services, and is capable of building systems that meet diverse needs.

We will take advantage of such comprehensive capabilities to provide our customers with new value through sophisticated water regeneration. Additionally, we will engage in in-depth exploration of new functions of water in relation to food and energy problems as a medium- to long-term priority. In this way, we hope to contribute to the realization of a sustainable society.

Q6 What are your thoughts with regard to the use of cash?

A6: First of all, we intend to allocate cash to investment in growth sectors. To ensure that we are able to respond swiftly to business opportunities, we are setting aside cash for potential new projects in the ultrapure water supply business, a capital-intensive business, and so on. We will also explore the potential for alliances or M&A.

Regarding shareholder returns, our basic policy is to continue paying stable dividends. On that basis, we aim to distribute profits through dividend increases while allowing for business investment and appropriate response to trends in our operating performance. In the fiscal year ended March 31, 2010, we paid annual dividends of ¥36 per share in accordance with this basic policy, an increase of ¥2 from the previous year. We will continue to seize investment opportunities and actively make capital expenditures while at the same time responding to shareholder trust and expectations by rewarding shareholders in various ways.

I would like to sincerely thank you—our shareholders, investors, and other stakeholders—for your longstanding support of Kurita. We hope to earn your continued support.

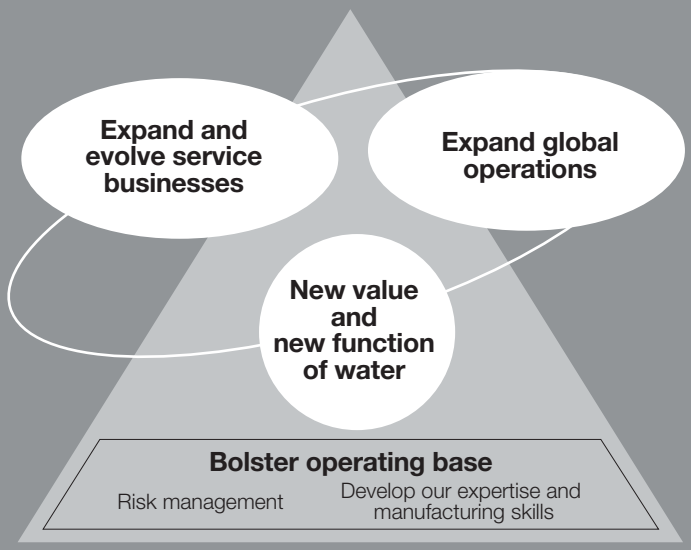
Hiroshi Saito, *President*

Overview of the Medium-Term Management Plan

Make Progress 2011 (MP-11)

"Evolution and Progress"

Basic concepts and direction

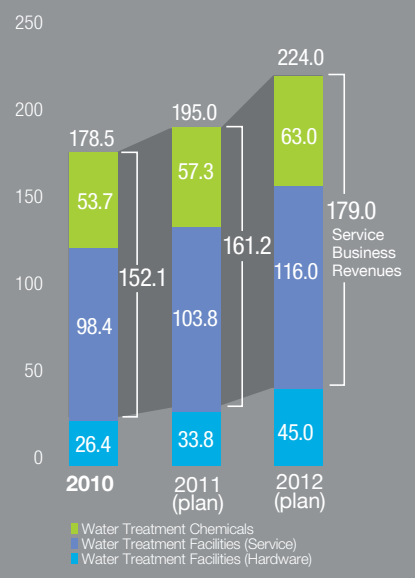


In April 2009, the Kurita Group launched MP-11 (Make Progress 2011), a three-year management plan with the basic aim of constantly advancing toward earning customer trust and carving out new business domains. The plan's basic theme is "evolution and progress."

The MP-11 medium-term management plan is aimed at enhancing Kurita's competitiveness and generating further growth based on three key strategies: expanding and evolving services businesses; expanding global operations; and developing new products and markets, deriving new value from water, and creating new function of water. Additionally, we will pursue further gains in corporate value by also continuing to develop our expertise and manufacturing skills and rigorously managing risks.

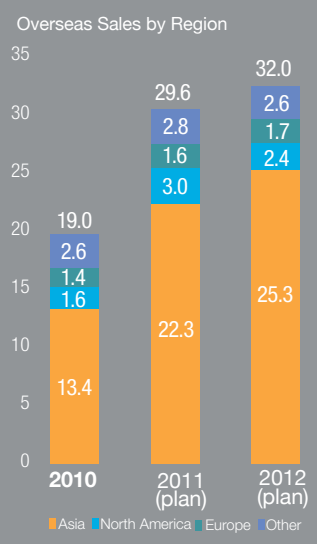
Service Business Expansion

Years ended March 31 (Billions of yen)

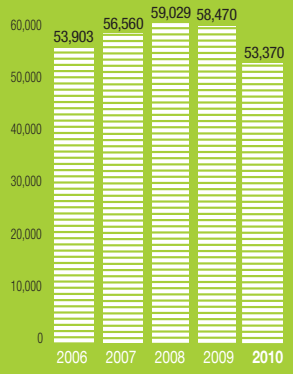


Global Business Expansion

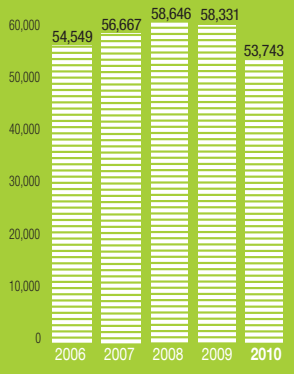
Years ended March 31 (Billions of yen)



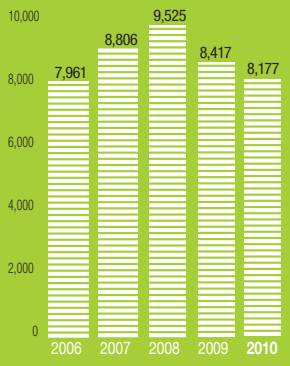
Orders
Years ended March 31 (Millions of yen)



Sales
Years ended March 31 (Millions of yen)



Operating Income
Years ended March 31 (Millions of yen)



Review of Operations
Water Treatment Chemicals

Operating Results

In the fiscal year ended March 31, 2010, the Kurita Group endeavored to propose solutions that help boost productivity and alleviate environmental burdens in response to customer needs. The Group also engaged in efforts, including new product development, aimed at increasing future orders. Nevertheless, water treatment chemical sales declined 7.9% from the fiscal year ended March 31, 2009, reflecting a slow recovery in customer capacity utilization.

Domestic sales were down 6.3%, as sales of all products declined from the previous fiscal year, including such major products as boiler water treatment chemicals, cooling water treatment chemicals, and wastewater treatment chemicals. However, demand increased moderately toward the second half of the fiscal year.

Overseas sales decreased 14.4% from the previous fiscal year, reflecting a decline in sales through the third quarter. Demand recovered markedly from the final quarter, however, primarily in Asia.

Operating income in this segment declined by only 2.8% from the previous fiscal year. We held the decline to a minimum primarily by virtue of group-wide cost-cutting initiatives that lowered selling, general and administrative (SG&A) expenses and an improved cost-to-sales ratio reflecting our shift toward higher value-added products and lower raw material prices. As a result, the segment's operating margin improved by 0.8 of a percentage point from the previous fiscal year, to 15.2%.

Initiatives for the Fiscal Year ending March 31, 2011

The Kurita Group expects overseas demand to continue recovering, primarily in Asia, and recovery in domestic demand to remain moderate.

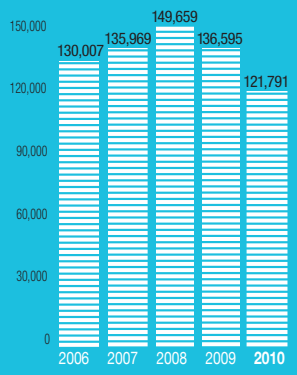
In such an environment, the Group aims to further strengthen intragroup cooperation to provide customer-relevant solutions. Additionally, it seeks to expand business by developing new products and increasing sales, while continuing to pursue cost-cutting initiatives to shore up profitability.

Customers in many industries are shifting production facilities to Asia and other regions at an increasing pace. The entire Kurita Group will work in concert to assist customers' overseas expansion. The Group has over 30 years of experience in overseas markets, where it has nine companies (eight overseas subsidiaries and one affiliate) engaged in the manufacture and sales of water treatment chemicals. Overseas, as in the domestic market, we are focused on building and retaining customer trust through on-site customer visits and conscientious application of our Problem-Solving Cycle.

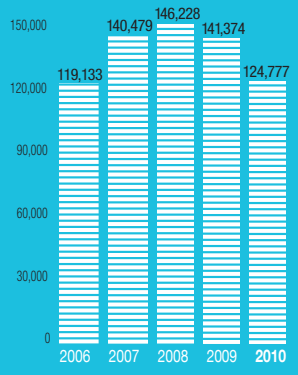
Problem-Solving Cycle

Kurita Water Industries and its sales subsidiaries and sales agents work together to provide customer-relevant solutions. Each of these Kurita Group entities has a defined role. Kurita Water Industries makes projections of societal and customer needs and develops cutting-edge water treatment chemicals technology in response. Sales subsidiaries oversee their respective areas and customize Kurita Water Industries' cutting-edge technology to suit customer needs. Particularly through the customer visits conducted by sales agent staff over many years, Kurita has accumulated a vast pool of customer information that is an invaluable resource for creating enhanced-value propositions and developing new technology.

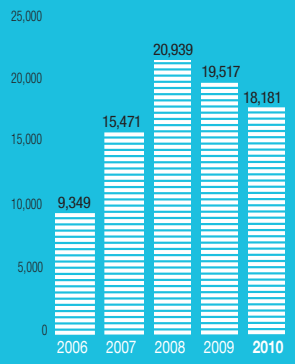
Orders
Years ended March 31 (Millions of yen)



Sales
Years ended March 31 (Millions of yen)



Operating Income
Years ended March 31 (Millions of yen)



Review of Operations
Water Treatment Facilities

Operating Results

Overview

In the fiscal year ended March 31, 2010, the Kurita Group's Water Treatment Facilities segment focused on increasing the profits from its services business while pursuing new orders by intensifying consultative sales to key customers in both domestic and overseas markets. The Group also focused on developing and expanding sales of new products. Nevertheless, the Water Treatment Facilities segment's orders and sales declined 10.8% and 11.7% respectively year on year as a result of customers' sharp capital expenditure cutbacks. Although the sales decline affected operating income somewhat, we held the decline to a minimum (6.8%) by improving our sales mix, reducing sales costs, and cutting back on SG&A expenses. The segment's operating margin was 14.6%, an improvement of 0.8 of a percentage point over the previous fiscal year.

Electronics Industry

In the ultrapure water supply business, although the Group received one contract cancellation, capacity utilization was mostly high at other sites, and new facilities for an LCD production complex, which represented a major capital investment during the previous fiscal year, went into full operation. Business expanded substantially overall as a result.

In the ultrapure water production systems, domestic orders dropped amid subdued semiconductor- and LCD-related capital expenditure. However, overseas orders increased sharply as the Group received large LCD-related orders in China and South Korea.

Maintenance service orders declined sharply as customers deferred replacement of membranes, ion-exchange resins, and other consumables, but demand exhibited signs of bottoming out through the second half of the fiscal year under review.

In the tool cleaning services, an outsourcing service that cleans semiconductor and LCD production equipment's jigs and parts, revenues declined as a result of pricing pressure and customers' reduced capacity utilization, along with plant consolidations and closures.

We continued to explore new products and new technology. The Group developed an electrolyzed sulfuric acid generator, named Green Sulfaceed KD™, for resist removal in semiconductor manufacturing. The Group has already received initial and follow-on orders from a leading U.S. semiconductor manufacturer. We also applied Kurita's proprietary clathrate compound technology to develop Epsiguard™ KC, an electrolyte blowout prevention material for aluminum electrolytic capacitors.

To maintain our technological competitive advantage, in April 2009 we constructed a high-performance resin (ion-exchange polisher) and membrane (UF membrane module) refining facility at our Shizuoka Plant in response to demands from semiconductor and wafer manufacturers for ultrapure water of higher purity and more consistent quality.

Electrolyzed Sulfuric Acid Generator

Traditional resist removal processes used in semiconductor manufacturing employ a mixed solution of sulfuric acid and hydrogen peroxide (a sulfuric/peroxide mix, or SPM). A means of reducing the use of these chemicals has long been sought after to mitigate the environmental impact and reduce costs. By employing diamond electrodes for electrolysis, this generator enables semiconductor manufacturers to significantly reduce processing chemical consumption while achieving resist removal efficiency that outperforms conventional SPM methods. The Group will work with leading domestic and overseas semiconductor manufacturers to assess the generator's performance with a view to increasing uptake.

General Industries

With regard to pure water production systems and wastewater treatment systems, sales to electric power companies held steady on the back of large orders, but both orders and revenues from general industries declined as customers curtailed capital expenditure.

In the maintenance services, both orders and sales decreased substantially as a result of maintenance deferrals by customers.

In the chemical cleaning services, which cleans boilers and heat exchangers at thermal power plants and large industrial plants, sales declined due to customers' reduced capacity utilization and capital expenditure cutbacks.

The soil remediation services encountered sluggish demand for both assessment and remediation services in the wake of the domestic real estate market downturn.

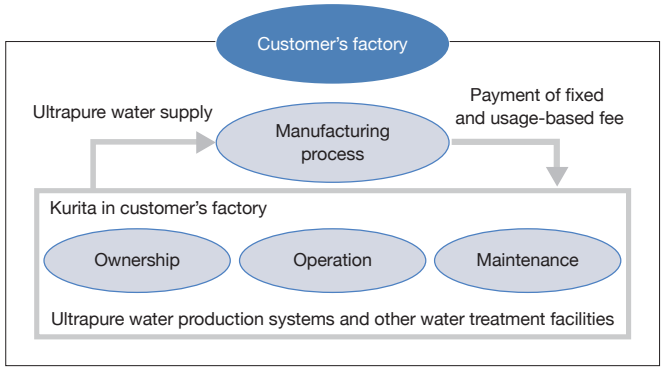
Initiatives for the Fiscal Year ending March 31, 2011

Domestic customers' capital expenditure is likely to remain subdued. Overseas, however, capital expenditure in the electronics industry and general industries looks set to expand in Asia, and particularly in China. Amid such an environment, this fiscal year the Kurita Group will continue working to obtain new orders in pursuit of the leading market share for water treatment systems in the Chinese electronics industry. In April 2010, the Group established the Water and Resource Reclamation Project Department to promote the efficient use of water resources through reclamation and recycling of industrial wastewater, primarily targeting Japanese companies operating in China and other overseas markets in the food, automotive, plating, pharmaceutical and other industries.

The Group aims to profit by expanding service businesses that are less susceptible to fluctuations in customers' capital expenditure and by continuously improving quality and productivity and reducing costs. In response to rising cost competition overseas, particularly in China, the Group will endeavor to reduce costs by stepping up local production and procurement.

In terms of new technology, the Group developed a wastewater treatment system that enables coal-fired power plants to efficiently remove selenium, a regulated substance, from wastewater while simultaneously reducing the amount of sludge produced. The Group aims to expand deliveries of the system to Japanese electric utilities.

Overview of the Ultrapure Water Supply Business



High-Performance Resin and Membrane Refining Plant

Progressive semiconductor miniaturization and capacity increases in recent years are driving increased demand for ultrapure water of higher purity and more consistent quality. In particular, cutting-edge manufacturing techniques for 32-nm Class or later semiconductor devices require ultrapure water with a metallic ion concentration stabilized at 0.1 ppt or less. With the refining plant's completion, Kurita became the first company in the world to guarantee a metallic ion concentration of 0.1 ppt or less at time of shipment with respect to ion-exchange polishers and UF membrane modules, meeting the next-generation standard for ultrapure water.

Research & Development

The Kurita Group is conducting research and development in a wide range of fields encompassing basic technologies (e.g., analytical technologies, IT controls, technologies for monitoring water treatment effectiveness) and technologies to create new businesses in addition to those related to its core businesses: boiler and cooling water treatment, ultrapure water production, industrial water and wastewater treatment, wastewater reclamation, and soil and groundwater remediation. R&D is conducted mainly by our Research and Development Division. The Kurita Group has a combined R&D staff of approximately 140 personnel, equivalent to 3.1% of the Group's total workforce. In the fiscal year ended March 31, 2010, R&D expenses totaled ¥3,990 million (2.2% of net sales).

1) Water Treatment Chemicals

In the Water Treatment Chemicals segment, Kurita is developing chemicals that contribute to energy efficiency, environmental mitigation, and productivity enhancement at customer sites and systems that monitor water treatment effectiveness.

Major R&D accomplishments during the fiscal year ended March 31, 2010, include the following.

- Kurita has developed chemicals to treat effluent of cleaning pure water discharged from the plants of major electronic industrial firms to reuse it as makeup water of cooling towers for air conditioning, thereby contributing to saving and effectively using water resources. Kurita has also developed a process for managing and controlling use of the chemicals.
- Kurita has developed a treatment technology to reduce corrosion of the cooling tower heat exchanger caused by low-hardness industrial water produced by reverse osmosis, such as that used in Southeast Asia (Singapore).
- Kurita has developed chemicals and their application technology to help paper mills to reduce use of bleach (hydrogen peroxide) while maintaining whiteness when bleaching recycled pulp.
- Kurita has developed chemicals to prevent heat loss caused by accumulation of incinerator ash inside heat exchangers, thus reducing periodic cleaning frequency for power plants which use sludge and wood waste biomass as fuel.

The Water Treatment Chemicals segment's R&D expenses totaled ¥1,114 million.

2) Water Treatment Facilities

In the Water Treatment Facilities segment, Kurita is endeavoring to further improve ultrapure water quality to enhance productivity in the electronics and other industries and developing wastewater treatment and soil remediation technologies in anticipation of future environmental regulations. Kurita is also developing technologies conducive to a closed-loop economy, including those for wastewater reclamation and reuse and sludge volume reduction.

Major R&D accomplishments during the fiscal year ended March 31, 2010, include the following.

- Kurita has developed equipment to recover calcium fluoride (CaF_2), from which hydrofluoric acid is produced, from hydrofluoric acid wastewater yielded from semiconductor manufacturing processes.
- Kurita has developed equipment to substantially reduce the total quantity of hazardous chemicals used in the photoresist removal process, one of the main processes in semiconductor manufacturing.
- Kurita has developed equipment to dewater sludge cake, a byproduct of activated sludge treatment processes. The dewatered sludge cake has low moisture content and can be converted to a fuel to help customers to reduce CO_2 emissions.
- Kurita has developed a technology to remediate groundwater contaminated by chlorinated ethylenes and benzenes by rapidly oxidizing and degrading those compounds.

The Water Treatment Facilities segment's R&D expenses totaled ¥2,875 million.

Environmental Initiatives

The Kurita Group's environmental improvement activities are based on its Basic Environmental Improvement Policy and Action Guidelines. Every Kurita Group employee is striving to solve water and environmental challenges and contribute to a sustainable society.

Environmental Management Policy

Environmental Improvement Activity Regime

Kurita maintains an Environmental Improvement Promotion Committee chaired by Kurita's director responsible for environmental improvement activities, which deliberates on policy and other matters relevant to the Kurita Group's environmental activities. In accordance with policies formulated, Kurita's administrative and business divisions' individual Environmental Improvement Promotion Committee, its offices, and its Group subsidiaries formulate and pursue their own targets, policies, and measures. Individual offices and subsidiaries convene an Environmental Improvement Activity Promotion Meeting to ascertain the progress of activities and attainment of targets, policies, and measures and to assess the activities' adequacy and effectiveness. Kurita also regularly conducts on-site surveys to ascertain the status and progress of its environmental improvement activities on the ground. In addition, Kurita conducts compliance-based monitoring, with particular emphasis on the management of chemical and waste substances, and it engages in continuous improvement through corrective actions as necessary.

Characteristics of Kurita's Environmental Improvement Activities

Following its corporate philosophy, the Kurita Group continuously endeavors to provide solutions to water and environmental challenges and the challenges of corporate growth through environmental improvement activities based on a three-pronged approach of responding to societal needs, meeting customer needs, and pursuing internal change. Close links between business activities and environmental improvement activities are a salient characteristic of Kurita's environmental improvement activities.

To respond to societal needs in accordance with its Action Guidelines, the Group develops new products, technologies, and services that have the potential to lead to decisive solutions to environmental issues confronting society. The Group measures its performance with respect to the societal needs component of its activities based on the number of development projects and a customer environmental benefit indicator that measures the impact of new products. The number of development projects is calculated as the total number of themes for which research and development projects were completed during the fiscal year.

To meet customers' needs in accordance with its Action Guidelines, the Group works with customers based on the shared recognition of their challenges related to productivity, environmental mitigation, and energy innovation. The Group pursues environmental improvements at customer sites and offices by formulating and providing solutions that accurately meet the customer's needs. The Group calculates customer environmental benefit indicators that measure reductions in the customer's environmental burden resulting from the adoption of the Group's improvement proposals. These indicators are used to gauge performance with respect to the customer needs component of its activities. The customer environmental benefit indicators are not calculated on an

actual operating basis. Instead, they are essentially an estimate (i.e., deemed effect) of the annual difference between the customer's environmental burden before and after adoption of a Kurita Group proposal, based on environmental burden reductions given in specifications and proposals submitted to customers.

With regard to internal change in accordance with its Action Guidelines, the Group sets three categories of targets: reduction of CO_2 emissions, reduction of waste disposal volume, and rigorous chemicals management. To achieve these targets, all Group employees strive to mitigate environmental burdens arising from the Group's operations as part of their daily routine.

CO_2 emissions and waste volume are monitored on a monthly basis through the Kurita Group's group-wide environmental information gathering system.

Results of Environmental Activities in the Year Ended March 31, 2010

With respect to the societal needs component of its activities, the Group completed 16 research and development projects that contributed to environmental improvement in the year ended March 31, 2010.

With respect to the customer needs component of its activities, the Group reduced CO_2 emissions by 209,384 tons and waste disposal volume by 81,235 tons.

With respect to the internal change component of its activities, the Group did not meet its target for intragroup environmental improvement activities for CO_2 emissions per unit sale, which were up by 16.9% for the year ended March 31, 2010, against a targeted 1.0% reduction compared to the year ended March 31, 2009. Emissions increased 1,022 tons to 23,563 tons in absolute terms compared with 22,541 tons for the year ended March 31, 2009. The Group reduced its waste output by 947 tons to 26,186 tons, thereby achieving its target of not increasing waste output in absolute terms from its value of 27,133 tons for the fiscal year ended March 31, 2009.

Kurita will report in detail on its environmental improvement activities' results in its annual Environmental Report, which is scheduled to be published in September 2010.

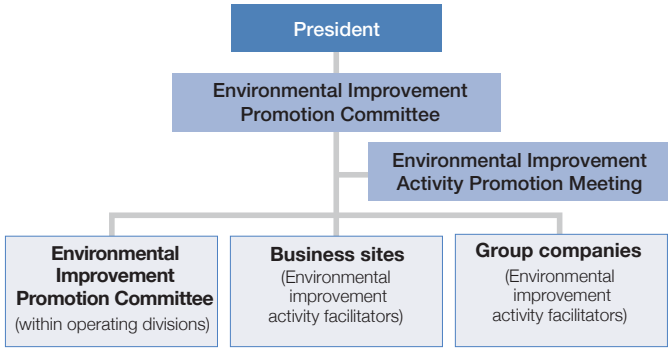
Initiatives for the Fiscal Year Ending March 31, 2011

For the year ending March 31, 2011, the Kurita Group will pursue environmental improvement activities based on two targets: enhance customer benefits from environmental improvement activities and reduce the Kurita Group's environmental burden through intra-group environmental improvement activities.

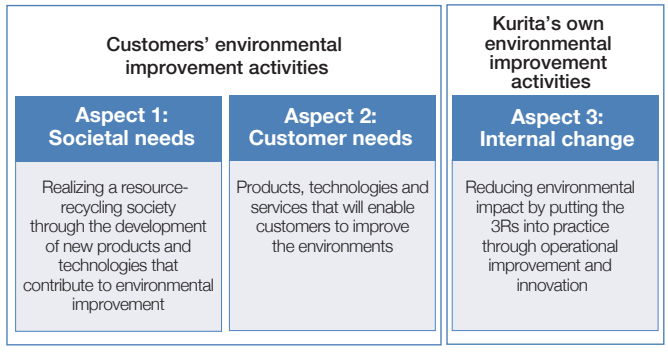
With respect to environmental improvement activities for customers, four subsidiaries have newly launched relevant initiatives and almost all domestic subsidiaries have now set targets, putting the Kurita Group in an ideal position to reduce CO_2 emissions and waste through its activities.

The Group gauged the performance of its intra-group environmental improvement activities by evaluating and analyzing the type and volume of industrial wastes generated at Kurita construction sites in the fiscal year ended March 31, 2010. The Group will continue working to reduce industrial wastes at its construction sites, including those of its subsidiaries. To reduce the amount of waste it ultimately disposes of, the Group will endeavor to boost recycling rates by recycling valuable resources extracted from wastes that are currently disposed of in landfills.

Environmental Improvement Activity Regime



The Three Aspects of Kurita's Environmental Improvement Activities



Corporate Governance

Basic Policy

Kurita and Kurita Group companies aim to contribute broadly to society and meet the expectations of their stakeholders, including shareholders and investors, through corporate activities in the fields of water and environment in accordance with the Kurita corporate philosophy. To realize these aims, the Group has adopted a basic corporate governance policy with two main components. The first is establishing management systems that improve management transparency and efficiency and sustainably increase corporate value. The second is rigorous oversight of management and operational execution.

Board of Directors, Decision-Making and Execution Framework, Outside Director

Kurita's Board of Directors currently comprises 13 directors, including one outside director. Board of Directors' meetings are chaired by the president and held monthly on a regularly scheduled basis and whenever else necessary on an ad hoc basis. The Board of Directors sets management policy, makes management decisions, and oversees directors' execution of their duties. Kurita's Executive Committee, composed of directors with a rank of managing director or above (currently six directors), meets twice monthly as a general rule to deliberate on important management matters and assist the Board of Directors' decision-making. To complement its decision-making, the Board of Directors has also established an authorization protocol based on authorization and review regulations.

In terms of operational execution, Kurita has employed an executive officer system since 2005 with the aim of strengthening officers capabilities. Kurita currently has six executive officers, who were selected by the president (representative director). Through these frameworks, Kurita endeavors to achieve agile, appropriate management decision-making and execution.

An important aspect of the outside director's role is to ensure management objectivity by voicing opinions as necessary at Board of Directors' meetings.

Corporate Auditors, Oversight and Auditing Systems, and Outside Corporate Auditors

Kurita employs a corporate auditor system. Its Board of Corporate Auditors comprises three corporate auditors, including two outside auditors. Corporate auditors audit directors' execution of their duties, with a primary focus on their monitoring and oversight duties, in accordance with audit policies and schedules set by the Board of Corporate Auditors. Corporate auditors attend Board of Directors' meetings and other important company meetings and oversee and monitor the Board of Directors' execution of duties and fulfillment of its oversight responsibilities. Corporate Auditors' other responsibilities include conducting asset status surveys of the entire group, including subsidiaries, checking the status and functionality of internal control systems implemented by the Board of Directors, overseeing accounting auditors' independence and job performance, and verifying the results of accounting audits. The corporate auditors also endeavor to improve audit effectiveness and efficiency by working with the Internal Auditing Department, which reports directly to the president and whose function is to enhance and strengthen internal control. The corporate auditors and the Internal Auditing Department discuss the department's audit plan for each fiscal year and exchange opinions regarding the status and results of operational audits (conducted by the Internal Auditing Department), assessment of internal control over financial reporting, and assessment of risk management.

Kurita has appointed Grant Thornton Taiyo ASG as its accounting auditor. Grant Thornton Taiyo ASG audits Kurita's accounts and internal controls. The corporate auditors and the Board of Corporate Auditors augment these audits by conferring with the accounting auditor on both a periodic and as-needed basis.

The two outside corporate auditors endeavor to ensure monitoring objectivity and fairness through their participation in the Board of Directors' meetings and the Board of Corporate Auditors meetings, where they provide opinions from both broad and specialized perspectives. This spring, Kurita registered the outside director and the two outside corporate auditors as independent officers in accord with the Tokyo Stock Exchange's listing regulations, as amended.

Internal Control Systems, including Compliance and Risk Management Systems

Kurita recognizes that building and operating solid internal control systems enhances the effectiveness of corporate governance and helps to improve a company's credibility. Based on this recognition, Kurita is steadily implementing internal control systems.

As a major step in this direction, the Board of Directors prescribed the Fundamental Policy Regarding the Establishment of Internal Control Systems in May 2006 in accordance with the requirements of Japan's Companies Act and subsequently has augmented it with several revisions whenever necessary on an ad hoc basis. Kurita's current internal control systems are described below.

Compliance is one of Kurita's top management priorities. Kurita has established a Compliance Committee and Group Compliance Committee both chaired by an executive senior managing director (representative director) to conduct and improve group-wide compliance activities. Kurita's organizational units and group companies do not merely regard compliance as abiding to the law. They regard it as a broad ethical practice aimed at realizing five values: fairness, transparency, integrity, safety, and coexistence. Kurita set forth these values in its Code of Ethical Conduct, which it prescribed in 2000. Additionally, Kurita has instituted whistleblower protection regulations and established an internal consultation desk and a liaison for external consultations and reporting.

In terms of risk management, the general manager of the Corporate Planning Division is the designated officer in charge of group-wide risk oversight and risk management. Under the officer's leadership, risk analyses and assessments are conducted on a regularly scheduled basis, and initiatives to mitigate serious risks are implemented.

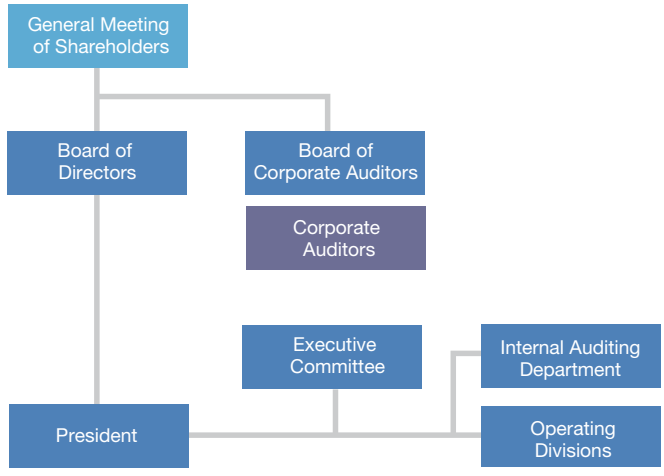
With regard to internal control over financial reporting, Kurita allocated responsibility for monitoring the status of internal controls and recommending and supporting internal control improvements to its aforementioned Internal Auditing Department ahead of the introduction of the internal controls reporting system mandated by Japan's Financial Instruments and Exchange Act from the fiscal year ended March 31, 2009.

The president evaluated the aforementioned internal controls over financial reporting, verified that they are properly implemented and operational as of the fiscal years ended March 2009 and 2010, and submitted an internal control report, which is included in Kurita's annual securities report (annual statutory disclosure document), to the Financial Services Agency after the report had been audited by the accounting auditor.

Information Disclosure and Investor Relations

With the aim of gaining societal trust and building fair and transparent relationships with stakeholders, Kurita endeavors to adequately disclose information on a timely basis in compliance with the Companies Act and the Financial Instruments and Exchange Act, other applicable laws, and the Tokyo Stock Exchange's timely disclosure regulations and other requirements. To achieve greater transparency, Kurita also strives to ensure timely and fair disclosure even of information outside the purview of these disclosure laws and regulations. It does this by various means, including conferences, explanatory meetings, and publication on the company website. Kurita also conducts investor relations activities, such as ad hoc and regularly scheduled investor and analyst meetings. Kurita views such meetings not merely as a means of disclosure but also as opportunities for two-way communication with investors, based on which it endeavors to improve company management.

Organization



Board of Directors and Corporate Auditors

Chairman
Hiroshi Fujino

President*
Hiroshi Saito

Executive Senior
Managing Director*
Kazufumi Moriuchi
General Manager of
Facilities Division

Managing Director
Toshiaki Deguchi
General Manager of
Chemicals Division

Managing Director
Tetsuo Saeki
General Manager of
Corporate Planning Division

Managing Director
Kaoru Kajii
General Manager of
Facilities Production Division

Directors

Tetsuo Kai
General Manager of Sales Division Ⅱ,
Facilities Division

Shigeaki Takeda
General Manager of 1st Group,
Chemicals Division

Kouichi Iioka
General Manager of Facilities for
General Industry Group, Sales Division Ⅰ,
Facilities Division

Heiju Maeda
General Manager of 2nd Group,
Chemicals Division

Motoyuki Yoda
General Manager of
Research and Development Division

Kiyoshi Itou
General Manager of Administrative Division

Noriyuki Hayata (External Director)

Corporate Auditors

Tohru Ishizaka

Chiaki Kuzuu (External Corporate Auditor)

Tamio Uda (External Corporate Auditor)

*Representative Director

Financial Section

Six-Year Financial Summary

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

	Millions of yen					
	2010	2009	2008	2007	2006	2005
For the year:						
Net sales	**¥178,520**	¥199,706	¥204,875	¥197,146	¥173,683	¥160,896
Water Treatment Chemicals	**53,743**	58,331	58,646	56,667	54,549	50,637
Water Treatment Facilities	**124,777**	141,374	146,228	140,479	119,133	110,259
Cost of sales	**117,221**	135,874	138,549	137,819	122,630	112,077
Selling, general and administrative expenses	**34,941**	35,896	35,857	35,050	33,741	32,867
Operating income	**26,358**	27,935	30,468	24,276	17,311	15,951
Income before income taxes and minority interests	**28,178**	26,103	31,279	24,591	18,200	16,376
Net income	**17,288**	16,299	18,297	14,207	10,519	9,383
Capital expenditures	**8,083**	56,322	24,097	19,563	16,537	6,706
Research and development (R&D) expenses	**3,990**	4,363	4,551	4,421	4,213	4,228
Depreciation and amortization	**15,523**	11,716	9,425	6,512	4,906	4,361
At year-end:						
Total current assets	**109,297**	98,689	121,562	137,004	125,231	116,400
Total current liabilities	**38,592**	47,935	49,080	65,496	54,877	44,465
Equity	**192,589**	177,291	169,402	156,772	145,366	136,366
Total assets	**251,620**	245,406	231,498	235,137	212,774	192,428
Number of shares issued outstanding (thousands)	**132,800**	132,800	132,800	132,800	132,800	132,800
Number of employees (persons)	**4,445**	4,404	4,249	3,992	3,668	3,382
Amounts per share of common stock (yen):						
Net income	**134.4**	126.7	142.2	110.4	81.8	71.8
Equity	**1,497.0**	1,378.0	1,316.7	1,218.4	1,129.7	1,058.9
Cash dividends applicable to the year	**36.0**	34.0	32.0	28.0	22.0	18.0
Ratios:						
Total assets turnover (times)	**0.72**	0.84	0.88	0.88	0.86	0.86
Equity ratio (%)	**76.5**	72.2	73.2	66.7	68.3	70.9
Return on sales (%)	**9.7**	8.2	8.9	7.2	6.1	5.8
Return on assets (ROA) (%)	**7.0**	6.8	7.8	6.3	5.2	5.0
Return on equity (ROE) (%)	**9.3**	9.4	11.2	9.4	7.5	7.1

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

Contents

Management's Discussion and Analysis

Business Overview

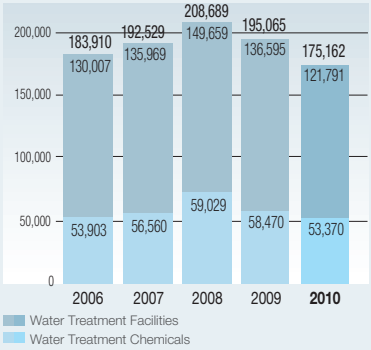
In the fiscal year ended March 31, 2010, markets in which the Kurita Group operates were extremely challenging overall. Although the economy emerged from the worst depths of recession, economic prospects remained highly uncertain and the recovery lacked vigor. Capital expenditure remained subdued in the electronics industry and general industries in Japan, as in the previous fiscal year, while showing signs of recovering in the electronics industry in Asia. Customers' capacity utilization increased through the fiscal second half but did not improve significantly.

The fiscal year ended March 31, 2010, was the inaugural year of MP-11, our three-year management plan. Following the basic theme of "evolution and progress," Kurita actively endeavored to further expand its service businesses and global operations and branch into new products and markets as priority measures.

Consolidated operating income declined in tandem with a decline in net sales, but Kurita minimized the decline by stepping up cost-cutting efforts. Net income increased owing to a decrease of loss on valuation of investment securities and gains on liquidation due to termination of contracts.

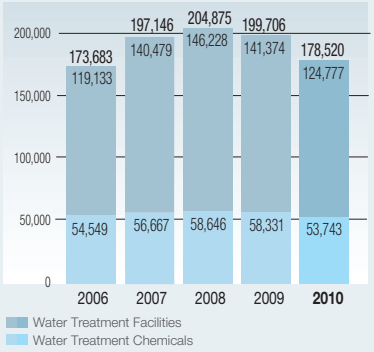
Years ended March 31 (Millions of yen)

Orders by Segment



Years ended March 31 (Millions of yen)

Sales by Segment



Operating Results

a) Orders

In the Water Treatment Chemicals segment, Kurita bolstered sales efforts by strengthening alliances with its domestic and overseas sales subsidiaries and pursued order bookings through a consultative sales approach to help customers successfully meet challenges such as environmental mitigation and productivity enhancement.

In the Water Treatment Facilities segment, Kurita worked to secure orders by focusing on service businesses, including the ultrapure water supply business, and stepping up consultative sales efforts aimed at key customers, including those undertaking overseas projects.

In both segments, the Group also worked to increase future orders by developing and expanding sales of new products.

Total consolidated orders for the Kurita Group in the fiscal year ended March 31, 2010, were down 10.2% versus the previous fiscal year to ¥175,162 million yen. Orders declined from the previous fiscal year in both the Water Treatment Chemicals and Water Treatment Facilities segments.

b) Net Sales

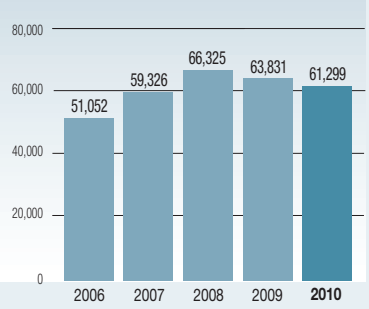
In the Water Treatment Chemicals segment, net sales declined 6.3% in Japan and 14.4% overseas, resulting in a 7.9% decline for the entire segment. In the fiscal second half, signs of recovery emerged mainly in overseas markets.

In the Water Treatment Facilities segment, the ultrapure water supply business's net sales increased markedly, but sales of hardware declined as customers curbed capital expenditure, while sales of maintenance services also declined owing to a decline in maintenance frequency. Overall, the segment's net sales declined 11.7%.

Overall, the Kurita Group's net sales declined 10.6% versus the previous fiscal year to ¥178,520 million.

Years ended March 31 (Millions of yen)

Gross Profit



c) Cost of Sales and Gross Profit

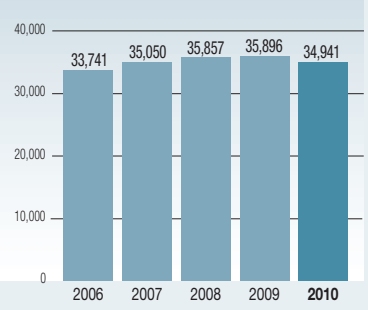
Cost of sales was down 13.7 % to ¥117,221 million from ¥135,874 million in the fiscal year ended March 31, 2009, reflecting more intense cost cutting as well as a decline in net sales.

As a percentage of sales, cost of sales declined to 65.7% in the year ended March 31, 2010, an improvement of 2.3 percentage points from 68.0% in the previous fiscal year.

In the Water Treatment Chemicals segment, the main factors behind the cost-of-sales ratio's decrease were lower raw materials prices and a positive shift in the sales mix toward relatively more profitable high-value-added products. In the Water Treatment Facilities segment, the cost-of-sales ratio's decrease was chiefly attributable to an improvement in the sales mix and cost-cutting efforts.

Years ended March 31 (Millions of yen)

SG&A Expenses



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

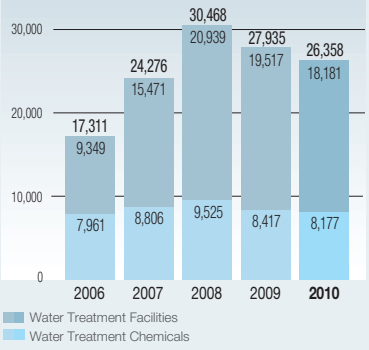
SG&A expenses were ¥34,941 million, down 2.7% or ¥955 million from ¥35,896 in the fiscal year ended March 31, 2009. The decrease in SG&A expenses was attributable to group-wide efforts to reduce expenditures. As a percentage of sales, SG&A expenses increased to 19.6%, up 1.6 percentage points from 18.0% in the previous fiscal year.

e) Operating Income

Operating income decreased to ¥26,358 million in the year ended March 31, 2010, down 5.6% from ¥27,935 million in the fiscal year ended March 31, 2009. The operating margin increased to 14.8% from 14.0% in the previous fiscal year.

Years ended March 31 (Millions of yen)

Operating Income by Segment



Note: Total operating income includes corporate items and eliminations

f) Segment Information

Water Treatment Chemicals

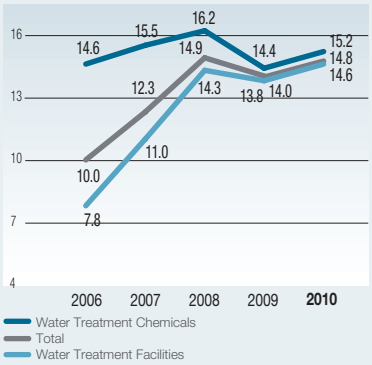
Orders and Sales

In Japan, overall orders fell versus the previous fiscal year, including those for the Group's mainstay boiler water treatment chemicals, cooling water treatment chemicals, and wastewater treatment chemicals, as the recovery in customers' capacity utilization lacked vigor.

Despite signs of a pick-up in some Asian industries, overseas orders also decreased amid the global economic slowdown.

Years ended March 31 (%)

Operating Income Margin by Segment



Operating Income

In the fiscal year ended March 31, 2010, Kurita endeavored to reduce SG&A expenses and reduce sales costs by switching to high-value-added products. By virtue of these efforts, and assisted by lower raw materials prices, Kurita held the decline in operating income to a minimum.

Overall, the Water Treatment Chemicals segment booked orders of ¥ 53,370 million (down 8.7 % versus the previous fiscal year) and earned operating income of ¥8,177 million (down 2.9%) on sales of ¥ 53,743 million (down 7.9%).

Water Treatment Facilities

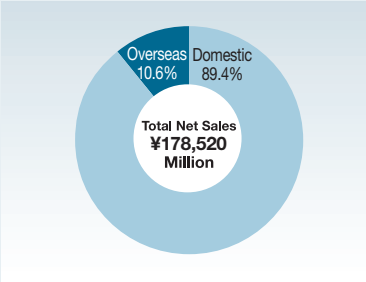
Orders

In the electronics industry, domestic orders for the ultrapure water supply business were up markedly versus the previous fiscal year as a new facility went into operation, despite domestic orders for ultrapure water production systems falling sharply as customers drastically curtailed capital expenditures. Overseas, orders were up substantially as the Group received large LCD-related orders in China and South Korea.

Orders for water treatment facilities and maintenance services for general industries dropped considerably versus the previous fiscal year, primarily due to a fall in capital expenditure mirroring that in the electronics industry.

Fiscal year ended March 31, 2010

Breakdown of Net Sales



Sales

The ultrapure water supply business's sales to the electronics industry increased substantially as new facilities went into operation, but sales of hardware, maintenance services, and tool cleaning services declined.

Sales of hardware, maintenance services, and soil remediation services to general industries also declined.

Operating Income

Despite efforts to improve its sales mix and cut costs, the Water Treatment Facilities segment's operating income declined in tandem with the decline in sales.

Overall, the Water Treatment Facilities segment booked orders of ¥121,791 million (down 10.8% versus the previous fiscal year) and earned operating income of ¥18,181 million (down 6.8%) on sales of ¥124,777 million (down 11.7%).

g) Overseas Sales

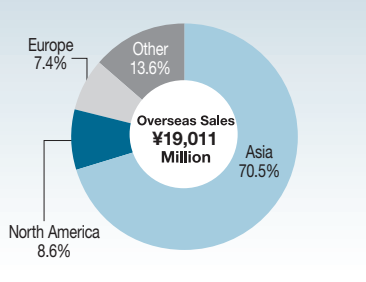
Overseas sales fell 26.8% to ¥19,011 million in the year ended March 31, 2010. Overseas sales' share of consolidated net sales decreased to 10.6% from 13.0% in the fiscal year ended March 31, 2009.

Sales by region

- Asia: Down 33.2% to ¥13,404 million, equivalent to 70.5% of total overseas sales
- North America: Up 18.6% to ¥1,626 million, 8.6% of total overseas sales
- Europe: Down 11.2% to ¥1,399 million, 7.4% of total overseas sales
- Rest of the world: Down 12.1% to ¥2,581 million, 13.6% of total overseas sales

Fiscal year ended March 31, 2010

Overseas Sales by Region

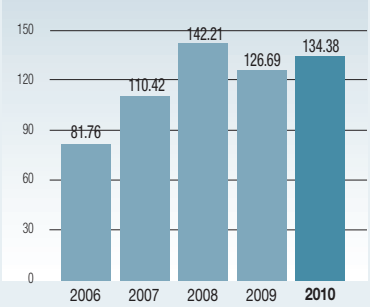


h) Other Income and Expenses

Other income and expenses netted out to income of ¥1,819 million in a reversal from the previous fiscal year's ¥1,831 million loss. This reversal was mainly attributable to two factors. First, in the fiscal year ended March 31, 2009, the Group recorded ¥2,018 million in valuation losses on investment securities, which did not recur this fiscal year. Second, the Group recorded a liquidation gain of ¥1,507 million associated with a contract termination.

Years ended March 31 (Yen)

Net Income per Share



i) Income before Income Taxes and Minority Interests

Income before income taxes and minority interests increased 7.9% to ¥28,178 million from ¥26,103 million in the fiscal year ended March 31, 2009. Pretax profit margin consequently increased to 15.8% from 13.1% in the previous fiscal year.

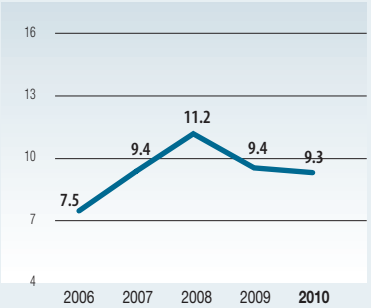
j) Net Income

After deducting income taxes and income from minority interests, Kurita earned net income of ¥17,288 million, a 6.1% increase from ¥16,299 million in the fiscal year ended March 31, 2009. Net income per share rose to ¥134.38 from ¥126.69 in the previous fiscal year. Net margin increased to 9.7% from 8.2% in the previous fiscal year.

Return on equity decreased to 9.3% from 9.4% in the previous fiscal year.

Years ended March 31 (%)

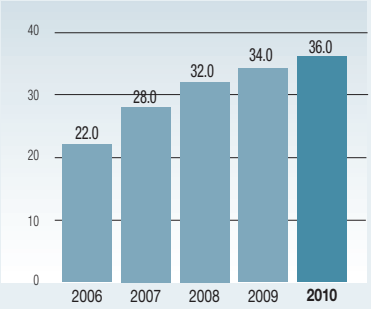
Return on Equity



Note: Equity represents net assets less minority interests.

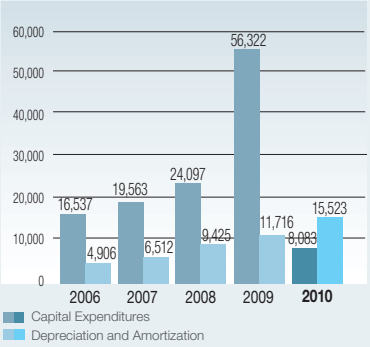
Years ended March 31 (Yen)

Dividends per Share



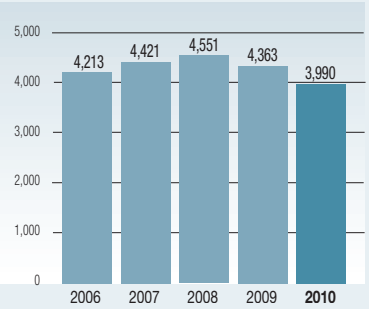
Years ended March 31 (Millions of yen)

Capital Expenditures and Depreciation and Amortization



Years ended March 31 (Millions of yen)

R&D Expenses



k) Dividend Policy

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

In light of future business prospects and to reward shareholders for their support, Kurita paid annual dividends of ¥36 per share (of which, ¥17 per share was an interim dividend), ¥2 per share increase versus the previous fiscal year's ¥34 per share (of which, ¥17 per share was an interim dividend).

Capital Expenditures

The Kurita Group is committed to making necessary investments in technological innovation, expansion of production capacity, and competitiveness enhancement in response to intensification of sales competition. In the year ended March 31, 2010, investment totaled ¥8,083 million, an 85.6% year-on-year decrease.

The Water Treatment Chemicals segment reduced its investment in tangible capital assets 22.7% year on year to ¥908 million, most of which was for replacement of chemical production equipment.

The Water Treatment Facilities segment invested a total of ¥6,616 million in tangible capital assets, primarily to newly install and expand ultrapure water supply and tool cleaning facilities. This was a substantial 87.9% decline from the previous fiscal year when the Group made large investments in the ultrapure water supply business.

Depreciation and amortization increased 32.5% year on year to ¥15,523 million in the year ended March 31, 2010, reflecting an increase in depreciation on facilities for the ultrapure water supply business.

Research and Development

Kurita conducts R&D through its Research and Development Division. In the year ended March 31, 2010, total R&D expenses decreased 8.5% to ¥3,990 million, equivalent to 2.2% of net sales. The Kurita Group employs approximately 140 R&D personnel, equivalent to 3.1% of its total workforce (4,445 personnel on a consolidated basis).

The Water Treatment Chemicals segment's R&D activities predominantly involved developing chemicals that help customers improve energy efficiency, reduce their environmental footprint, and boost productivity and developing technologies for systems that monitor water treatment effectiveness. Its R&D expenditures totaled ¥1,114 million, a 9.7% decrease versus the fiscal year ended March 31, 2009.

In the Water Treatment Facilities segment, Kurita endeavored to further improve ultrapure water quality to enhance productivity in the electronics industry and develop wastewater treatment and soil remediation technologies in anticipation of future environmental regulations. Kurita also endeavored to develop technologies conducive to a closed-loop economy, such as wastewater reclamation for reuse and sludge volume reduction. Its R&D expenditures totaled ¥2,875 million, an 8.1% decrease versus the previous fiscal year.

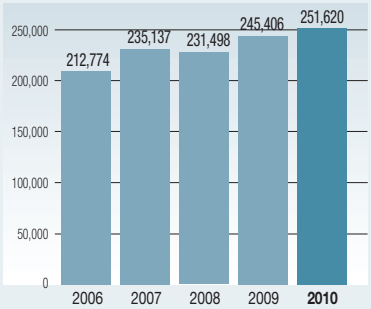
Financial Position

a) Total Assets

At March 31, 2010, Kurita had total assets of ¥251,620 million, an increase of ¥6,214 million from ¥245,406 million at March 31, 2009.

As of March 31 (Millions of yen)

Total Assets



Current Assets

Current assets at March 31, 2010, totaled ¥109,297 million, an increase of ¥10,608 million from ¥98,689 million at March 31, 2009.

This was mainly due to a ¥27,467 million increase in marketable securities, partly offset by a ¥9,698 million decline in cash and deposits and a ¥5,029 million decline in trade notes and trade accounts receivable. The decline in trade notes and trade accounts resulted from collection of accounts receivable coupled with decreased sales. The increase in marketable securities was due to increased investment in certificates of deposit, resulting in a net increase of ¥17,769 million in the combined total of marketable securities and cash and deposits.

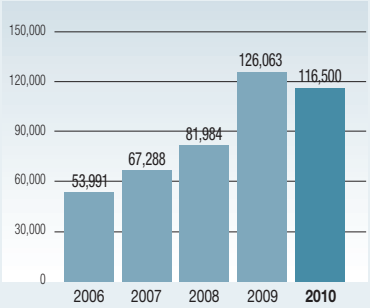
Fixed Assets (Property, Plant and Equipment, Intangible Assets, and Investments and Long-term Receivables)

At March 31, 2010, property, plant and equipment totaled ¥116,500 million, a decrease of ¥9,563 million from ¥126,063 million at March 31, 2009. This occurred because depreciation on property, plant and equipment exceeded capital expenditure (owing to large capital expenditures being made in the previous fiscal year).

Investments and long-term receivables ended March 31, 2010, at ¥23,649 million, an increase of ¥5,281 million from ¥18,368 million a year earlier. The increase was mainly attributable to an increase in investment securities holdings.

As of March 31 (Millions of yen)

Property, Plant and Equipment (net)



b) Liabilities

At March 31, 2010, liabilities totaled ¥57,680 million, a decrease of ¥9,099 million from ¥66,779 million at March 31, 2009.

Current liabilities

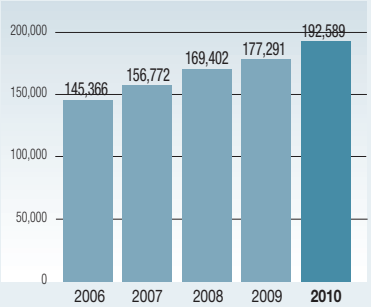
Current liabilities at March 31, 2010, were ¥38,592 million, a decrease of ¥9,343 million from ¥47,935 million at March 31, 2009. The decrease was mainly due to a ¥9,804 million decline in other accounts payable and despite a ¥3,649 million increase in income tax payable. The decline in other accounts payable was mainly due to payments for facilities for the ultrapure water supply business acquired in the previous fiscal year.

Long-term Liabilities

Long-term liabilities at March 31, 2010, were ¥19,088 million, a small increase of ¥244 million from ¥18,844 million at March 31, 2009.

As of March 31 (Millions of yen)

Equity



Note: Equity represents net assets less minority interests.

c) Net Assets

At March 31, 2010, net assets totaled ¥193,939 million, a ¥15,313 million increase from ¥178,626 million at March 31, 2009. This increase was mainly due to two factors, which offset dividend payments of ¥4,374 million out of retained earnings. First, net income of ¥17,288 million resulted in a net increase in retained earnings of ¥12,925 million. Second, valuation and translation adjustments increased by ¥2,381 million due to an increase in market values of investment securities and an increase in the yen-value of overseas subsidiaries and affiliates' net assets due to the yen's depreciation.

At March 31, 2010, Kurita had an equity ratio of 76.5%, up 4.3 percentage points from 72.2% a year earlier. Equity per share at March 31, 2010, was ¥1,496.98, an increase of ¥118.94 from ¥1,378.04 a year earlier.

*Equity is defined as net assets less minority interests.

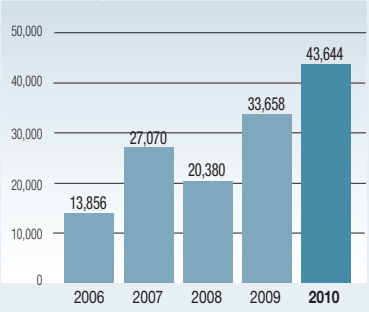
Cash Flows

Cash Flows from Operating Activities

Operating activities provided net cash of ¥43,644 million in the fiscal year ended March 31, 2010, an increase of ¥9,986 million versus the previous fiscal year (ended March 31, 2009). This primarily reflects a net inflow comprising income before income taxes, a decrease in depreciation and amortization, and a decrease in trade notes and accounts receivable, which was partially offset by the payment of income taxes.

Years ended March 31 (Millions of yen)

Cash Flows from Operating Activities



Cash Flows from Investing Activities

Investing activities used net cash of ¥44,350 million, an increase of ¥11,428 million versus the previous fiscal year. This primarily reflects a net outflow from purchases and redemptions of marketable securities and outflows for the acquisition of property, plant and equipment, mainly for the ultrapure water supply business.

Cash Flows from Financing Activities

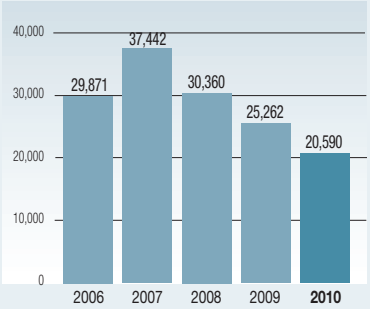
Financing activities used net cash of ¥4,859 million, a decrease of ¥146 million versus the previous fiscal year. The main use of cash was dividend payments.

Cash and Cash Equivalents' Ending Balance (on a consolidated basis)

At March 31, 2010, Kurita had cash and cash equivalents totaling ¥20,590 million, a decrease of ¥4,672 million versus March 31, 2009.

As of March 31 (Millions of yen)

Cash and Cash Equivalents at End of Year



Business Risks

Major risk factors that could affect the Kurita Group's future performance include domestic and overseas economic trends, customers' level of capital expenditure related to water treatment and capacity utilization rates, and movements in prices of crude oil and raw materials. Risks facing the Group, some of which are unpredictable, are not limited to those specified herein.

(1) Factors That May Affect Operating Performance

Water Treatment Chemicals

Operating performance is affected by fluctuations in demand depending on changes in capacity utilization rates in industries that are the major source of demand for the Water Treatment Chemicals segment's products and services, including the steel, oil refining and petrochemical, and pulp and paper industries. Changes in prices of key raw materials in response to movements in crude oil and other commodity prices also affect operating performance.

Water Treatment Facilities

Operating performance is affected by fluctuations in demand due to capital expenditure trends in electronics and other industries that are the main sources of demand for the Water Treatment Facilities segment's products and services. Changes in hardware production costs due to changes in construction material prices and outsourcing costs also affect operating performance.

(2) Currency Risk

The Kurita Group considers its earnings' sensitivity to exchange rate movements to be minor because foreign currency-denominated transactions account for only a small share of the Group's total sales and purchases.

Consolidated Balance Sheets

Kurita Water Industries Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

Assets	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
Current assets:			
Cash and time deposits (Notes 3 and 4)	**¥ 16,363**	¥ 26,061	**$ 175,875**
Notes and accounts receivable, trade (Note 4)	**55,369**	60,397	**595,117**
Allowance for doubtful accounts	**(132)**	(104)	**(1,424)**
Marketable securities (Notes 4 and 5)	**28,500**	1,033	**306,319**
Inventories (Note 6)	**5,121**	7,149	**55,046**
Deferred tax assets (Note 8)	**2,463**	2,635	**26,482**
Other current assets	**1,611**	1,552	**17,317**
Total current assets	**109,297**	98,689	**1,174,735**
Investments and long-term receivables:			
Investment securities (Notes 4 and 5)	**14,443**	9,612	**155,244**
Investments in non-consolidated subsidiaries and affiliates	**1,299**	1,175	**13,969**
Deferred tax assets (Note 8)	**6,184**	5,677	**66,471**
Other investments	**1,926**	2,053	**20,702**
Allowance for doubtful accounts	**(205)**	(152)	**(2,205)**
Total investments and long-term receivables	**23,649**	18,368	**254,182**
Property, plant and equipment, at cost:			
Land (Note 11)	**13,981**	13,895	**150,272**
Buildings and structures	**64,101**	63,872	**688,970**
Machinery and equipment	**80,472**	72,813	**864,924**
Construction in progress	**5,273**	11,448	**56,678**
Other facilities	**11,042**	11,234	**118,686**
Leased assets	**7,599**	7,370	**81,683**
Total	**182,471**	180,636	**1,961,215**
Accumulated depreciation	**(65,971)**	(54,572)	**(709,065)**
Property, plant and equipment, net	**116,500**	126,063	**1,252,149**
Intangible assets	**2,173**	2,285	**23,366**
Total assets	**¥251,620**	¥245,406	**$2,704,434**

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
Current liabilities:			
Short-term borrowings and current portion of long-term liabilities (Note 7)	**¥ 520**	¥ 420	**$ 5,597**
Notes and accounts payable, trade (Note 4)	**16,830**	18,830	**180,896**
Accounts payable, other	**7,089**	16,893	**76,195**
Income taxes payable	**7,430**	3,781	**79,868**
Advances received	**1,955**	2,766	**21,020**
Accrued employees' bonuses	**2,377**	2,372	**25,553**
Provision for product warranties	**546**	937	**5,877**
Other current liabilities	**1,841**	1,932	**19,787**
Total current liabilities	**38,592**	47,935	**414,796**
Long-term liabilities:			
Lease obligation (Note 7)	**6,925**	7,183	**74,437**
Accrued employees' retirement benefits (Note 8)	**9,465**	8,644	**101,738**
Accrued retirement benefits for directors and corporate auditors	**449**	738	**4,832**
Deferred tax liabilities on revaluation of land (Note 11)	**1,509**	1,519	**16,227**
Other long-term liabilities (Note 7)	**737**	759	**7,925**
Total long-term liabilities	**19,088**	18,844	**205,161**
Total liabilities	**57,680**	66,779	**619,957**
Net assets:			
Shareholders' equity (Note 10)**:**			
Common stock, 2010 and 2009			
Authorized: 531,000,000 shares			
Issued: 2010–132,800,256 shares			
2009–132,800,256 shares	**13,450**	13,450	**144,569**
Capital surplus	**11,426**	11,426	**122,815**
Retained earnings	**172,717**	159,792	**1,856,375**
Treasury stock, at cost			
2010–4,148,311 shares			
2009–4,145,419 shares	**(4,855)**	(4,847)	**(52,192)**
Total shareholders' equity	**192,738**	179,821	**2,071,568**
Evaluation and translation adjustments			
Unrealized gains on available-for-sale securities	**1,989**	170	**21,379**
Unrealized losses on revaluation of land (Note 11)	**(764)**	(750)	**(8,219)**
Foreign currency translation adjustments	**(1,374)**	(1,950)	**(14,770)**
Total valuation and translation adjustments	**(149)**	(2,530)	**(1,609)**
Minority interests	**1,350**	1,335	**14,517**
Total net assets	**193,939**	178,626	**2,084,476**
Liabilities and net assets	**¥251,620**	¥245,406	**$2,704,434**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Net sales (Note 13)	**¥178,520**	¥199,706	¥204,875	**$1,918,753**
Cost of sales	**117,221**	135,874	138,549	**1,259,904**
Gross profit	**61,299**	63,831	66,325	**658,849**
Selling, general and administrative expenses (Note 12)	**34,941**	35,896	35,857	**375,549**
Operating income (Note 13)	**26,358**	27,935	30,468	**283,300**
Other income (expenses):				
Interest and dividend income	**331**	573	652	**3,560**
Interest expense	**(26)**	(36)	(45)	**(284)**
Gain on sale of properties	**9**	21	204	**106**
Gain on sale of investment securities	**—**	—	97	**—**
Equity in earnings of non-consolidated subsidiaries and affiliates	**270**	269	115	**2,910**
Gain on liquidation due to termination of contracts	**1,507**	—	—	**16,207**
Loss on disposal of properties	**(253)**	(100)	(162)	**(2,722)**
Loss on sale and disposal of inventories	**—**	—	(108)	**—**
Loss on valuation of investment securities	**—**	(2,018)	(103)	**—**
Other, net	**(19)**	(540)	161	**(214)**
	1,820	(1,832)	811	**(19,563)**
Income before income taxes and minority interests	**28,178**	26,103	31,279	**302,863**
Income taxes (Note 8)**:**				
Current	**12,197**	10,689	13,113	**131,098**
Deferred	**(1,379)**	1,160	(469)	**14,830**
	10,817	9,529	12,644	**116,268**
Minority interests in earnings of consolidated subsidiaries	**72**	(273)	337	**779**
Net income	**¥ 17,288**	¥ 16,299	¥ 18,297	**$ 185,815**

	Yen			U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Per share of common stock:				
Net income	**¥134.38**	¥126.69	¥142.21	**$1.44**
Cash dividends applicable to the year	**36.00**	34.00	32.00	**0.38**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For years ended March 31, 2010, 2009 and 2008

Millions of yen

	Shareholders' equity (Note 10)					Evaluation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Unrealized gains (losses) on revaluation of land (Note 11)	Foreign currency translation adjustment	Total evaluation and translation adjustments	Minority interests	Total net assets
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
Changes during the year											
Cash dividends paid			(4,374)		(4,374)						(4,374)
Bonuses to directors and corporate auditors			(6)		(6)						(6)
Contribution to employees' incentive and welfare fund			(1)		(1)						(1)
Net income for the year			16,299		16,299						16,299
Acquisition of treasury stock				(19)	(19)						(19)
Net changes of net assets other than shareholders' equity						(1,603)	—	(2,405)	(4,008)	(323)	(4,331)
Total changes during the year	—	—	11,917	(19)	11,897	(1,603)	—	(2,405)	(4,008)	(323)	7,565
Balance as of March 31, 2009	**¥13,450**	**¥11,426**	**¥159,792**	**¥(4,847)**	**¥179,821**	**¥ 170**	**¥(750)**	**¥(1,950)**	**¥(2,530)**	**¥1,335**	**¥178,626**
Changes during the year											
Cash dividends paid			**(4,374)**		**(4,374)**						**(4,374)**
Bonuses to directors and corporate auditors											
Reversal of unrealized gains (losses) on revaluation of land			**13**		**13**						**13**
Other			**(2)**		**(2)**						**(2)**
Net income for the year			**17,288**		**17,288**						**17,288**
Acquisition of treasury stock				**(8)**	**(8)**						**(8)**
Net changes of net assets other than shareholders' equity						**1,818**	**(13)**	**575**	**2,380**	**15**	**2,395**
Total changes during the year	**—**	**—**	**12,925**	**(8)**	**12,916**	**1,818**	**(13)**	**575**	**2,380**	**15**	**15,312**
Balance as of March 31, 2010	**¥13,450**	**¥11,426**	**¥171,717**	**¥(4,855)**	**¥192,738**	**¥ 1,989**	**¥(764)**	**¥(1,374)**	**¥ (149)**	**¥1,350**	**¥193,939**

Thousands of U.S. dollars (Note 1)

	Shareholders' equity (Note 10)					Evaluation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Unrealized gains (losses) on revaluation of land (Note 11)	Foreign currency translation adjustment	Total evaluation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2009	**$144,569**	**$122,815**	**$1,717,455**	**$(52,104)**	**$1,932,736**	**$ 1,835**	**$(8,071)**	**$(20,959)**	**$(27,195)**	**$14,352**	**$1,919,893**
Changes during the year											
Cash dividends paid			**(47,014)**		**(47,014)**						**(47,014)**
Bonuses to directors and corporate auditors											
Reversal of unrealized gains (losses) on revaluation of land			**147**		**147**						**147**
Other			**(29)**		**(29)**						**(29)**
Net income for the year			**185,815**		**185,815**						**185,815**
Acquisition of treasury stock				**(87)**	**(87)**						**(87)**
Net changes of net assets other than shareholders' equity						**19,544**	**(147)**	**6,189**	**25,585**	**165**	**25,751**
Total changes during the year	**—**	**—**	**138,919**	**(87)**	**138,831**	**19,544**	**(147)**	**6,189**	**25,585**	**165**	**164,582**
Balance as of March 31, 2010	**$144,569**	**$122,815**	**$1,856,375**	**$(52,192)**	**$2,071,568**	**$21,379**	**$(8,219)**	**$(14,770)**	**$ (1,609)**	**$14,517**	**$2,084,476**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
I. Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 28,178**	¥ 26,103	¥ 31,279	**$ 302,863**
Depreciation and amortization (Note 13)	**15,523**	11,716	9,425	**166,843**
Increase (decrease) in accrued employees' retirement benefits	**799**	332	(42)	**8,589**
Gain on sale of investment securities	**—**	12	—	**—**
Equity in earnings of non-consolidated subsidiaries and affiliates	**(270)**	(269)	(115)	**(2,910)**
Interest and dividend income	**(331)**	(573)	(652)	**(3,560)**
Interest expense	**26**	36	45	**284**
Payments of bonuses to directors and corporate auditors	**—**	(11)	(14)	**—**
(Decrease) Increase in accrued employees' bonuses	**(7)**	(23)	59	**(75)**
(Decrease) Increase in other allowances, accrual and non-cash items, net	**(1,884)**	2,546	(329)	**(20,249)**
Changes in assets and liabilities:				
Decrease in trade receivables	**3,473**	10,778	3,648	**37,329**
Decrease in inventories	**2,194**	3,086	1,073	**23,591**
Decrease in trade payables	**(1,936)**	(4,110)	(11,203)	**(20,811)**
Others, net	**1,820**	(1,250)	(1,216)	**19,563**
	47,586	48,374	31,957	**511,458**
Interest and dividends received	**685**	1,094	747	**7,370**
Interest paid	**(38)**	(32)	(45)	**(413)**
Income taxes paid	**(8,209)**	(15,249)	(12,475)	**(88,236)**
Others, net	**3,621**	(528)	196	**38,919**
Net cash provided by operating activities	**43,644**	33,658	20,380	**469,098**
II. Cash flows from investing activities:				
Decrease (increase) in time deposits, net	**770**	1,230	(34)	**8,276**
Payments for purchase of property, plant and equipment	**(19,278)**	(38,291)	(26,101)	**(207,206)**
Proceeds from sale of property, plant and equipment	**56**	47	350	**610**
Payments for purchase of marketable securities and investment securities	**(30,108)**	(5,145)	(12,043)	**(323,613)**
Proceeds from sale and redemption of marketable securities and investment securities	**4,870**	9,959	15,213	**52,353**
Others, net	**(661)**	(722)	(539)	**(7,106)**
Net cash used in investing activities	**(44,350)**	(32,922)	(23,156)	**(476,685)**
III. Cash flows from financing activities:				
Increase (decrease) in short-term borrowings, net	**67**	0	(235)	**725**
Decrease in long-term borrowings, net	**—**	(92)	(139)	**—**
Cash dividends paid	**(4,369)**	(4,370)	(3,857)	**(46,967)**
Cash dividends paid to minority shareholders of consolidated subsidiaries	**(96)**	(98)	(108)	**(1,042)**
Payments for lease obligations	**(451)**	(131)	—	**(4,852)**
Payments for purchase of treasury stock, net	**(8)**	(19)	(24)	**(87)**
Net cash used in financing activities	**(4,859)**	(4,713)	(4,365)	**(52,225)**
IV. Effect of exchange rate changes on cash and cash equivalents	**832**	(1,119)	(18)	**8,946**
V. Net decrease in cash and cash equivalents	**(4,732)**	(5,097)	(7,160)	**(50,865)**
VI. Cash and cash equivalents at beginning of year	**25,262**	30,360	37,442	**271,526**
VII. Cash and cash equivalents of newly consolidated subsidiaries, net of excluded subsidiaries from consolidation	**60**	0	78	**648**
VIII. Cash and cash equivalents at end of year (Note 3)	**¥ 20,590**	¥ 25,262	¥ 30,360	**$ 221,309**

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, 2010 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 ¥93.04 to US$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2010. The translation should not be construed as a representation that yen amounts have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

2. Significant accounting policies

(1) Consolidation

Scope of consolidation

The consolidated financial statements included the accounts of the Company and its significant subsidiaries. For the years ended March 31, 2010 and 2009, 37 and 38 subsidiaries were consolidated, respectively. All significant inter-company transactions and balances have been eliminated in consolidation.

Names of principal consolidated subsidiaries: Kuritaz Co., Ltd., Kurita Engineering Co., Ltd., Kuritec Service Co. Ltd. and Kurita Chemical Manufacturing Co., Ltd.

In the year ended March 31, 2010, Kurita Chemical Manufacturing Co., Ltd., which was newly incorporated, and Kurita Chemical Kumamoto Co., Ltd., which increased its materiality, were newly consolidated.

In addition, Kurita Chemical Kanagawa Co., Ltd. merged with Kurita Chemical Kanto Co., Ltd. (formerly, Kurita Chemical Tokyo Co., Ltd.) and Kurita Chemical Hyogo Co., Ltd. merged with Kurita Chemical Kansai Co., Ltd. and one foreign subsidiary was liquidated. Accordingly, these companies were excluded from consolidation.

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 year of consolidated subsidiaries

The fiscal years of Kurita (Singapore) Pte. Ltd. and 13 other consolidated subsidiaries (14 in 2009) 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, 2010, and 2009, 3 companies were accounted for by the equity method.

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

Kurita Chemical Hokuriku 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 held for sale in the ordinary course of business are stated at the lower of cost determined by the moving average method, except for work in process determined by the specific-identification method, or net selling value.

(6) Derivatives 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 approval 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 4–10 years

Leased assets other than those that are deemed to transfer ownership of the leased assets are depreciated over respective lease period by the straight-line method without salvage value

(8) Impairment of long-lived assets

The Company reviews its long-lived assets for impairment in accordance with the accounting standards for impairment of fixed assets whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(9) Accrued employees' bonuses

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

(10) Accrued employees' retirement benefits

Accrued employees' retirement benefits are recorded based on the estimated amount of projected benefit obligation at the balance sheet date by the Company, certain of its domestic subsidiaries and certain consolidated foreign 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. On July 31, 2008, the Accounting Standards Board of Japan issued ASBJ Statement No. 19 "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," which requires the companies to use the discount rate determined by reference to market yields at the end of the fiscal year on high quality bonds such as long-term Japanese government bonds, government agency bonds and high quality corporate bonds. Effective from the year ended March 31, 2010, the Company adopted this amendment. Differences resulting from retirement benefit obligation amounted to ¥876 million (US$9,416 thousand) and accordingly, operating income and income before income taxes and minority interests decreased by the same amount. Unrecognized difference of retirement benefit obligation resulting from adoption of this amendment is ¥62 million ($672 thousand). The effect on segment information is described in Note 13.

(11) Leases

Finance leases which do not transfer ownership are capitalized to recognize leased assets and lease obligations in the consolidated balance sheets. Leased assets are depreciated using the straight-line method over the respective lease periods without residual value.

(12) Consumption taxes

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

(13) 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) 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.

(15) Earnings per share

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

(16) Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation for the year ended March 31, 2010. These changes had no impact on previously reported results of operations.

(17) Changes during the year ended March 31, 2010

Construction contracts

Prior to April 1, 2009, the Company accounted for construction contracts whose total contract amounts are more than ¥1,500 million (US$16,122 thousand) and construction period exceeds one year under the percentage-of-completion method and for other contracts under the completed-contract method. On December 27, 2007, the ASBJ issued Statement No.15, "Accounting Standard for Construction Contracts" and Guidance No.18, "Guidance on Accounting Standard for Construction Contracts." Effective from the year ended March 31, 2010, the Company and certain consolidated subsidiaries adopted the new accounting standard for the construction contracts which started in the year ended March 31, 2010 and the percentage-of-completion method has been applied to the contracts if the outcome of the construction activity is deemed certain for the percentage of performance of the contractor's obligation at the end of the balance sheet date and otherwise, the completed-contract method is applied. The percentage of completion is determined using the cost incurred to the estimated total cost.

As a result of this change, net sales increased by ¥6,265 million (U$67,338 thousand) and operating income and income before income taxes increased by ¥1,244 million (U$13,374 thousand), respectively. The effect on segment information is described in Note 13.

3. Reconciliation between cash and cash equivalents

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

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Cash and time deposits	**¥16,363**	¥26,061	¥10,316	**$175,875**
Time deposits with original maturity of more than three months	**(272)**	(1,032)	(343)	**(2,932)**
Certificates of deposits included in marketable securities, excluding deposits maturing over three months	**4,500**	234	20,386	**48,366**
Cash and cash equivalents	**¥20,590**	¥25,262	¥30,360	**$221,309**

4. Financial instruments and related disclosures

On March 10, 2008, the ASBJ revised ASBJ Statement No.10 “Accounting Standard for Financial Instruments” and issued ASBJ Guidance No.19 “Guidance on Accounting Standard for Financial Instruments and Related Disclosures.” The Company applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Policy for financial instruments

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

(2) Nature of financial instruments and their related risks

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

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

Payment terms of trade payables such as notes and accounts are mostly less than one year. Lease obligations under finance lease transactions are mainly related to ultrapure water supply business and its payment term is 19 years later at maximum.

(3) Risk management system for financial instruments

Credit risk management (customers’ default risk):

The Company manages its credit risk involved in trade receivables based on the Credit Control Policy and Manual. The Control Division of each business unit and the Legal Department are collecting credit information on a regular basis and control the payment terms and outstanding balances by customer, and the Company is making efforts to avoid damages and to improve the soundness of the transactions by monitoring the default risk of customers due to the deterioration of their financial position at an early stage. The consolidated subsidiaries are also making efforts to reduce credit risk by controlling the payment terms and outstanding balances of the customer. Counterparties of forward foreign currency contracts to be used to avoid foreign exchange risk when necessary are limited to financial institutions

with a high credit rating and accordingly, we believe there is very little credit risk.

Market risk management (foreign exchange risk and interest rate risk):
The Company and certain consolidated subsidiaries utilize forward foreign currency contracts to hedge the market risk of fluctuations in foreign currency exchange rates involved in trade receivables and payables by currency and by month. Forward foreign currency contracts are executed and controlled by the Finance Department after the individual contract is approved in accordance with the predetermined rule.

Liquidity risk management (risk that the Company may not be able to settle on the payment due date):
The Finance Departments of the Company and its consolidated subsidiaries prepare and update the fund management plan every month based on the reports from each business unit and hold sufficient amount of liquidity in hand and manages the liquidity risk.

Carrying amounts, fair values and unrealized gain (loss) of financial instruments at March 31, 2010 are as follows: (Financial instruments whose fair values cannot be reliably determined are not included in the following table.)

	Millions of yen		
At March 31, 2010	Carrying amount	Fair value	Unrealized gain/loss
a. Cash and time deposits	¥ 16,363	¥ 16,363	¥ —
b. Notes and accounts receivable	55,369	55,369	—
c. Marketable securities and investment securities			
Available-for-sale securities	42,603	42,603	—
Total assets	114,337	114,337	—
d. Notes and accounts payable	16,830	16,830	—
Total liabilities	¥ 16,830	¥ 16,830	¥ —

Notes:
1. Computation method of fair values
   Cash and time deposits and notes and accounts receivable:
   Fair values approximate carrying amounts because of their short maturities.
   Marketable securities and investment securities:
   Fair values approximate carrying amounts because of their short maturities since marketable securities consist of certificates of deposit. Fair values of investment securities are determined based on the quoted market price of the stock exchange.
   Notes payable and accounts:
   Fair values approximate carrying amounts because of short maturities.
2. Financial instruments whose fair values cannot be reliably determined are as follows:

	Millions of yen	Thousands of U.S. dollars
Nonconsolidated subsidiaries and affiliates securities	¥1,299	$13,969
Unlisted equity securities	340	3,654
Total	¥1,639	$17,623

   These securities are not included in “Marketable securities and investment securities” above since their fair values cannot be reliably determined.
3. Maturities of monetary receivables and securities after the balance sheet date

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 16,320	—	—	—
Notes and accounts receivable	55,369	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Certificates of deposits)	28,500	—	—	—
Total	¥100,189	—	—	—

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	**$ 175,410**	—	—	—
Notes and accounts receivable	**595,117**	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Certificates of deposits)	**306,319**	—	—	—
Total	**$1,076,846**	—	—	—

5. Marketable securities and investment in securities

(1)Available-for-sale securities with fair value at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		
At March 31, 2010	Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks	**¥10,839**	**¥ 7,413**	**¥3,425**
Bonds:			
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	**10,839**	**7,413**	**3,425**
Carrying amount not exceeding acquisition cost:			
Stocks	**3,264**	**3,657**	**(392)**
Bonds:			
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	**3,264**	**3,657**	**(392)**
Total	**¥14,103**	**¥11,071**	**¥3,032**

	Millions of yen		
At March 31, 2009	Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks	¥ 4,590	¥3,478	¥1,111
Bonds:			
Corporate bonds	300	300	0
Other	—	—	—
Subtotal	4,890	3,778	1,111
Carrying amount not exceeding acquisition cost:			
Stocks	4,678	5,538	(859)
Bonds:			
Corporate bonds	499	500	(0)
Other	—	—	—
Subtotal	5,177	6,038	(860)
Total	¥10,068	¥9,816	¥ 251

At March 31, 2010	Thousands of U.S. dollars		
	Carrying amount	Acquisition cost	Difference
Carrying amount exceeding acquisition cost:			
Stocks	**$116,503**	**$79,685**	**$36,818**
Bonds:			
Corporate bonds	**—**	**—**	**—**
Other	**—**	**—**	**—**
Subtotal	**116,503**	**79,685**	**36,818**
Carrying amount not exceeding acquisition cost:			
Stocks	**35,086**	**39,310**	**(4,223)**
Bonds:			
Corporate bonds	**—**	**—**	**—**
Other	**—**	**—**	**—**
Subtotal	**35,086**	**39,310**	**(4,223)**
Total	**$151,590**	**$118,995**	**$32,594**

(2) Available-for-sale securities sold during the years ended March 31, 2010, 2009 and 2008 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Sales amount	**¥70**	¥110	¥578	**$762**
Total gains on sales	**16**	—	61	**180**
Total losses on sales	**0**	12	0	**7**

(3) Available-for-sale securities with no available fair value at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Available-for-sale securities:			
Certificates of deposit (See Note 3)	**¥28,500**	¥234	**$306,319**
Unlisted stocks	**340**	343	**3,654**
Total	**¥28,840**	¥577	**$309,974**

6. Inventories

Inventories at March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finished products	**¥1,334**	¥ 1,414	**$14,341**
Raw materials	**1,186**	1,440	**12,753**
Work in process	**2,600**	4,293	**27,952**
Total	**¥5,120**	¥7,149	**$55,046**

7. Short-term borrowings and lease obligations

(1) Short-term borrowings and current portion of lease obligations

The short-term borrowings and current portion of lease obligations at March 31, 2010 and 2009 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Short-term borrowings	**¥ 67**	¥ 0	**$ 724**
Current portion of lease obligations	**453**	420	**4,872**
Total	**¥520**	¥420	**$5,597**

The weighted-average annual interest rate of short-term borrowings for the year ended March 31, 2010 is 4.37%.

(2) Lease obligations

Lease obligations at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Lease: Obligations with maturing dates coming in 2012 and thereafter	**¥6,925**	¥7,183	**$74,437**
Lease: Current portion	**453**	420	**4,872**
Total	**¥7,378**	¥7,603	**$79,309**

Annual maturities of lease obligations at March 31, 2010 are as follows:

Years Ending March 31, 2010	Millions of yen	Thousands of U.S. dollars
2011	**¥ 453**	**$ 4,872**
2012	**457**	**4,916**
2013	**432**	**4,645**
2014	**401**	**4,312**
2015 and thereafter	**5,635**	**60,563**
Total	**¥7,378**	**$79,309**

(3) Other long-term liabilities

Other than the short-term borrowings and lease obligations described above, ¥717 million (US$7,715 thousands) and ¥728 million of interest-bearing long-term deposits received were included in other long-term liabilities as of March 31, 2010 and 2009, respectively. The weighted-average annual interest rates for such deposits received for the years ended March 31, 2010 and 2009 were 0.36% and 0.37%, respectively.

8. Income taxes

Significant components of the deferred tax assets and liabilities as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Excess depreciation of property, plant and equipment	**¥ 3,834**	¥ 2,731	**$ 41,212**
Excess provision for accrued employees' retirement benefits	**3,796**	3,462	**40,807**
Excess provision for accrued bonuses to employees	**945**	949	**10,161**
Accrued enterprise taxes not deductible	**565**	374	**6,072**
Impairment loss	**309**	319	**3,329**
Loss on revaluation of investment securities	**277**	277	**2,987**
Unrealized gain on sale of property, plant and equipment	**240**	—	**2,585**
Excess provision of allowance for product warranty	**213**	362	**2,298**
Excess portion of design expenses	**203**	565	**2,188**
Accrued retirement benefits for directors and corporate auditors	**181**	293	**1,951**
Loss on revaluation of golf membership	**—**	125	**—**
Other	**994**	920	**10,684**
Subtotal	**11,562**	10,381	**124,279**
Valuation allowance	**(687)**	(660)	**(7,389)**
Total deferred tax assets	**10,875**	9,721	**116,890**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**(1,049)**	(116)	**(11,276)**
Estimated income taxes pertaining to retained earnings of overseas consolidated subsidiaries	**(443)**	(554)	**(4,762)**
Capital gain on properties deferred for tax purposes	**(734)**	(736)	**(7,896)**
Total deferred tax liabilities	**(2,227)**	(1,408)	**(23,936)**
Deferred tax assets, net	**¥ 8,648**	¥ 8,312	**$92,954**

A reconciliation between the normal effective statutory tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2010 and 2009 was as follows:

	2010	2009
Normal effective statutory tax rate	**40.6%**	40.6%
Expenses not deductible for income tax purposes	**0.4**	0.6
Dividend income not taxable for income tax purposes	**(0.2)**	(1.6)
Reversal of deferred tax liabilities on retained earnings of foreign consolidated subsidiaries	**(0.4)**	(1.8)
R&D expense tax credit	**(0.7)**	(0.9)
Loss on revaluation of investment securities	**—**	0.9
Other	**(1.3)**	(1.3)
Actual effective tax rate	**38.4%**	36.5%

9. Retirement benefits and pension plans

The Company provides a lump-sum retirement benefit plan and a defined contribution pension plan. Of the consolidated subsidiaries, 22 companies (17 domestic and 5 overseas companies) provide lump-sum retirement benefit plans, qualified pension plans or defined contribution plans, 2 domestic companies provide both lump-sum benefit and defined contribution pension plans, 2 domestic companies have only qualified pension plans and 1 overseas consolidated subsidiary has only defined contribution pension plan.

(1) Benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Retirement benefit obligation	**¥(19,570)**	¥(18,796)	**$(210,343)**
Fair value of plan assets	**9,985**	10,153	**107,328**
Unfunded retirement benefit obligations	**(9,584)**	(8,643)	**(103,014)**
Unrecognized actuarial gain	**118**	(0)	**1,275**
Accrued employees' retirement benefits	**¥ (9,465)**	¥ (8,644)	**$(101,738)**

(2) Net periodic benefit costs

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Service cost	**¥ 877**	¥ 923	¥ 968	**$ 9,430**
Interest cost	**191**	242	258	**2,053**
Expected return on plan assets	**—**	—	—	**—**
Amortization of actuarial differences	**663**	57	(34)	**7,126**
Additional retirement payments	**4**	4	7	**48**
Loss (profit) at transition to defined contribution pension plan	**1**	215	(17)	**13**
Other	**639**	482	471	**6,870**
Net periodic benefit cost	**¥2,376**	¥1,924	¥1,654	**$25,542**

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:

	2010	2009
Periodic allocation of projected benefit obligation	**Equal amount over each period**	Equal amount over each period
Discount rate	**1.7–1.8%**	2.5%
Expected rate of return on plan assets	**0.5–0.7%**	0.0–0.8%
Amortization period of actuarial differences	**1–2 years**	1–2 years

10. Shareholders' equity

The Japanese companies are subject to the Corporate Law. 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 (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.

11. Unrealized gains on revaluation of land

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

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

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

Revaluation date: March 31, 2002

12. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2010, 2009 and 2008 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Salaries and allowances	**¥13,127**	¥12,999	¥12,804	**$141,093**
Provision for employees' bonuses	**1,492**	1,561	1,648	**16,046**
Retirement benefit expenses	**1,415**	861	825	**15,212**
Travel expenses	**2,379**	2,542	2,642	**25,574**
Research and development expenses	**3,990**	4,363	4,551	**42,885**
Other	**12,535**	13,567	13,384	**134,737**
Total	**¥34,941**	¥35,896	¥35,857	**$375,549**

13. Segment information

(1) Business segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2010, 2009, and 2008, is outlined as follows:

	Millions of yen				
Year ended March 31, 2010	Water Treatment Chemicals	Water Treatment Facilities	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	**¥53,743**	**¥124,777**	**¥178,520**	**¥ —**	**¥178,520**
2) Intersegment sales	**455**	**78**	**534**	**(534)**	**—**
Total	**54,199**	**124,855**	**179,055**	**(534)**	**178,520**
Operating costs and expenses	**46,022**	**106,674**	**152,697**	**(534)**	**152,162**
Operating income	**¥ 8,177**	**¥ 18,181**	**¥ 26,358**	**¥ —**	**¥ 26,358**
II. Assets, depreciation and capital expenditures					
Assets	**¥35,194**	**¥168,119**	**¥203,314**	**¥48,306**	**¥251,620**
Depreciation	**1,662**	**13,860**	**15,523**	**—**	**15,523**
Capital expenditures	**1,151**	**6,932**	**8,083**	**—**	**8,083**

	Millions of yen				
Year ended March 31, 2009	Water Treatment Chemicals	Water Treatment Facilities	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	¥58,331	¥141,374	¥199,706	¥ —	¥199,706
2) Intersegment sales	353	102	455	(455)	—
Total	58,685	141,476	200,162	(455)	199,706
Operating costs and expenses	50,267	121,959	172,226	(455)	171,771
Operating income	¥ 8,417	¥ 19,517	¥ 27,935	¥ 0	¥ 27,935
II. Assets, depreciation and capital expenditures					
Assets	¥34,476	¥180,626	¥215,102	¥30,304	¥245,406
Depreciation	1,745	9,970	11,716	—	11,716
Capital expenditures	1,432	54,889	56,322	—	56,322

Year ended March 31, 2008	Millions of yen				
	Water Treatment Chemicals	Water Treatment Facilities	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	1,732	7,692	9,425	—	9,425
Capital expenditures	1,617	22,480	24,097	—	24,097

Year ended March 31, 2010	Thousands of U.S, dollars				
	Water Treatment Chemicals	Water Treatment Facilities	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	**$577,639**	**$1,341,114**	**$1,918,753**	**$ —**	**$1,918,753**
2) Intersegment sales	**4,900**	**844**	**5,745**	**(5,745)**	**—**
Total	**582,540**	**1,341,958**	**1,924,499**	**(5,745)**	**1,918,753**
Operating costs and expenses	**494,653**	**1,146,544**	**1,641,198**	**(5,755)**	**1,635,453**
Operating income	**$87,887**	**$195,413**	**$283,301**	**$ —**	**$283,300**
II. Assets, depreciation and capital expenditures					
Assets	**$378,272**	**$1,806,964**	**$2,185,236**	**$519,197**	**$2,704,434**
Depreciation	**17,873**	**148,969**	**166,843**	**—**	**166,843**
Capital expenditures	**12,375**	**74,508**	**86,884**	**$ —**	**86,884**

Notes:

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

Water Treatment Chemicals

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

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, 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, 2010 and 2009.
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, 2010 and 2009 amounted to ¥48,369 million (US$519,875 thousand) and ¥30,353 million, respectively.
4. As discussed in note 2. (10), the Company adopted ASBJ Statement No.19 "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" effective from the year ended March 31, 2010. Accordingly, operating income of "Water Treatment Chemicals" and "Water Treatment Facilities" decreased by ¥290 million (US$3,121 thousand) and ¥585 million (US$6,295 thousand), respectively.
5. As discussed in note 2. (17), the Company and certain consolidated subsidiaries adopted ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and Guidance No.18 "Guidance on Accounting Standard for Construction Contracts". Accordingly, net sales and operating income of "Water Treatment Facilities" increased by ¥6,265 million (US$67,338 thousand) and ¥1,244 million (US$13,374 thousand), respectively.

(2) Geographic segment information

Geographical segment information for the years ended March 31, 2010, 2009 and 2008 is as follows:

	Millions of yen				
Year ended March 31, 2010	Japan	Other regions	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	**¥163,696**	**¥14,824**	**¥178,520**	**¥ —**	**¥178,520**
2) Intersegment sales	**1,561**	**238**	**1,799**	**(1,799)**	**—**
Total	**165,257**	**15,063**	**180,320**	**(1,799)**	**178,520**
Operating costs and expenses	**140,733**	**13,544**	**154,278**	**(2,115)**	**152,162**
Operating income	**¥ 24,523**	**¥ 1,518**	**¥ 26,042**	**¥315**	**¥ 26,358**
II. Assets	**¥185,816**	**¥ 8,116**	**¥193,932**	**¥57,687**	**¥251,620**

	Millions of yen				
Year ended March 31, 2009	Japan	Other regions	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	¥179,726	¥19,980	¥199,706	¥ —	¥199,706
2) Intersegment sales	2,057	433	2,490	(2,490)	—
Total	181,783	20,413	202,197	(2,490)	199,706
Operating costs and expenses	155,950	18,679	174,629	(2,858)	171,771
Operating income	¥ 25,833	¥ 1,734	¥ 27,567	¥ 367	¥ 27,935
II. Assets	¥198,465	¥ 8,683	¥207,148	¥38,258	¥245,406

Year ended March 31, 2008	Millions of yen				
	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, 2010	Thousands of U.S, dollars				
	Japan	Other regions	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	**$1,759,419**	**$159,334**	**$1,918,753**	**$ —**	**$1,918,753**
2) Intersegment sales	**16,778**	**2,565**	**19,344**	**(19,344)**	**—**
Total	**1,776,198**	**161,899**	**1,938,098**	**(19,344)**	**1,918,753**
Operating costs and expenses	**1,512,617**	**145,575**	**1,658,193**	**(22,739)**	**1,635,453**
Operating income	**$ 263,580**	**$ 16,323**	**$ 279,904**	**$ 3,395**	**$ 283,300**
II. Assets	**$1,997,167**	**$ 87,234**	**$2,084,402**	**$620,032**	**$2,704,434**

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.
5. As discussed in note 2. (10), the Company adopted ASBJ Statement No.19 "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" effective from the year ended March 31, 2010. Accordingly, operating income of "Japan" decreased by ¥876 million (US$9,416 thousand).
6. As discussed in note 2. (17), the Company and certain consolidated subsidiaries adopted ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and Guidance No.18 "Guidance on Accounting Standard for Construction Contracts." Accordingly, net sales and operating income of "Japan" increased by ¥6,265 million (US$67,338 thousand) and ¥1,244 million (US$13,374 thousand), respectively.

(3) Overseas sales

For the year ended March 31, 2010	Millions of yen					Thousands of U.S. dollars
	Asia	North America	Europe	Other	Total	Total
Overseas net sales	**¥13,404**	**¥1,626**	**¥1,399**	**¥2,581**	**¥19,011**	**$ 204,336**
Consolidated net sales	**—**	**—**	**—**	**—**	**178,520**	**1,918,753**
Percentage of overseas net sales to consolidated net sales	**7.5%**	**0.9%**	**0.8%**	**1.4%**	**10.6%**	

For the year ended March 31, 2009	Millions of yen				
	Asia	North America	Europe	Other	Total
Overseas net sales	¥20,070	¥1,371	¥1,576	¥2,936	¥ 25,955
Consolidated net sales	—	—	—	—	199,706
Percentage of overseas net sales to consolidated net sales	10.0%	0.7%	0.8%	1.5%	13.0%

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

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.
4. As discussed in note 2. (17), the Company and certain consolidated subsidiaries adopted ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and Guidance No.18 "Guidance on Accounting Standard for Construction Contracts." Accordingly, overseas net sales of "Asia" increased by ¥1,794 million (US$19,287 thousand).

14. Subsequent events

Appropriation of retained earnings

The following appropriation of retained earnings for the year ended March 31, 2010 was approved at the ordinary general meeting of shareholders of the Company held on June 29, 2010.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (year-end dividends)	**¥2,444**	**$26,272**

15. Per share information

	Yen			U.S. dollars
	2010	2009	2008	**2010**
Net assets per share	**¥1,496.98**	¥1,378.04	¥1,316.65	**$16.08**
Net income per share (EPS)	**134.38**	126.69	142.21	**1.44**

Basis of calculation for EPS is as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Net income	**¥17,288**	¥16,299	¥18,297	**$185,815**
Net income attributable to common stock	**17,288**	16,299	18,297	**185,815**
Average number of shares outstanding	**128,653,126**	128,658,142	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

T +81 (0)3 5474 0111
F +81 (0)3 5474 0112
http://www.gtjapan.or.jp

To the Board of Directors of
Kurita Water Industries Ltd.

We have audited the accompanying consolidated balance sheets of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2010 and 2009 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, 2010, 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 over all 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated statements.

As described in Note 2(17) to the consolidated financial statements, effective the year ended March 31, 2010, the Company and its domestic subsidiaries have adapted the ASBJ Statement No.15, "Accounting Standard for Construction Contracts" and Guidance No.18, "Guidance on Accounting Standard for Construction Contracts".

The consolidated financial statements as of and for the year ended March 31, 2010 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 29, 2010

Corporate Data

As of March 31, 2010

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	4,445 (on a consolidated basis)
Domestic Offices	Head Office: 4-7, Nishi-Shinjuku 3-chome, Shinjuku-ku, Tokyo 160-8383 Tel.: 81 (3) 3347-3111 Osaka Branch: 2-22, Kitahama 2-chome, Chuo-ku, Osaka 541-0041 Tel.: 81 (6) 6228-4800 Kurita Global Technology Center: 1-1, Gochoyama, Kawada, Nogi-machi, Shimotsuga-gun, Tochigi 329-0105 Tel.: 81 (280) 54-1511 Offices: Tohoku, Nagoya, Hiroshima and Kyushu
Overseas Offices	Taiwan Branch: 5F-3, No. 295, Section 2, Kuang-Fu Road, (Empire Commercial Bldg.) Shinchu, Taiwan, R.O.C. Tel.: 886 (3) 575-1157

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
■ Asia			
Kurita Water Industries (Dalian) Co., Ltd.	¥550	90.1	Manufacture & sale of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Sale & maintenance of water treatment facilities
Kurita Water Industries (Suzhou) Ltd.	¥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	85.0	Manufacture & sale of water treatment chemicals
Kurita (Singapore) Pte. Ltd.	S$4.0	100.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kuritec Singapore Pte. Ltd.	S$1.49	100.0	Ultrapure water supply for specified customer
Kurita Water (Malaysia) Sdn. Bhd.	RM$0.6	83.3	Sale of water treatment chemicals and water treatment facilities
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
Kurita Chemical Manufacturing Ltd.	¥50	100.0	Manufacture of water treatment chemicals

Investor Information

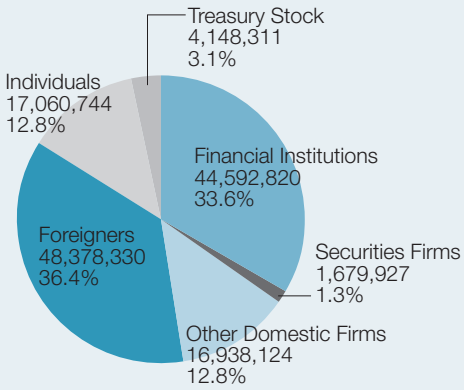
As of March 31, 2010

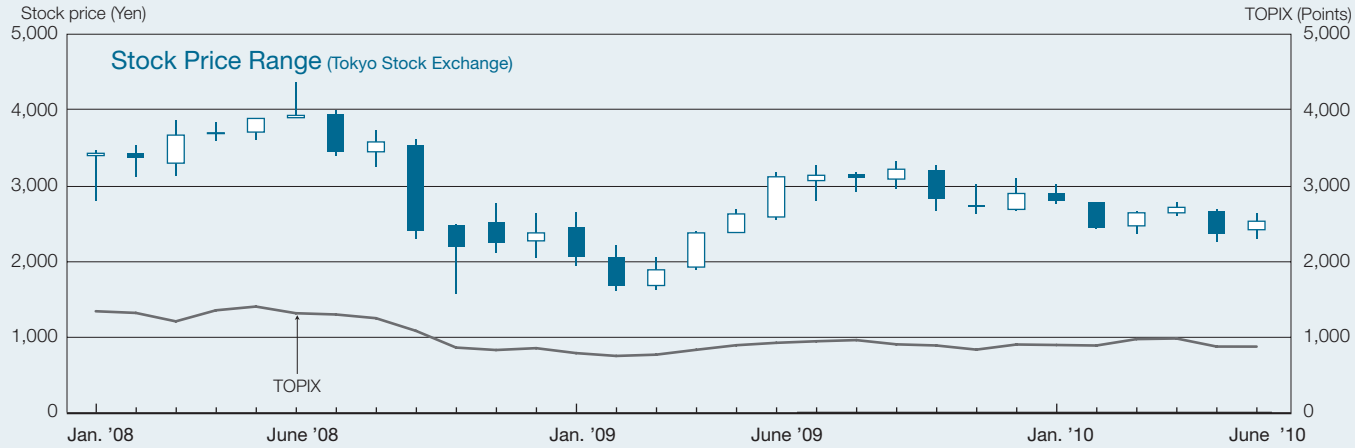
Stock Exchange Listings	First Section of the Tokyo Stock Exchange First Section of the Osaka Securities Exchange
Common Stock	Authorized: 531,000,000 shares Issued: 132,800,256 shares (Stock trading unit: 100 shares)
Number of Shareholders	35,435
Independent Auditor	Grant Thornton Taiyo ASG Akasaka DS Bldg. 9F, 8-5-26, Akasaka, 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

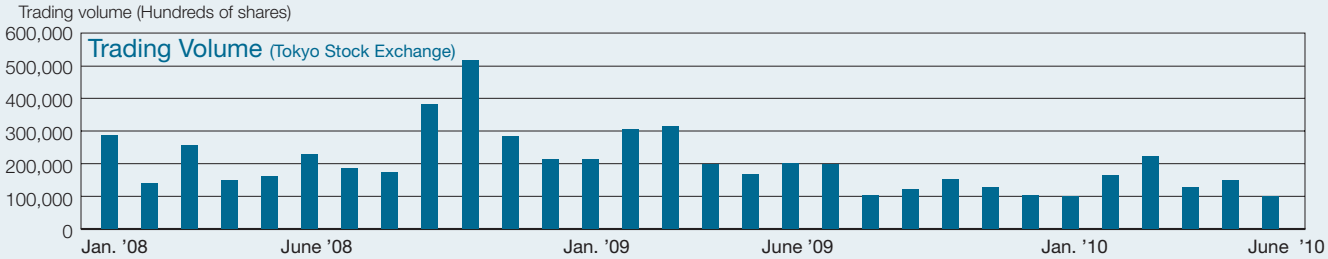
Main Shareholders

	Shareholdings (Thousands of Shares)	Percentage of total shares issued (%)
Itochu Corporation	7,448	5.60
Nippon Life Insurance Company	7,284	5.48
Japan Trustee Services Bank, Ltd. (Trust Account)	6,156	4.63
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,311	3.24
Kurita Water Industries Ltd.	4,148	3.12
Pictet & Cie (Europe) S.A.	3,517	2.64
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,190	2.40
The Bank of Tokyo Mitsubishi UFJ, Ltd.	2,936	2.21
Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Itochu Corporation Account Retrustee Trust & Custody Services Banking Co.,Ltd.	2,820	2.12
RBC DEXIA Investor Service Bank Account Luxemburg Non-resident Domestic Rate	2,191	1.65

Distribution of Shares







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

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