The background of the entire page is a blue-tinted photograph of industrial machinery. The most prominent feature is a large, circular, metallic component, possibly a reactor or a filter, which is the focus of the upper half of the image. A small, rectangular, light-colored label with the handwritten text "D-2-4" is affixed to the inner surface of this component. Below this, another similar but smaller circular component is visible, also with a label that partially shows "D-2". The machinery is complex, with various pipes, valves, and bolts visible. The lighting is dramatic, with strong highlights and deep shadows, creating a sense of depth and industrial scale.

D-2-4

ANNUAL REPORT 2005

For the Year Ended March 31, 2005



Kurita Water Industries Ltd. provides total solutions in the field of water and environmental management, under the corporate vision of becoming an “an advanced water and environmental management company.” Kurita’s core business is water treatment and related products and services, but its business scope extends to the broader field of environmental management. Consistent with this philosophy, Kurita provides not only products, such as water treatment chemicals and facilities, but also high-value-added solutions, including consulting and outsourcing services that draw on its unique expertise built up over half a century.

Based on the corporate principle, “Study the properties of water, master them, and we will create an environment in which nature and man are in harmony,” Kurita is committed to realizing its goal of becoming an advanced water and environmental management company. Through these endeavors, Kurita aims to contribute broadly to meeting the needs of its customers and of society.



Cover Story

The cover photograph shows the reverse-osmosis (RO) membrane treatment system used in the wastewater reclaim line of the world’s largest liquid crystal display (LCD) factory. This system, which removes ions and organic matter, is used not only in ultrapure water production lines but also in wastewater reclaim lines at many semiconductor and flat-panel display (FPD) plants, thereby helping to reduce environmental impact.

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Hiroshi Fujino
President

Our aims are to achieve a high level of customer satisfaction and to benefit society.

Performance Overview

The year in review saw strong demand for water treatment services from companies in the electronics industry. Demand from the basic materials and automobile industries also showed a recovery trend, supported by improved factory productivity and increased capital expenditures. By contrast, the public works sector of the market remained extremely harsh, due to shrinking government budgets and intensified competition.

Facing these challenges, Kurita strove to help customers solve their problems by delivering unrivaled added value and by strengthening its cost

competitiveness, the wellspring of its earnings. We also worked to develop appealing products and services, and technologies and new businesses more efficiently. As a result, we have achieved a further increase in earnings.

On a consolidated basis, total orders received during the period amounted to ¥171,334 million, up 14.4% from the previous fiscal year. Net sales grew 9.6%, to ¥160,896 million, and operating income climbed 18.2%, to ¥15,951 million. Net income increased 11.1%, to ¥9,383 million, and net income per share rose to ¥71.76, from ¥64.57.

Financial Highlights	Millions of Yen		Percentage Change	Thousands of U.S. Dollars
	2005	2004	2005/2004	2005
Years ended March 31				
For the year:				
Net sales	¥160,896	¥146,819	+9.6%	\$1,498,240
Operating income	15,951	13,490	+18.2	148,533
Income before income taxes	16,376	14,918	+9.8	152,491
Net income	9,383	8,444	+11.1	87,373
At year-end:				
Total assets	192,428	183,620	+4.8	1,791,861
Total shareholders' equity	136,366	128,676	+6.0	1,269,820
Per share of common stock:				
Net income	¥71.76	¥64.57		\$0.67
Cash dividends applicable to the year (parent company)	18.00	16.00		0.17

Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥107.39 to US\$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2005.

Kurita declared a year-end dividend of ¥9.00 per share, up ¥1.00, bringing total annual dividends to ¥18.00 per share after adding the ¥9.00 interim dividend. This payment reflects Kurita's basic profit distribution philosophy, which emphasizes consistent and stable dividends for shareholders, while giving due consideration to Kurita's earnings performance and need for funds to finance future business expansion.

Powerful Advance 2005

Japanese manufacturers constitute the bulk of Kurita's customer base. Their experience of prolonged recession and stiff competition has made them more demanding and selective in terms of the products and services they procure and the cost of those offerings. In addition, there are growing calls for companies to fulfill their corporate social responsibility to the extent that companies are becoming more environmentally conscious. To address these issues, Kurita needs to provide advanced solutions to help customers raise productivity, reduce costs and lower the impact of their production activities on the environment.

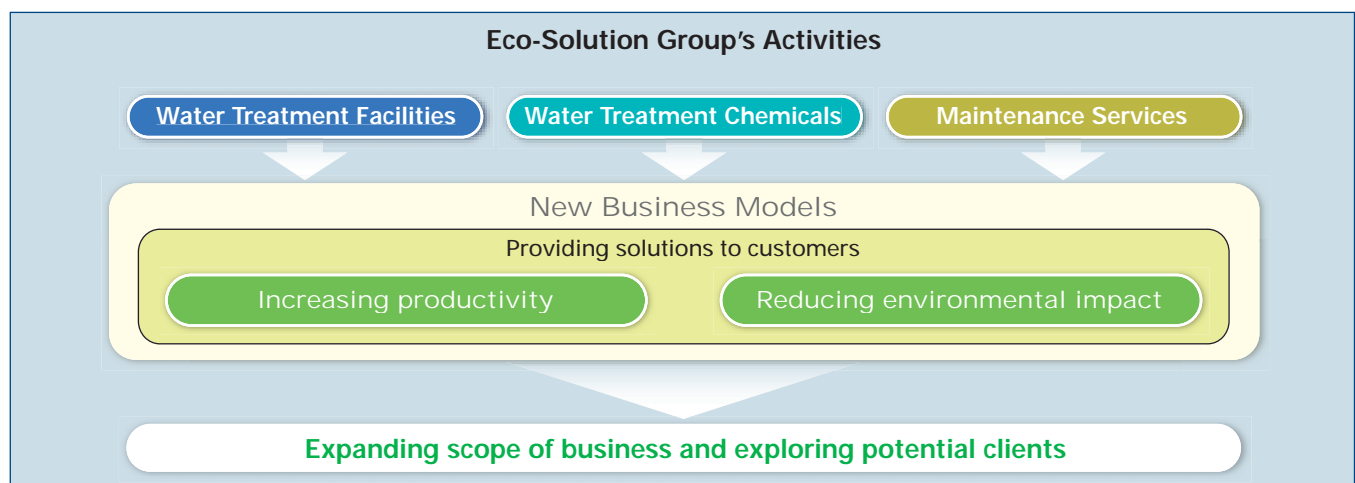
Kurita views this as an excellent opportunity to profoundly differentiate itself from its competitors by demonstrating the comprehensive strengths of the Kurita Group, encompassing technologies,

products and know-how related to "water and the environment." This view formed the basis of the Group's three-year medium-term management plan—Powerful Advance 2005 (PA-5)—currently in effect. The primary aim of PA-5 is to expand the Group's market share and business domains while responding appropriately to the needs of customers.

The year under review was the second period of the three-year management plan. Each company in the Group, keenly aware of its respective role under the plan, united to focus on the following key strategies.

(1) Expedite proactive business development in Japan and overseas

During the year under review, the Group expanded its "solutions" and "outsourcing" businesses. These are key to our new business model emphasizing integration of technologies and know-how in water treatment chemicals, water treatment facilities, and maintenance and other services. Our solutions and outsourcing businesses share a common theme: Rather than simply provide products in the form of water treatment chemicals and facilities, they instead focus on the essential factory-level needs of customers concerning higher productivity and lower environmental impact.



Our solutions business fully utilizes Kurita's wide-ranging technologies and know-how related to water treatment—built up over 55 years of involvement in conserving water and energy and reducing industrial waste. We achieve this by making and implementing proposals for optimizing the volume and types of water treatment chemicals used on-site, enhancing the factory-wide balance of water used, and by upgrading facilities. In April 2003, Kurita established the Eco-Solution Group to specialize in solving these types of issues. In the year under review, the Eco-Solution Group received orders totaling ¥5.4 billion, up from ¥1.7 billion in the previous fiscal year, and generated sales of ¥3.1 billion, up from ¥700 million.

Meanwhile, our outsourcing business was set up to take over responsibility for all facets of water treatment generally handled by customers. One good example is the Ultrapure Water Supply Business. Here, Kurita acts on behalf of the customer to build, own, operate and maintain water treatment facilities on the customer's site. In the period under review, we increased the number of outsourcing contracts to five, boosting total sales to ¥3.9 billion.

In China, we have established a framework for expanding our solutions business in a manner that utilizes the integrated strengths of the Kurita

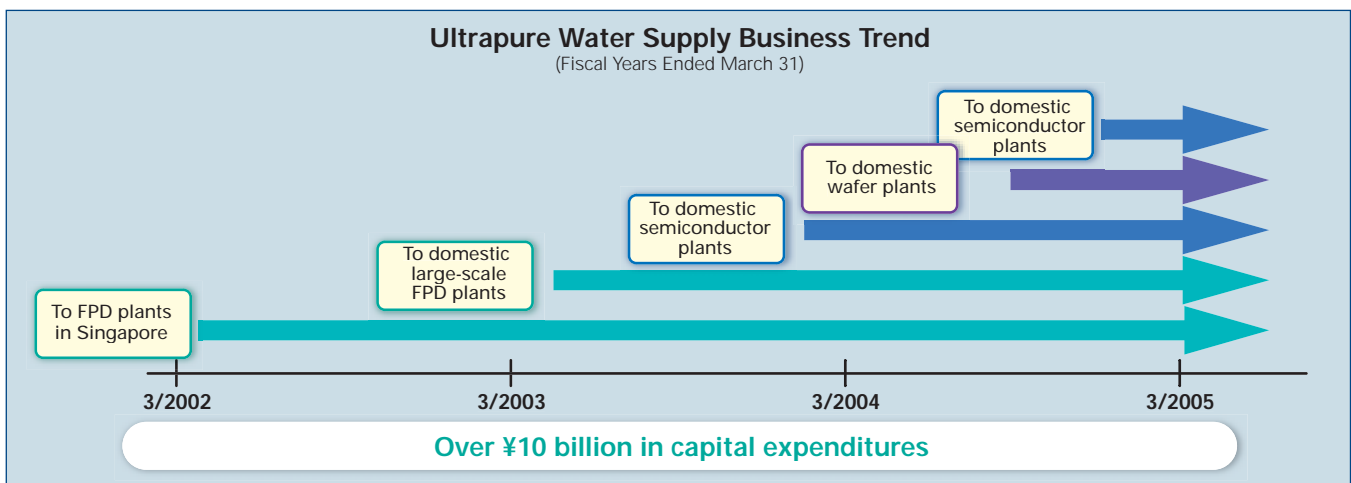
Group. This has been achieved through the collaborative efforts of three Group companies: Kurita Water Industries (Dalian) Co., Ltd., which manufactures and sells water treatment chemicals; Kuritec (Shanghai) Co., Ltd., which imports, sells and provides maintenance services for water treatment systems and facilities; and Kurita Water Industries (Suzhou) Ltd., a manufacturer of water treatment facilities that began full-scale operation in September 2004.

In this way, Kurita has developed an integrated business in China that encompasses the manufacture of water treatment chemicals and facilities, as well as sales and maintenance services.

In the water treatment chemicals business, Kurita transformed its two sales agencies into wholly owned subsidiaries and strengthened ties with customers in various regions to accelerate expansion of its market share.

(2) Bolster new product and new business development

Kurita channels significant resources into the development of new water treatment chemicals and water treatment facilities that will play an indispensable role in the future growth of the Group. We have also been working to make two businesses—water treatment equipment for fuel cells and hydrogen fueling stations for fuel cell



vehicles—into central pillars of our energy-related operations, now that fuel cell developers have reached the stage of field trials.

On the research and development (R&D) front, Kurita has decided to consolidate its two R&D operations into a single facility. This will entail (1) adding a new, cutting-edge research facility to the Business Development Center, which is engaged in new business development and research into ultrapure water; and (2) transferring the functions of the Technology Development Center, which focuses on basic research, to the Business Development Center. Through this consolidation, we will be able to expedite the entire R&D process, from research into basic technologies to development and commercialization of new products.

(3) Reduce costs and strengthen earnings potential

In the water treatment chemicals field, we switched to lower-cost raw materials and restructured our chemicals manufacturing framework. The latter action entailed reducing our three domestic manufacturing plants to two in March 2005. We also revamped our distribution centers and reduced production and distribution costs.

With regard to water treatment facilities, we established a “ready-made” system for standardizing facilities to meet the needs of customers demanding high product quality. At the same time, we worked to reduce construction costs by lowering design costs and shortening construction periods.

Outlook

In the current fiscal year, the Group foresees a mild improvement in the Japanese economy, supported by enhanced corporate-sector earnings and a recovery in capital expenditures. However, we

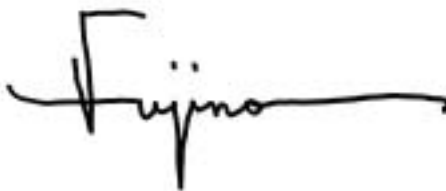
remain concerned that rising crude oil and raw materials prices could have a negative impact on this recovery.

The fiscal year ending March 31, 2006, is the final year covered by the PA-5 plan, and Kurita will exert every effort to fulfill all of the plan’s objectives. We are confident of achieving the initial targets of the plan: net sales of ¥175 billion, operating income of ¥20 billion and net income of ¥11.5 billion.

To attain these goals, we will continue expanding our solutions and outsourcing businesses. In the year under review, we established a new client-oriented framework for chemical sales, which we hope will boost our market share in the current fiscal year. Overseas, we will efficiently allocate management resources based on clear business plans tailored to the local characteristics of each region.

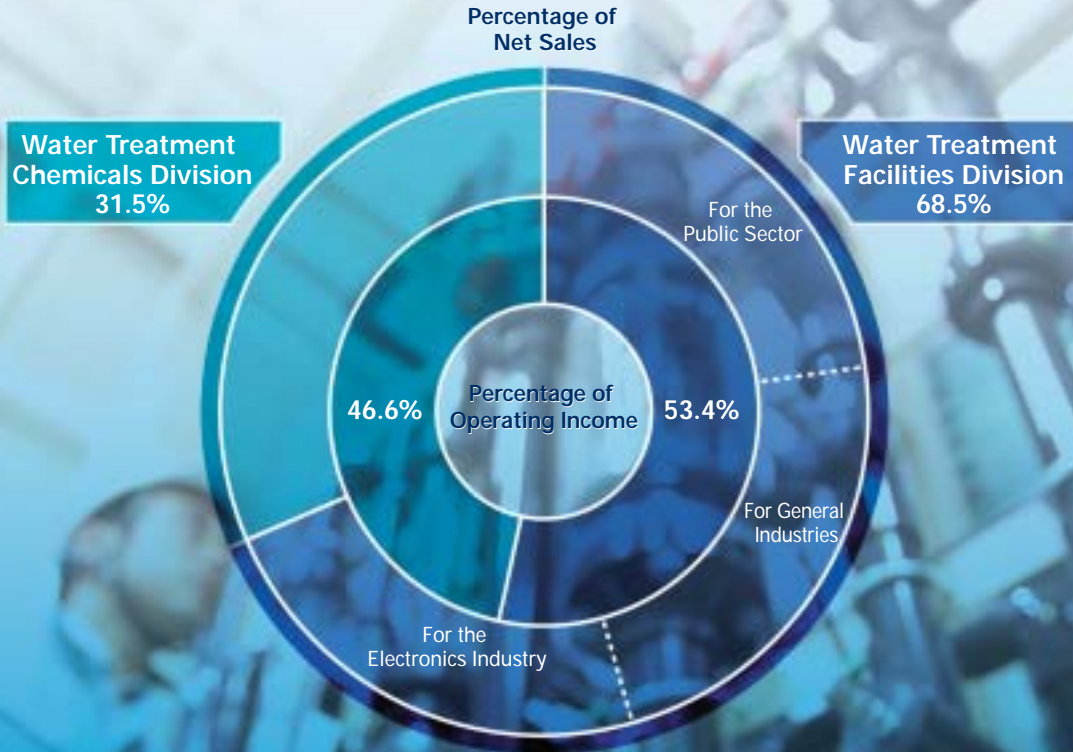
We will step up cost-reduction efforts aimed at strengthening our earnings potential. We expect that the reorganization of our chemical manufacturing plants, undertaken in the period under review, will begin to bear fruit in the current fiscal year. In the water treatment facilities business, we will strive to reduce overall costs by developing simpler systems and reassessing our purchasing structure, while more rigorously controlling construction costs. We are also confident that the integration of our R&D facilities, to take place in October 2005, will lead to faster development of new products and businesses in the future.

I look forward to the ongoing support of shareholders and other stakeholders in our future endeavors.



Hiroshi Fujino
President

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



Water Treatment Chemicals Division

PRINCIPAL PRODUCTS AND SERVICES

- Boiler water treatment chemicals
- Cooling water treatment chemicals
- Wastewater treatment chemicals
- Process treatment chemicals
- Incinerator chemicals
- Equipment and systems for water treatment chemicals
- Customized services
 - Steam supply services
 - Total water management for factories

Water Treatment Facilities Division

For the Electronics Industry

PRINCIPAL PRODUCTS AND SERVICES

- Ultrapure water production systems
- Wastewater reclaim systems
- Wastewater treatment systems
- Tool cleaning
- Operation and maintenance services
- Ultrapure Water Supply Business

For General Industries

PRINCIPAL PRODUCTS AND SERVICES

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

For the Public Sector

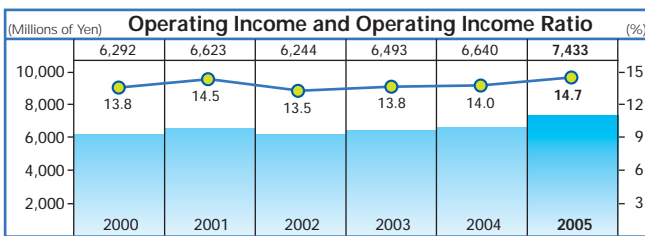
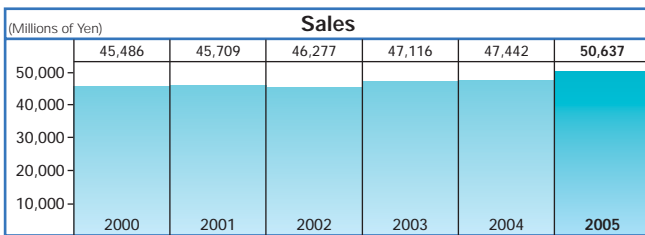
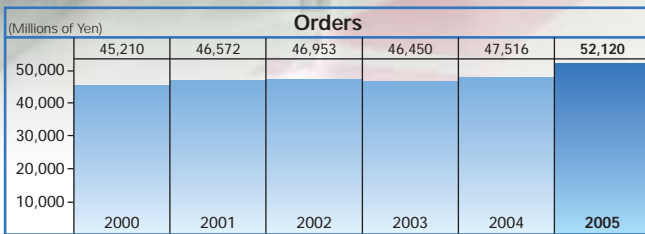
PRINCIPAL PRODUCTS AND SERVICES

- Sewage treatment facilities
- Night soil treatment facilities
- Waterworks facilities
- Landfill leachate treatment facilities
- Operation and maintenance services

Water Treatment Chemicals Division

Summary of Results

In the year under review, business conditions improved owing to higher plant productivity in the steel, oil, pulp and paper, and other basic materials industries. However, this was somewhat tempered by continuing cost-reduction measures by customers. In response, Kurita strove to deliver products and services that accurately reflect the problem-solving needs of customers. We also pursued cost savings by optimizing our purchasing and distribution systems, thereby enhancing profitability. As a result, total orders received for this segment increased 9.7%, to ¥52,120 million, while sales grew 6.7%, to ¥50,637 million. Operating income climbed 11.9%, to ¥7,433 million.



● Operating income ratio (right scale)

Selected Highlights	Millions of Yen		Percentage Change
	2005	2004	
Assets	¥43,433	¥39,391	+10.3%
Depreciation and amortization	1,465	1,548	-5.4
Capital expenditures	1,322	1,895	-30.2

Initiatives

■ New Products

During the period, Kurita offered a wide range of solution-based proposals and delivered highly functional, high-value-added products to customers, thus meeting their requirements for improved production efficiency and lower environmental impact.

For example, we developed and introduced new products for the pulp and paper manufacturing process that boast high levels of safety, minimal environmental load and improved yields. We also met the needs of customers for more sophisticated products by enhancing our lineup of chemicals for use in incinerators. These included a new product that decomposes dioxins, thus minimizing any detrimental environmental effects.

In the fiscal year ended March 31, 2003, we introduced a new line of boiler water treatment chemicals and cooling water treatment chemicals. To date, these products have earned high acclaim for their functionality and safety, prompting many customers to change over from the existing line of Kurita products. In Europe, favorable demand for our chemicals used in the petroleum processing industry, which provide high yields and reduced environmental impact, helped boost income in that region.

■ Establishment of Infrastructure

Kurita's sales network, which extends to every corner of Japan, enables the Kurita Group to prevent water treatment-related problems at client sites and swiftly respond to emergencies. This network includes more than 60 sales agencies, which constitute an important part of our sales activities. In the period under review, Kurita reorganized this network by transforming two agencies into wholly owned subsidiaries. This measure will enable us to bring our strategies to the sales frontline more swiftly and effectively, while providing more appropriate responses to customer needs.

On the manufacturing side, in recent years Kurita has sought to achieve cost reductions by optimizing raw materials procurement and the mix of products made by its manufacturing plants. This has largely been achieved by merging chemical manufacturing subsidiaries with the parent company and by transferring plant assets. In the year under review, we stepped up these measures. In March 2005, we closed one of our three domestic chemical plants in Japan, resulting in a domestic manufacturing system centering on two facilities. Although the plant that shut down had the latest automated facilities, it had been set up to mass-produce a small range of products. Through its closure, we are able to better meet market demand for small-lot production of a wide range of products. In short, we now have a manufacturing system that is more cost-effective than before.

Outlook

Kurita believes that the current fiscal year will bring further productivity improvements at the domestic plants of its client companies, especially those in the basic materials industries. However, we also envisage that customers pursuing cost-reduction measures will continue to place downward pressure on the prices of water treatment chemicals. Meanwhile, soaring prices of crude oil and other basic materials will exert upward pressure on the cost of materials used in our products.

Nonetheless, we view these trends as an excellent opportunity to make full use of our highly effective problem-solving capabilities, through which we can highlight our improved product appeal and the excellence of our sales system, which accurately reflects the needs of customers. Meanwhile, we will continue cultivating new businesses through the introduction of new products, while targeting expansion of our business in Asia, centering on the rapidly growing Chinese market.

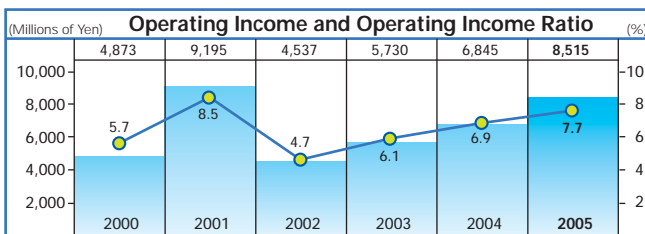
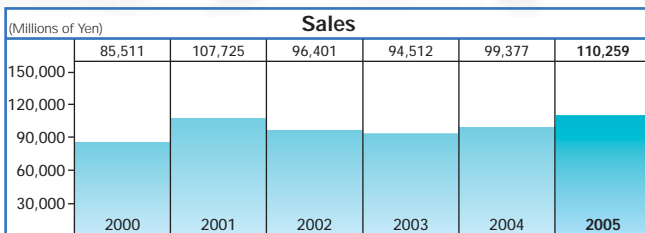
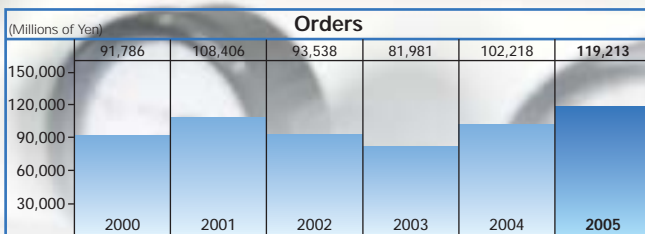
We expect to absorb increases in raw material prices by shifting our emphasis to high-value-added products. We will also begin to reap the benefits of the reorganization of our manufacturing framework, which will contribute to improved profitability.



Water Treatment Facilities Division

Summary of Results

The year in review was characterized by continued healthy capital expenditures in the electronics industry, as well as signs of a turnaround in capital expenditures in the domestic basic materials sector in the wake of improved corporate earnings. As a result, total orders received for this segment increased 16.6%, to ¥119,213 million, while sales grew 11.0%, to ¥110,259 million. Segment operating income jumped 24.4%, to ¥8,515 million.



● Operating income ratio (right scale)

Selected Highlights

	Millions of Yen		Percentage Change
	2005	2004	
Assets	¥108,025	¥94,402	+14.4%
Depreciation and amortization	2,895	2,323	+24.6
Capital expenditures	5,383	7,822	-31.2

Electronics Industry

Summary of Results

Capital expenditures by leading domestic semiconductor manufacturers as well as Japanese and Korean FPD manufacturers remained strong. Orders for ultrapure water production systems were brisk and our Ultrapure Water Supply Business posted steady growth. Our maintenance services and tool cleaning business also performed well. Consequently, orders received rose 14.0%, to ¥56.4 billion, and sales climbed 21.8%, to ¥54.9 billion.

Functional Water Production Equipment



Functional water, ultrapure water with either hydrogen or ozone dissolved in it, is used in semiconductor and FPD production processes as a substitute for chemical cleaning agents, thereby cutting production costs and helping lower environmental impact.

Growing Outsourcing Business

In the year under review, Kurita achieved steady growth in its Ultrapure Water Supply Business. Here, we handle the entire process for water treatment facilities, from construction and ownership to operation and maintenance. This business model requires minimal initial investment from customers because, in principle, they only pay for the amount of water they use. By leaving the operation and maintenance of their water treatment facilities to Kurita, an expert in the field, customers do not need to recruit personnel for facility operation. They also benefit from a constant supply of high-quality, ultrapure water. This system has been well received by customers, who prefer to concentrate their resources in their core businesses to enhance competitiveness. For Kurita as well, this system has transformed its business structure into one that is not easily influenced by capital investment trends in the electronics industry.

As of March 31, 2005, Kurita had four contracts in Japan and one overseas to provide this service. To date, we have invested more than ¥10 billion in this business, which generated domestic and overseas sales of ¥3.9 billion in the year under review.

Outlook

In the fiscal year ending March 31, 2006, we anticipate a struggle in procuring orders for water treatment facilities, owing to predictions of a decline in large-scale capital spending projects. In response, we will continue to reinforce our maintenance capabilities and our tool cleaning services. In ultrapure water supply, we will grow our business by expanding facilities for existing customers while initiating new construction projects. For the period, we plan to invest around ¥10 billion in this business.

Concept of Ultrapure Water Supply Business

Customer Plant

Semiconductor/
FPD production lines

Supply ultrapure water

Payment of fees

- Ownership
- Operation
- Maintenance

Kurita

Ultrapure water
production
systems



General Industries

Summary of Results

In the year under review, companies in the steel, petrochemicals and automobile industries moved to update outmoded equipment and facilities against a backdrop of strong demand from China. Consequently, orders received increased 33.5%, to ¥37.1 billion. Sales rose 6.0%, to ¥32.0 billion.

New Demand for Water Treatment

Kurita's major customers are manufacturers, many of whom have sought to enhance their competitiveness by streamlining and consolidating production facilities and diversifying their product lines. They are also rebuilding their production systems to expand capacity and thus grow their businesses. In many cases, however, modifications to product lines and production systems lead to major changes in the nature of wastewater generated and the volume to be treated. Raising the capacity of wastewater treatment facilities, therefore, is an important task for customers. In addition, rising social concern over environmental issues in recent years has boosted demand for improved wastewater treatment facilities as a means of reducing environmental impact.

Responding to this situation, in April 2003 Kurita established the Eco-Solution Group as a specialist entity dedicated to solving customers' problems. Since then, it has offered value-added proposals aimed at minimizing environmental impact, conserving energy and natural resources and lowering costs.

Examples of the Eco-Solution Group's activities include proposals for optimal configuration of wastewater treatment facilities, proposals for reducing waste generated through more efficient facility operation, and proposals for saving water and lowering water supply and sewage costs via collection and reuse of wastewater. This new approach to business will serve to strengthen Kurita's ties with its customers and further underpin business expansion.

Outlook

Japan's basic materials industries, centering on steel and petrochemicals, are expected to increase production, which should lead to firm demand for construction of new water treatment facilities or expansion of existing ones. In response, Kurita will strengthen its solutions capabilities, spearheaded by the Eco-Solution Group. In this way, we will work to uncover latent demand by helping customers cut costs and minimize the environmental impact of their water treatment facilities.

In the soil remediation market, Kurita will continue providing mainstay soil remediation services for customers without requiring them to halt their factory operations. In addition, we will focus on meeting remediation needs accompanying sales of large tracts of landholdings by major manufacturers seeking to restructure their asset portfolios.

Soil Remediation Business



■ Kurita possesses a broad array of soil remediation technologies. Since commencing this business, we have handled over 700 projects, making us one of Japan's leading soil remediation service providers.

Summary of Results

Amid constrained spending by regional authorities and shrinking budgets for public works projects, orders for sewage treatment facilities declined slightly due to intensified competition. This was offset to some degree by an increase in orders for night soil treatment facilities, owing to Kurita's technical edge in this area. As a result, total orders received increased 3.0%, to ¥25.7 billion, but sales declined 3.1%, to ¥23.4 billion.

New Technologies for a Recycling-Oriented Society

Kurita is constantly developing new products to address society's needs related to the environment. In the year under review, for example, we developed the Stellar® System, a highly efficient system for treating sewage and sludge. Previously, the anaerobic digestion processes were widely used for sludge reduction in midsize to large-scale sewage treatment plants through the fermentation of organic matter, producing biogas (a saturated gas consisting primarily of methane and carbon dioxide).

The Stellar® System greatly improves fermentation efficiency by augmenting the anaerobic digestion process with Kurita's proprietary ozone treatment technology. This reduces the amount of sludge to be disposed to less than one-third of previous levels, while also raising the amount of biogas generated by around 30%. Kurita will continue developing new technologies that contribute to the emergence of a recycling-oriented society.

Outlook

Kurita foresees a challenging time ahead in the public works sector, owing to ongoing budget constraints for sewage treatment facilities, as well as changes to the national government's budget system. In response, Kurita will concentrate on renewing and upgrading existing facilities, by leveraging its outstanding track record in operating more

than 100 night soil treatment facilities nationwide. We will also focus on expanding sales of our proprietary system for sewage sludge reduction, which uses the powerful oxidation effect of ozone to reduce excess organic sludge produced during sewage treatment. At the same time, we will work proactively to develop drinking water purification systems utilizing advanced membrane technology while addressing the needs of privately financed initiative (PFI) projects.

The Stellar® System



■ The Stellar® System is based on Kurita's original ozone treatment technology, which achieves reduced sludge from sewage treatment and increased biogas generation.



Building Businesses to Meet the New-Energy Challenge

Kurita is now actively engaged in the development of new environmental businesses and novel technologies that help reduce society's environmental impact. Under its PA-5 plan, Kurita is particularly focused on new-energy businesses that will play a crucial role over the coming decades. These include projects related to the development of hydrogen fueling stations, which will be used by fuel cell vehicles (FCVs), and the commercialization of stationary fuel cells targeted at retail and industrial users.

Participation in a Government-Sponsored Project to Develop Hydrogen Fueling Stations

During the fiscal year ended March 31, 2004, Kurita became the first water treatment company to take part in the Japan Hydrogen & Fuel Cell (JHFC) Demonstration Project led by the Ministry of Economy, Trade and Industry (METI). The project includes the development of a network of hydrogen fueling stations, which is seen as one of the key preconditions to the widespread adoption of FCVs. As part of the project, Kurita teamed up with Sinanen Co., Ltd., and Itochu Enex Co., Ltd., to construct a hydrogen fueling station in Sagamihara, Kanagawa Prefecture, which was opened in May 2004. The station, which is the first in the world to operate alongside an existing liquefied petroleum gas (LP gas) filling station, is currently being run on a test basis.

The Sagamihara Hydrogen Station consists of a hydrogen generator and compressor mounted on a truck and gas storage facilities and dispenser, which are installed permanently at the site. Since the hydrogen generator and compressor are mobile and may be used to serve several hydrogen stations, the initial set-up costs of each hydrogen station are reduced. At the system's core—the hydrogen generator—lies Kurita's characteristic alkaline electrolysis technology for producing hydrogen directly from ordinary tap water and electricity. By maximizing the system's strengths and utilizing the limited space available at an existing LP gas station, the project partners were able to achieve a world first in constructing a hydrogen/LP gas dual facility. It is hoped that the practical application of this system will lead to the early spread of hydrogen stations by capitalizing on the existing network of LP gas stations covering the whole of Japan.

Commencement of Field Testing of Stationary Fuel Cells for Commercial Users

The Japanese government has already announced capacity targets of 1.2 million kW for 1 kW-class home-use fuel cells and 900,000 kW for 5 kW-class commercial-use fuel cells by 2010. For this reason, the market for stationary fuel cells is expected to emerge over the next few years.

At present, Kurita is involved in a fuel cell demonstration project sponsored through funding from Mie Prefecture and Yokkaichi City. Project participants include fuel trading firms Sinanen and Mie Shinagawa Sangyo K.K., Mie University and Mie Prefectural Science and Technology Promotion Center. The project features testing of a stationary fuel cell using a hydrogen-permeable membrane-type fuel reformer. By applying a hydrogen-permeable membrane, it is possible to refine hydrogen to a purity of over 99.9%, making the fuel cell stack more efficient and also simplifying the system owing to the elimination of the need for a conventional hydrogen refinement process.

Since its establishment, the Kurita Group has worked to protect the environment and raise its customers' productivity and product quality by providing a wide range of environmental technologies to industry and society. We will continue to refine, renew and reinforce our accumulated water treatment and environmental protection technologies by pursuing R&D through offering integrated environmental solutions to industry and society.

Kurita's R&D activities are conducted principally by the parent company's Research and Development Division and the technical development departments of each operating division. Approximately 200 employees are involved in R&D, accounting for around 6.0% of overall Group personnel. Total research and development expenses for the fiscal year ended March 31, 2005, amounted to ¥4,228 million, equivalent to 2.6% of net sales.

Water Treatment Chemicals

In this segment, we not only develop chemicals that meet customers' needs in terms of conserving energy and resources and cutting costs, but also focus on reducing the environmental impact of water treatment by developing new environment-friendly materials and non-chemical water treatment processes. We also develop solution-based technologies to support the maintenance services that we provide on a contract basis for chemical water treatment, as part of our comprehensive water treatment management offerings.

Major achievements in this segment during the year under review include the development of:

- an extremely effective and safe slime control agent for cooling water systems in refineries and petrochemical factories;
- emulsion defoaming, felt conditioning and size fixing agents to raise the productivity of pulp and paper manufacturing processes;
- a chemical feed optimizing system for dehydrating processes.

Research and development expenses in the Water Treatment Chemicals segment totaled ¥1,552 million.

Water Treatment Facilities

Kurita pursues ongoing R&D in environmental protection technologies via anticipating changes in future environmental regulations. At the same time, we conduct R&D for a sustainable society, including development of technologies for wastewater reclamation and reusability and sludge volume reduction. We have also modified our water treatment equipment to make it more compact and have shifted our facilities from a custom-made configuration to a modular base system.

Key achievements in this segment during the year under review include the development of:

- a highly stable and cost-saving wastewater reclamation system for the electronics industry, as well as a fluoride-containing wastewater treatment system;
- a sensor-based operation supporting system for activated sludge processes to prevent bulking problems;
- a landfill leachate treatment system consisting only of physicochemical processes that employ an evaporator system.

Research and development expenses in the Water Treatment Facilities segment amounted to ¥2,675 million.

Basic Stance

Guided by its corporate philosophy, Kurita pursues its activities in the fields of water and environmental management with the aim of broadly contributing to society while meeting the expectations of shareholders and other stakeholders. To effectively realize these objectives, we need to enhance operating efficiency and improve corporate value over the long term. Our basic stance with respect to corporate governance is to establish and rigorously implement systems geared toward maximizing corporate value.

Corporate Governance System

The Kurita Group adopts a corporate auditor system with four corporate auditors, including two outside auditors. Both outside auditors, one of whom is an attorney, have no vested interests in the Group. The corporate auditors carry out audits of the Group based on policies and lines of authority determined by the Board of Corporate Auditors. They also monitor and audit the job performances of representative directors and the managerial actions of directors.

As of June 29, 2005, the Board of Directors consisted of 13 members, including one outside director. The Board makes decisions on management policies and other important operating matters, and also monitors and audits the job performances of representative directors.

The Auditing Department, which reports directly to the president, was set up to upgrade the Group's internal auditing capabilities. Also under the president's direct jurisdiction is the Compliance Committee. With representation across the Group, the Committee is charged with reinforcing Kurita's compliance-related capabilities.

The Executive Committee has four directors as members, including the representative director. The Committee's job is to discuss important matters pertaining to management and support the decision-making function of the Board of Directors.

To strengthen its business execution capabilities, in June 2005 Kurita introduced an executive officer system and appointed five executive officers.

Internal Controls and Risk Management

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

■ Auditing Department

The Auditing Department reports directly to the president. It conducts internal audits, including of other Group companies, to pinpoint issues and problems related to the execution of business, and submits corrective proposals to the president.

■ Compliance Committee

The establishment of the Compliance Committee, which reports directly to the president, reflects the priority placed by management on ensuring legal and ethical compliance. The Committee oversees the activities of smaller compliance committees set up in each business division. In the year under review, Kurita commenced compliance-related initiatives covering overseas companies in the Kurita Group.

For the Kurita Group, compliance means not only respecting the law but also ensuring wide-ranging ethical behavior based on five objectives: fairness, transparency, sincerity, safety and harmonious coexistence. To this end, the Group formulated its Business Ethics Charter in 2000. To further upgrade its compliance activities, the Group has an internal consulting hotline and an advisory desk operated from outside the Group.

■ Safety & Hygiene Committee

Reporting directly to the president, the head office's Safety & Hygiene Committee coordinates the activities of safety and hygiene committees in each workplace, as well as of committees in the manufacturing departments, head office, branches, sales offices and other places of business. The Committee works to improve safety and hygiene management across all workplace and business activities—involving not only Group companies but also business partners. Its specific tasks include safety and hygiene education initiatives, accident prevention activities in the manufacturing departments, pre-construction risk assessments and under-construction safety patrols. In addition to preventing disasters in these ways, the Committee also is actively involved in health management, including the mental health of employees.

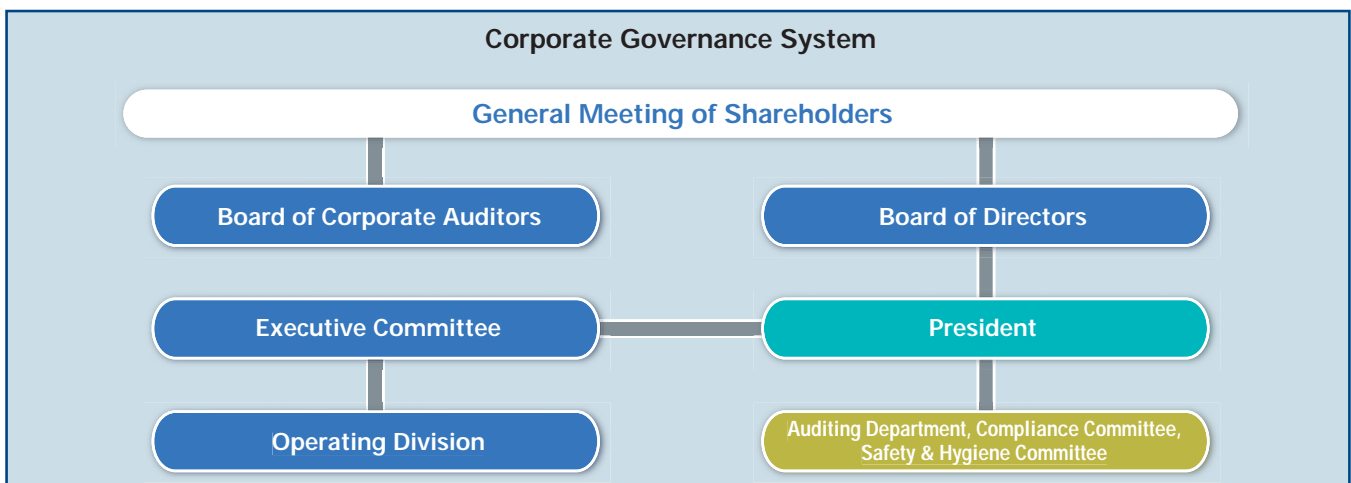
Audit Status

■ Internal Audits

As described earlier, the Auditing Department, reporting directly to the president, conducts internal audits of all Group companies, carrying out audits at the request of the president. The Department also submits proposals for corrective measures as necessary and monitors the implementation status of presidential directives resulting from such proposals.

■ Audits by Board of Corporate Auditors

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



Board of Directors and Corporate Auditors

President* Hiroshi Fujino

Executive Senior Managing Director* Takuo Ishida General Manager of Chemicals and Maintenance Services Division

Managing Directors Hiroshi Saitou General Manager of Corporate Planning Department

Kazufumi Moriuchi General Manager of Facility Management Service Division

Directors Toshiaki Deguchi General Manager of Research and Development Division

Yoshinobu Watanabe General Manager of Geo-Environment Group,
Facility Management Service Division

Mitsuru Ogawa General Manager of Administrative Division

Norio Takahashi General Manager of Osaka Branch

Shigeto Tamura General Manager of Environmental Water Treatment Division

Tetsuo Saeki General Manager of Global Business Group,
Facility Management Service Division

Kaoru Kajii General Manager of Operations Control & Procurement Division

Toshiyuki Nakai General Manager of Corporate Planning Group

Toru Matsushima

Corporate Auditors Tohru Ishizaka

Chiaki Kuzuu

Masahiko Kurita

Kazuma Yura

*Representative Director

(As of June 29, 2005)

FINANCIAL SECTION

Selected Financial Data

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

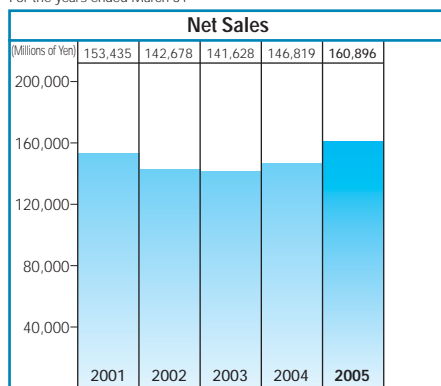
	Millions of yen					
	2005	2004	2003	2002	2001	2000
For the year:						
Net sales	¥160,896	¥146,819	¥141,628	¥142,678	¥153,435	¥130,998
Cost of sales	112,077	101,433	97,846	99,039	105,587	88,174
Selling, general and administrative expenses	32,867	31,895	31,474	32,848	32,030	31,619
Operating income	15,951	13,490	12,307	10,790	15,817	11,203
Income before income taxes	16,376	14,918	10,263	9,121	14,727	8,615
Net income	9,383	8,444	5,476	5,670	8,366	4,648
Capital expenditures	6,706	9,718	6,198	4,760	3,079	2,558
Research and development (R&D) expenses	4,228	4,289	4,484	5,071	4,743	5,164
Depreciation and amortization	4,361	3,872	3,307	3,487	3,268	3,553
At year-end:						
Total current assets	116,400	118,923	107,180	103,490	115,263	111,017
Total current liabilities	44,465	42,954	38,643	36,585	51,625	41,633
Total shareholders' equity	136,366	128,676	120,969	122,590	119,209	113,383
Total assets	192,428	183,620	173,689	172,145	183,175	165,297
Amounts per share of common stock (yen):						
Net income	71.8	64.6	40.7	42.9	63.2	35.1
Shareholders' equity	1,058.9	999.7	939.8	926.5	900.8	856.8
Cash dividends applicable to the year (parent company)	18.0	16.0	16.0	16.0	16.0	17.0
Ratios:						
Return on assets (ROA) (%)	5.0	4.7	3.2	3.2	4.8	2.8
Return on sales (%)	5.8	5.8	3.9	4.0	5.5	3.5
Total assets turnover (times)	0.9	0.8	0.8	0.8	0.9	0.8
Shareholders' equity ratio (%)	70.9	70.1	69.6	71.2	65.1	68.6
Return on equity (ROE) (%)	7.1	6.8	4.5	4.7	7.2	4.2

Operating Environment

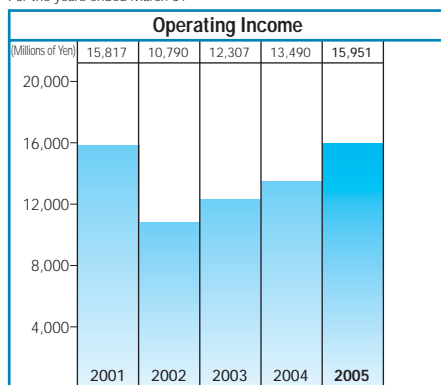
The market environment for the Kurita Group was characterized by firm demand for services related to water treatment, centering on Japan, South Korea, Taiwan and China. In various industries, notably basic materials and automobile, demand recovered in the wake of higher operating ratios and capital expenditures. Conditions in the public sector market, however, remained difficult, owing to shrinking public works budgets, stiffer competition and mergers of cities, towns and villages nationwide.

Performance

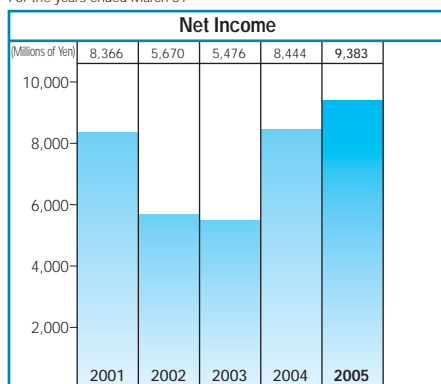
For the years ended March 31



For the years ended March 31



For the years ended March 31



Net Sales

Consolidated net sales for the fiscal year ended March 31, 2005, amounted to ¥160,896 million, up 9.6% from the previous fiscal year. This increase stemmed from improved revenues in both of Kurita's principal business segments.

Despite a continuation of difficult business conditions from the preceding year, the Water Treatment Chemicals segment generated a 6.7% increase in sales, to ¥50,637 million. This was due to a number of factors, including reinforcement of ties with customers, adoption of a consulting-style sales approach aimed at directly confronting customers' problems, and the pursuit of customized services, including packaged water treatment management contracts. Sales in the Water Treatment Facilities segment rose 11.0%, to ¥110,259 million, owing to increased sales of ultrapure water production systems to the electronics industry and solid sales of various products and services to general industries.

Gross Profit

Gross profit climbed 7.6%, to ¥48,819 million, but the gross margin edged down 0.6 percentage point. This was mainly the result of the increased share in sales of water treatment facilities with relatively low profit margins.

Operating Income

Operating income climbed 18.2%, to ¥15,951 million. Selling, general and administrative (SG&A) expenses grew 3.0%, to ¥32,867 million, due primarily to an ¥869 million rise in personnel expenses (salaries, provision for employees' bonuses and retirement benefit expenses). Thanks to the solid increase in net sales, the ratio of SG&A expenses to net sales declined 1.3 percentage points, to 20.4%.

Income before Income Taxes

Income before income taxes grew 9.8%, to ¥16,376 million, due mainly to a decline in gain on sale of investments in securities and the elimination of foreign exchange losses and loss on write-down of land.

Net Income

Owing to the increase in income before income taxes, net income advanced 11.1%, to ¥9,383 million. Net income per share rose from ¥64.57 to ¥71.76.

Segment Information

For the years ended March 31

(Millions of Yen)

	2005	2004	2003	2002	2001
Orders (not included in the Consolidated Statements of Income: shown for reference purposes only)					
Water Treatment Chemicals	52,120	47,516	46,450	46,953	46,572
Water Treatment Facilities	119,213	102,218	81,981	93,538	108,406
Total	171,334	149,735	128,431	140,492	154,979
Net sales					
Water Treatment Chemicals	50,637	47,442	47,116	46,277	45,709
Water Treatment Facilities	110,259	99,377	94,512	96,401	107,725
Total	160,896	146,819	141,628	142,678	153,435
Operating income					
Water Treatment Chemicals	7,433	6,640	6,493	6,244	6,623
Water Treatment Facilities	8,515	6,845	5,730	4,537	9,195
Elimination or corporate	1	5	82	8	(2)
Total	15,951	13,490	12,307	10,790	15,817

Water Treatment Chemicals

During the year, business conditions benefited from higher operating ratios in the steel, oil, pulp and paper, and other basic materials industries. However, customers continued to reduce costs and competition intensified, causing downward pressure on product prices. In response, Kurita leveraged its nationwide sales network and adopted a more customer-oriented sales approach, in an effort to deliver products and services that accurately reflect customers' needs. At the same time, we strove to boost earnings through optimization of purchasing and distribution aimed at minimizing costs.

As a result, orders received in this segment rose 9.7%, to ¥52,120 million. Segment sales grew 6.7%, to ¥50,637 million, and operating income climbed 11.9%, to ¥7,433 million.

Water Treatment Facilities

In this segment, Kurita boosted both orders and sales of ultrapure water production and other water treatment systems; solutions related to water treatment; outsourcing services; and maintenance and other services. Orders received jumped 16.6%, to ¥119,213 million, and sales grew 11.0%, to ¥110,259 million. Segment operating income surged 24.4%, to ¥8,515 million, as Kurita worked to simplify its systems, while also reassessing its purchasing structure and reducing costs by standardizing its product designs.

Electronics Industry

In the electronics industry, leading domestic semiconductor manufacturers and FPD-related companies pursued aggressive capital expenditure programs. Overseas, South Korean manufacturers continued targeting proactive capital expenditures, but some LCD makers in Taiwan opted to postpone major outlays.

Against this background, capital investments by Kurita's major customers in Japan were brisk, leading to steady expansion of its Ultrapure Water Supply Business. Demand for our tool cleaning services was also strong. As a result, orders received from the electronics industry rose 14.0%, to ¥56.4 billion, and sales jumped 21.8%, to ¥54.9 billion.

General Industries

In the year under review, companies in the domestic steel, petrochemicals and automobile industries increased production and actively replaced aging equipment, mainly in response to surging demand in China. In the soil remediation business, we saw signs of growing demand for soil-related services, particularly soil assessment and remediation of land previously occupied by factories.

In this environment, Kurita reported higher orders from companies in the domestic steel, petrochemicals and automobile industries, and an increase in orders for its soil remediation services. Total orders received from general industries surged 33.5%, to ¥37.1 billion. Large-scale projects are usually concentrated in the fourth quarter of each financial year, and, as a result, sales from such projects are not recorded until the following year. Consequently, the increase in sales was limited to 6.0%, for a total of ¥32.0 billion.

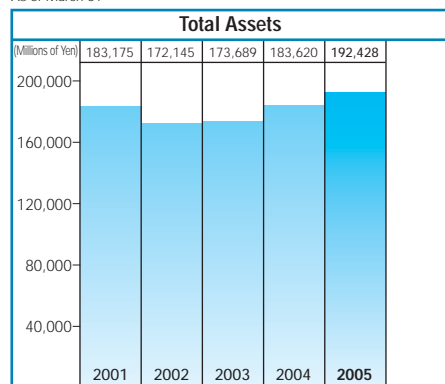
Public Sector

The public sector continued to be plagued by financial difficulties among regional government entities and a shrinking national budget. As a result, domestic public works expenditures remained on the decline. Due to intense competition, orders for sewage treatment facilities decreased slightly, but Kurita exploited its technological edge to attract orders for large-scale night soil treatment facilities. We provide ongoing operation and maintenance services for more than 100 facilities nationwide, which generated stable orders and sales during the period.

Orders received from public sector entities therefore rose 3.0%, to ¥25.7 billion, while sales slipped 3.1%, to ¥23.4 billion.

Liquidity and Capital Resources

As of March 31

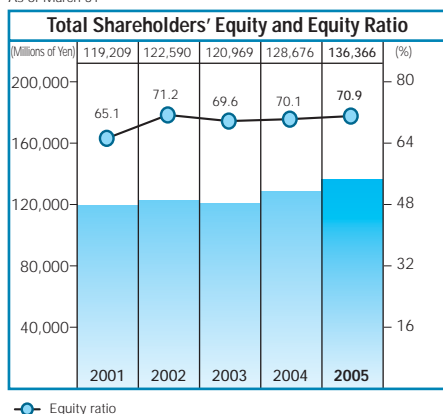


Financial Position

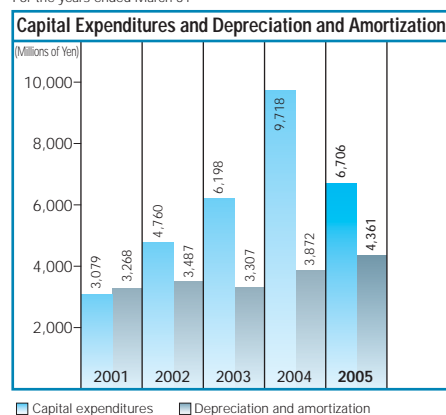
At fiscal year-end, total current assets amounted to ¥116,400 million, down ¥2,523 million from a year earlier. Significant factors included a ¥4,435 million increase in notes and accounts receivable, trade; a ¥4,833 million decline in cash and time deposits; and a ¥3,926 million drop in marketable securities. The rise in notes and accounts receivable, trade, resulted primarily from the increase in sales of water treatment facilities. The decline in cash and time deposits was attributed to Kurita's purchase of investments in securities and fixed assets.

Total noncurrent assets, comprising investments and long-term receivables; property, plant and equipment, at cost; and other assets, amounted to ¥76,028 million, up ¥11,331 million. This stemmed mainly from a ¥2,184 million rise in property, plant and equipment, net—as Kurita invested in

As of March 31



For the years ended March 31



Cash Flows

facilities for its Ultrapure Water Supply Business—and a ¥7,376 million increase in investments in securities.

Total current liabilities stood at ¥44,465 million, up ¥1,511 million, due principally to a ¥1,275 million rise in notes and accounts payable, trade. This increase was primarily a result of higher materials, outsourcing and other costs associated with the increase in net sales.

Total long-term liabilities were down ¥473 million, to ¥10,485 million, owing mainly to a ¥460 million decline in accrued employees' retirement benefits.

Total shareholders' equity at fiscal year-end amounted to ¥136,366 million, up ¥7,690 million from a year earlier, thanks to a ¥7,138 million rise in retained earnings stemming from the ¥9,383 million in net income.

At March 31, 2005, total assets amounted to ¥192,428 million, up ¥8,808 million from a year earlier. Net assets per share increased to ¥1,058.90, from ¥999.63. The equity ratio rose 0.8 percentage point, from 70.1% to 70.9%.

Capital Expenditures

At present, all of the funds required for the Kurita Group's working capital and capital investments are generated internally, and external fund-raising is not necessary at this stage. In the year under review, the Group made capital expenditures of ¥6,706 million, down ¥3,012 million. It invested ¥1,322 million in its water treatment chemicals business, mainly in equipment for packaged water treatment management services, as well as in remote monitoring systems and construction of a warehouse and distribution center. The Group also invested ¥5,383 million in its water treatment facilities business, mainly to purchase production systems for its Ultrapure Water Supply Business and expand its tool cleaning facilities.

The Group enjoys a healthy financial position and is capable of generating ample cash flows from its operating activities. Therefore, the Group believes that it currently has sufficient funds for future capital investments and working capital.

Net cash provided by operating activities amounted to ¥8,297 million, up ¥2,723 million from the previous period. Factors boosting operating cash flows included ¥16,376 million in income before income taxes and ¥4,361 million in depreciation and amortization. Factors holding down operating cash flows included a ¥4,494 million increase in trade receivables, accompanying the increase in net sales, as well as ¥6,479 million in income taxes paid.

Net cash used in investing activities totaled ¥10,669 million, up ¥10,523 million from the preceding year. This stemmed mainly from ¥13,134 million in payments for purchase of marketable securities and investments in securities, and ¥5,905 million in payments for purchase of property, plant and equipment.

Management Discussion and Analysis (Consolidated)

Net cash used in financing activities amounted to ¥2,422 million, up ¥702 million. This increase derived primarily from ¥2,185 million in cash dividends paid.

As a consequence, cash and cash equivalents at end of year stood at ¥30,365 million, down ¥4,772 million from a year earlier.

Risk Factors

There are a number of major risk factors that can potentially affect the Kurita Group's financial performance. These include economic trends, the status and operating ratios of customers' water treatment-related facilities, public sector investment budgets, raw materials prices and competition from other companies in the same industry. Specific factors that can affect our performance, by segment, are described below.

In the Water Treatment Chemicals segment, our business is affected by demand fluctuations determined by the plant operating ratios of our customers in the steel, oil, and pulp and paper industries. In the Water Treatment Facilities segment, our business is influenced mainly by demand fluctuations resulting from capital expenditures in the electronics industry, a major source of demand. Also impacting this segment are public sector-related factors, such as the financial condition of regional government entities and their budgetary practices.

In addition, sales and earnings in the Water Treatment Facilities segment are generally concentrated in the second half of the fiscal year. This reflects revenue accounting based on work-in-progress standards and the completion of large-scale projects, centering on public sector demand, which are weighted disproportionately toward the end of the financial year, causing operating income from such projects to be concentrated in the second half.

For the years ended March 31

(Millions of Yen)

	2005			2004			2003		
	1st Half	2nd Half	Total	1st Half	2nd Half	Total	1st Half	2nd Half	Total
Water Treatment Chemicals									
Sales	24,760	25,877	50,637	23,645	23,797	47,442	23,214	23,902	47,116
Operating income	3,951	3,482	7,433	3,273	3,367	6,640	3,609	2,884	6,493
Water Treatment Facilities									
Sales	46,409	63,850	110,259	40,936	58,441	99,377	38,520	55,992	94,512
Operating income	2,493	6,022	8,515	843	6,002	6,845	721	5,009	5,730

Consolidated Statements of Income

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Net sales	¥160,896	¥146,819	¥141,628	\$1,498,240
Cost of sales	112,077	101,433	97,846	1,043,645
Gross profit	48,819	45,386	43,781	454,595
Selling, general and administrative expenses (Note 6)	32,867	31,895	31,474	306,053
Operating income	15,951	13,490	12,307	148,533
Other income (expenses):				
Interest and dividend income	356	409	416	3,315
Interest expenses	(38)	(27)	(17)	(354)
Gain on sale of investments in securities	128	1,414	—	1,192
Equity in earnings of nonconsolidated subsidiaries and affiliates	244	208	143	2,272
Loss on write-down of investments in securities	—	—	(822)	—
Loss on write-down of properties	(477)	(499)	—	(4,442)
Loss on write-down of inventories	(90)	—	—	(838)
Amortization of unrecognized effect of change in accounting for employees' retirement benefits	—	—	(1,162)	—
Foreign exchange losses	—	(151)	(214)	—
Other, net	301	74	(385)	2,803
	425	1,428	(2,043)	3,958
Income before income taxes	16,376	14,918	10,263	152,491
Income taxes (Note 12):				
Current	6,603	6,089	4,957	61,486
Deferred	234	257	(283)	2,179
	6,838	6,347	4,674	63,674
Minority interests in earnings of consolidated subsidiaries	154	126	112	1,434
Net income	¥ 9,383	¥ 8,444	¥ 5,476	\$ 87,373

	Yen			U.S. dollars (Note 1)
	2005	2004	2003	2005
Per share of common stock:				
Net income	¥71.76	¥64.57	¥40.67	\$0.67
Cash dividends applicable to the year	18.00	16.00	16.00	0.17

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Kurita Water Industries Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current assets:			
Cash and time deposits (Note 8)	¥ 30,679	¥ 35,512	\$ 285,678
Notes and accounts receivable, trade	71,116	66,681	662,222
Allowance for doubtful accounts	(156)	(140)	(1,453)
Marketable securities (Note 9)	2,794	6,720	26,017
Inventories (Note 10)	8,075	6,713	75,193
Deferred tax assets (Note 12)	2,038	2,070	18,978
Other current assets	1,852	1,365	17,246
Total current assets	116,400	118,923	1,083,900
Investments and long-term receivables:			
Investments in securities (Note 9)	20,629	13,253	192,094
Investments in nonconsolidated subsidiaries and affiliates	2,352	2,025	21,901
Deferred tax assets (Note 12)	1,775	2,121	16,529
Deferred tax assets on revaluation of land	176	176	1,639
Other investments	4,194	2,242	38,123
Allowance for doubtful accounts	(133)	(141)	(1,238)
Total investments and long-term receivables	28,993	19,678	269,979
Property, plant and equipment, at cost:			
Land (Note 5)	14,483	14,346	134,864
Buildings and structures	31,658	30,372	294,795
Machinery and equipment	17,110	15,011	159,326
Construction in progress	1,734	539	16,147
Other facilities	10,047	10,143	93,556
Total	75,032	70,411	698,687
Accumulated depreciation	(31,178)	(28,741)	(290,325)
Property, plant and equipment, net	43,855	41,671	408,371
Other assets	3,180	3,347	29,612
Total assets	¥192,428	¥183,620	\$1,791,861

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current liabilities:			
Current portion of long-term borrowings (Note 11)	¥ 85	¥ 48	\$ 792
Notes and accounts payable, trade	28,163	26,888	262,250
Income taxes payable	3,924	3,593	36,540
Advances received	942	1,373	8,772
Accrued employees' bonuses	2,060	2,173	19,182
Allowance for product warranty	992	1,028	9,237
Other current liabilities	8,297	7,847	77,260
Total current liabilities	44,465	42,954	414,052
Long-term liabilities:			
Long-term borrowings (Note 11)	270	349	2,514
Accrued employees' retirement benefits (Note 13)	8,689	9,149	80,911
Accrued retirement benefits for directors and corporate auditors	704	658	6,556
Other long-term liabilities	821	800	7,645
Total long-term liabilities	10,485	10,958	97,635
Total liabilities	54,951	53,912	511,696
Minority interests in consolidated subsidiaries	1,110	1,031	10,336
Contingent liabilities (Note 16)			
Shareholders' equity:			
Common stock, 2005 and 2004			
Authorized: 531,000,000 shares			
Issued: 2005—132,800,256 shares			
2004—132,800,256 shares	13,450	13,450	125,244
Additional paid-in capital	11,409	11,398	106,239
Retained earnings (Notes 4 and 17)	115,318	108,180	1,073,824
Unrealized gains on revaluation of land (Note 5)	(257)	(257)	(2,393)
Unrealized gains on available-for-sale securities	2,067	1,625	19,248
Foreign currency translation adjustment	(790)	(829)	(7,356)
	141,197	133,567	1,314,806
Treasury stock, at cost:			
2005—4,163,793 shares, 2004—4,217,542 shares	(4,830)	(4,890)	(44,976)
Total shareholders' equity	136,366	128,676	1,269,820
Total liabilities and shareholders' equity	¥192,428	¥183,620	\$1,791,861

Consolidated Statements of Shareholders' Equity

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Common stock:				
Beginning of year	¥ 13,450	¥ 13,450	¥ 13,450	\$ 125,244
End of year	13,450	13,450	13,450	125,244
Additional paid-in capital:				
Beginning of year	¥ 11,398	¥ 11,398	¥ 11,398	\$ 106,137
End of year	11,409	11,398	11,398	106,239
Retained earnings:				
Beginning of year	¥108,180	¥101,637	¥ 98,804	\$1,007,356
Net income for the year	9,383	8,444	5,476	87,373
Increase of nonconsolidated subsidiaries and related companies applying the equity method	93	—	—	866
Reversal of unrealized gains on revaluation of land (Note 5)	—	278	—	—
Cash dividends paid	(2,185)	(2,058)	(2,117)	(20,346)
Bonuses to directors and corporate auditors	(148)	(118)	(120)	(1,378)
Decrease due to change in scope of consolidation (net of inclusion and exclusion of consolidated subsidiaries)	—	—	(336)	—
Other	(4)	(3)	(69)	(37)
End of year	¥115,318	¥108,180	¥101,637	\$1,073,824

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
I. Cash flows from operating activities:				
Income before income taxes	¥16,376	¥14,918	¥10,263	\$152,491
Depreciation and amortization	4,361	3,872	3,208	40,609
(Decrease) increase in allowance for employees' retirement benefits	(463)	(2,317)	592	(4,311)
(Gain) loss on sales and write-down of investments in securities	(128)	(1,414)	824	(1,192)
Equity in earnings of nonconsolidated subsidiaries and affiliates	(244)	(208)	(143)	(2,272)
Interest and dividends income	(356)	(409)	(417)	(3,315)
Interest expenses	38	27	17	354
Payments of bonuses to directors and corporate auditors	(138)	(118)	(120)	(1,285)
Increase (decrease) in other allowances, accrual and non-cash items, net	235	510	(222)	2,188
Change in assets and liabilities:				
Increase in trade receivables	(4,494)	(6,793)	(4,784)	(41,847)
(Increase) decrease in inventories	(1,375)	(442)	1,369	(12,804)
Increase in trade payables	848	2,995	1,771	7,896
Others, net	(334)	308	(327)	(3,110)
	14,323	10,927	12,028	133,374
Interest and dividends received	424	482	609	3,948
Interest paid	(36)	(27)	(17)	(335)
Income taxes paid	(6,479)	(5,829)	(2,058)	(60,332)
Others, net	65	20	(160)	605
Net cash provided by operating activities	8,297	5,574	10,402	77,260
II. Cash flows from investing activities:				
(Increase) decrease in time deposits, net	(1,924)	(76)	78	(17,916)
Payments for purchase of property, plant and equipment	(5,905)	(8,364)	(4,895)	(54,986)
Proceeds from sales of property, plant and equipment	100	1,183	251	931
Payments for purchase of marketable securities and investments in securities	(13,134)	(2,412)	(9,360)	(122,302)
Proceeds from sales of marketable securities and investments in securities	10,554	10,687	7,073	98,277
Long-term loans to nonconsolidated subsidiaries	—	—	(66)	—
Others, net	(361)	(1,166)	(81)	(3,362)
Net cash used in investing activities	(10,669)	(146)	(6,999)	(99,348)
III. Cash flows from financing activities:				
Decrease in short-term debt, net	(60)	—	(57)	(559)
(Decrease) increase in long-term debt, net	(125)	346	(11)	(1,164)
Cash dividends paid	(2,185)	(2,057)	(2,116)	(20,346)
Cash dividends paid to minority interests in consolidated subsidiaries	(42)	(32)	(28)	(391)
Payments for purchase of treasury stock, net	(10)	(4)	(4,058)	(93)
Others, net	—	28	—	—
Net cash used in financing activities	(2,422)	(1,720)	(6,270)	(22,553)
IV. Effect of exchange rate changes on cash and cash equivalents	22	(127)	(59)	205
V. Net (decrease) increase in cash and cash equivalents	(4,772)	3,580	(2,927)	(44,436)
VI. Cash and cash equivalents at beginning of year (Note 8)	35,137	31,507	32,980	327,191
VII. Cash and cash equivalents of newly consolidated subsidiaries, net of excluded subsidiaries from consolidation	—	50	1,454	—
VIII. Cash and cash equivalents at end of year (Note 8)	¥30,365	¥35,137	¥31,507	\$282,754

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 accompanying consolidated financial statements, prepared in accordance with accounting principles and practices generally accepted in Japan, were filed with the Japanese Ministry of Treasury and the Tokyo Stock Exchange as required by the Securities and Exchange Law of Japan.

Certain reclassifications of accounts and modifications have been made in the accompanying 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 financial statements and notes are stated in millions of yen by discarding fractional amounts of less than ¥1 million. As a result, the totals shown in the financial statements and notes in yen do not necessarily agree with the sum of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers and has been made for 2005, as a matter of arithmetical computation only, at the rate of ¥107.39 to US\$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2005. The translation should not be construed as a representation that yen have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

2. Consolidation policies

(1) Scope of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Number of consolidated subsidiaries: 31 (30 for 2004)

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

In the fiscal year ended March 31, 2005, two newly acquired subsidiaries through acquisition of additional stocks, Kurita Chemical Oita Co., Ltd. and Kurita Chemical Hokkaido Co., Ltd., were added to the Kurita Group. Also during the period, Kurita Kako Corp. was excluded from the Kurita Group due to liquidation.

Name of principal nonconsolidated subsidiary: Kurita Sogo Service Co., Ltd.

All the nonconsolidated subsidiaries are those subsidiaries whose combined assets, net sales, net income and retained earnings in the aggregate are not significant in terms of the consolidated financial statements.

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

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

(3) Application of equity method

a) The nonconsolidated subsidiaries and related companies applying the equity method and the name of the principal company are as follows:

Number of nonconsolidated subsidiaries applying equity method: 4

Number of related companies applying equity method: 6

Name of principal company: Kurita Sogo Service Co., Ltd.

The equity method was applied to San Kako Co., Ltd., Nippon Fine Co., Ltd., Aoi Industries Co., Ltd., Sanei Industries Co., Ltd. and Miyoshi Industries Co., Ltd. for the fiscal year ended March 31, 2005, due to their growing importance to the Kurita Group.

- b) The nonconsolidated subsidiaries and related companies not applying the equity method (Kurita Water Industries [Suzhou] Ltd.) were excluded from the scope of the equity method, due to the minimal impact to net income (equity share) and retained earnings (equity share) of the consolidated financial statements, and are considered immaterial as a whole.
- c) Adjustments were made to the financial statements of the companies applying the equity method whose fiscal year-ends were not identical to the Company.

(4) Fiscal year of consolidated subsidiaries

The fiscal year of Kurita (Singapore) Pte. Ltd., Kurita do Brasil Ltda., Kurita America Inc., Kuritec Europe GmbH, Kurita Water (Malaysia) Sdn. Bhd., Kurita (Taiwan) Co., Ltd., Kurita-GK Chemical Co., Ltd., Kurita Water Industries (Dalian) Co., Ltd., P.T. Kurita Indonesia, Hansu Technical Service Ltd., Kuritec Singapore Pte. Ltd. and Kuritec (Shanghai) Co., Ltd., ended December 31, 2004. Those financial statements were used for consolidation purposes. However, material transactions that have occurred during the period from December 31, 2004 to March 31, 2005, have been adjusted for consolidation purposes.

3. Significant accounting policies

(1) Valuation basis and method

Available-for-sale securities

Items that have market price: Evaluated at fair value at the balance sheet date, with resulting unrealized holding gains and losses reported as a separate component of shareholders' equity (cost of sold securities is computed by the moving-average method)

Items that have no market price: Cost computed by the moving-average method

Inventories

The moving-average method (except for work in process whose costs are determined by the specific identification method)

(2) Depreciation method of property, plant and equipment

Declining-balance method for the Company and its domestic consolidated subsidiaries (except for buildings, not including auxiliary facilities, acquired on and after April 1, 1998, for which the straight-line method is applied) and straight-line method for foreign consolidated subsidiaries:

The estimated useful lives of these assets are as follows:

Buildings and structures	2–65 years
Machinery and transportation equipment	2–13 years

(3) Allowances and accruals

Accrued employees' bonuses:

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

Accrued employees' retirement benefits:

Accrued employees' retirement benefits are recorded based on the estimated projected benefit obligation and fair value of the pension assets at the balance sheet date. Mathematical variances are subject to amortization over a period of 1–2 years from the year when they are incurred.

(4) Basis used for translating material assets and liabilities in foreign currency into Japanese yen

Monetary assets and liabilities shown in foreign currency are translated using the spot exchange rate shown at the end of the fiscal year, and the differences are recorded as foreign exchange gains or losses. Also, foreign subsidiaries' assets and liabilities are translated using the spot exchange rate at year-end; income and expenses are translated using the average exchange rate; and a component of Shareholders' equity.

(5) Leases

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

(6) Earnings per share

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

(7) Consumption taxes

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

(8) Amortization of goodwill

The consolidation adjustment is amortized using the three-years straight-line method. However, if the amount is immaterial, it is expensed in the period that it is incurred.

(9) Derivatives transactions

When necessary, the Company enters into forward currency contracts to hedge the risk of future foreign exchange rate fluctuations related to monetary obligations denominated in foreign currencies. These are basically conducted within the range of ordinary business transactions denominated in foreign currencies. The Company believes that the risk of counterparty default is negligible because its forward currency contracts are conducted with highly credit-worthy Japanese banks. In addition, transactions in forward currency contracts are executed and managed by the finance and accounting department on a contract-by-contract basis after they have been approved by prescribed internal procedures.

(10) Cash and cash equivalents

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

4. Appropriation of retained earnings

The accompanying consolidated statements of shareholders' equity reflect the appropriations of retained earnings of the Company in the year in which the annual shareholders meet and approve the appropriations.

5. Unrealized gains on revaluation of land

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

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

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

Revaluation date: March 31, 2002

Difference between fair market value of the land at fiscal year-end and the carrying value after land revaluation: ¥1,003 million (US\$9,340 thousand)

6. Research and development expenses

Research and development expenses included in selling, general and administrative expenses are as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
	¥4,228	¥4,289	¥4,484	\$39,371

7. Changes in disclosure

- (1) Due to the fact that "Loss on write-down of inventories" had exceeded 10/100 of total "Other expenses," it was classified separately from "Other, net" in the fiscal year ended March 31, 2005. "Loss on write-down of inventories" amounted to ¥12 million in the previous fiscal year.
- (2) Due to the fact that "Fixed assets rental cost" had not exceeded 10/100 of total "Other expenses" (amounting to ¥10 million), it was included in "Other, net" in the fiscal year ended March 31, 2005.

8. Reconciliation between cash and cash equivalents

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

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Cash and time deposits	¥30,679	¥35,512	¥31,838	\$285,678
Time deposits having original maturity of more than three months	(313)	(374)	(330)	(2,915)
Cash and cash equivalents	¥30,365	¥35,137	¥31,507	\$282,754

9. Marketable securities and investment securities

- (1) Available-for-sale securities with fair value at March 31, 2005 and 2004, are summarized as follows:

At March 31, 2005	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock	¥ 5,445	¥ 8,922	¥3,476
Bonds:			
National and local government bonds	2,399	2,401	1
Corporate bonds	1,641	1,645	4
Other	1,999	1,999	0
Sub-total	11,487	14,968	3,481
Book value not exceeding acquisition cost:			
Stock	1,348	1,321	(26)
Bonds:			
National and local government bonds	—	—	—
Corporate bonds	4,055	4,049	(5)
Other	—	—	—
Sub-total	5,403	5,371	(32)
Total	¥16,891	¥20,340	¥3,449

At March 31, 2004	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock	¥ 5,158	¥ 7,956	¥2,798
Bonds:			
National and local government bonds	4,401	4,401	0
Corporate bonds	2,011	2,021	10
Sub-total	11,571	14,380	2,808
Book value not exceeding acquisition cost:			
Stock	841	770	(70)
Bonds:			
National and local government bonds	400	400	0
Corporate bonds	1,349	1,347	(2)
Other	—	—	—
Sub-total	2,591	2,518	(73)
Total	¥14,162	¥16,898	¥2,735

At March 31, 2005	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock	\$ 50,703	\$ 83,080	\$32,368
Bonds:			
National and local government bonds	22,339	22,358	9
Corporate bonds	15,281	15,318	37
Other	18,614	18,614	0
Sub-total	106,965	139,380	32,415
Book value not exceeding acquisition cost:			
Stock	12,552	12,301	(242)
Bonds:			
National and local government bonds	—	—	—
Corporate bonds	37,760	37,704	(47)
Other	—	—	—
Sub-total	50,312	50,014	(298)
Total	\$157,287	\$189,403	\$32,117

(2) Available-for-sale securities sold during the years ended March 31, 2005, 2004 and 2003, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Sales amount	¥210	¥2,222	¥2	\$1,955
Total gains on sales	148	1,414	—	1,378
Total losses on sales	—	—	1	—

(3) The schedule of redemption for available-for-sale securities with maturity at March 31, 2005 and 2004, is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2005		March 31, 2004		March 31, 2005	
	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years
Bonds:						
National and local government bonds	¥ —	¥2,401	¥4,801	¥ —	\$ —	\$22,358
Corporate bonds	768	4,927	1,918	1,450	7,152	45,880
Other	1,999	—	—	—	18,614	—
Total	¥2,768	¥7,328	¥6,720	¥1,450	\$25,775	\$68,237

(4) Available-for-sale securities with no market price

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Available-for-sale securities				
Non-public company (excluding over-the-counter bulletin board)	¥3,082	¥3,075	¥3,089	\$28,699

10. Inventories

Inventories at March 31, 2005 and 2004, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products	¥1,438	¥1,219	\$13,390
Raw materials	972	1,051	9,051
Work in process	5,664	4,443	52,742
Total	¥8,075	¥6,713	\$75,193

11. Long-term borrowings

Long-term borrowings at March 31, 2005 and 2004, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loan from banks at interest rates from 4.5% to 4.6%	¥355	¥397	\$3,306
Less current portion	(85)	(48)	(792)
Total	¥270	¥349	\$2,514

12. Income taxes

The breakdown for 2005 and 2004 was omitted due to insignificance of difference. For the year ended March 31, 2003, adjustments to reconcile the Company's effective tax rate to the statutory tax rate were as follows:

	2003
Statutory tax rate	42.0%
(adjustments)	
Entertainment expenses and other expenses not deductible	1.6
Dividends received not taxable	(0.7)
Per capita equalization and inhabitants' taxes	0.9
Deduction of deferred tax assets at the fiscal year-end due to change in tax rate	0.8
Other	0.9
Effective tax rate after application of tax effect accounting	45.5%

Note: *Change in statutory effective tax rate for application of tax effect accounting:*

Due to change in local tax law (enacted on March 31, 2003), the Company changed the effective tax rate used in the calculation of deferred tax assets and liabilities from the fiscal year ended March 31, 2003 (only for fixed assets and long-term liabilities). As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥82 million at March 31, 2003, and provision for deferred income taxes and unrealized holding losses on other securities decreased by ¥80 million and by ¥2 million, respectively, for the year ended March 31, 2003.

Significant components of the deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Excess provision for accrued employees' retirement benefits	¥3,080	¥2,942	\$28,681
Excess provision for accrued bonuses to employees	827	876	7,701
Accrued enterprise taxes not deductible	325	333	3,026
Accrued retirement benefits for directors and corporate auditors	280	264	2,607
Excess provision of allowance for product warranty	395	413	3,678
Excess portion of design expenses	196	165	1,825
Unrealized gain on sales of property, plant and equipment	433	421	4,032
Excess depreciation of property, plant and equipment	282	282	2,626
Devaluation loss on property, plant and equipment	287	208	2,673
Loss on write-down of golf club membership	139	142	1,294
Other	535	623	4,982
Sub-total	6,785	6,671	63,181
Valuation allowances	(310)	(202)	(2,887)
Total deferred tax assets	6,474	6,469	60,285
Deferred tax liabilities:			
Capital gain on properties deferred for tax purposes	(867)	(876)	(8,073)
Valuation gain on available-for-sale securities	(1,409)	(1,110)	(13,120)
Estimated income taxes pertaining to retained earnings of overseas consolidated subsidiaries	(379)	(272)	(3,529)
Other	(4)	(17)	(37)
Total deferred tax liabilities	(2,660)	(2,277)	(24,770)
Deferred tax assets, net	¥3,813	¥4,191	\$35,506

13. Retirement benefits and pension plans

(1) The Company and 18 domestic consolidated subsidiaries provide lump-sum retirement benefits or qualified pension plans as defined benefit pension plans; moreover, the Company and 3 domestic consolidated subsidiaries have both plans, and 6 domestic consolidated subsidiaries have only qualified pension plans.

(2) Benefit obligation:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Retirement benefit obligation	¥(22,967)	¥(22,697)	\$(213,865)
Fair value of pension plan assets	14,264	13,624	132,824
Unfunded retirement benefit obligation	(8,703)	(9,073)	(81,041)
Unrecognized actuarial loss (gain)	13	(76)	121
Accrued employees' retirement benefits	¥ (8,689)	¥ (9,149)	\$ (80,911)

(3) Benefit cost:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost	¥1,109	¥1,239	¥1,246	\$10,327
Interest cost	532	540	531	4,954
Expected return on plan assets	—	—	—	—
Amortization of obligation at transition arising from new accounting standards	—	—	1,162	—
Actuarial (gain) loss	(39)	(679)	984	(363)
Additional retirement payments	52	35	164	484
Net periodic benefit cost	¥1,654	¥1,136	¥4,090	\$15,402

(4) Assumptions to determine above obligation and cost:

	2005	2004
Periodic allocation of projected benefit obligation	Equal amount over each period	Equal amount over each period
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	0.0%	0.0%
Amortization period of net transition obligation	—	—
Amortization period of actuarial loss	one–two years	one–two years

14. Leases

(1) The following pro forma amounts describe the finance leases which would have been reflected in the financial statements if leased assets had been capitalized to the finance lease transactions currently accounted for as operating lease:

a) Leased assets (lessee)

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Acquisition costs	¥1,572	¥ 1,705	¥ 1,995	\$14,638
Accumulated depreciation	(777)	(1,024)	(1,169)	(7,235)
Net book value	¥ 794	¥ 681	¥ 826	\$ 7,394

b) Lease obligations (net book value)

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Due within one year or less	¥303	¥287	¥306	\$2,821
Due within more than one year	490	394	519	4,563
Total	¥794	¥681	¥826	\$7,394

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

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Lease payments	¥338	¥340	¥403	\$3,147
Depreciation	338	340	403	3,147

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

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

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Due within one year or less	¥ 78	¥120	¥ 61	\$ 726
Due within more than one year	101	124	82	940
Total	¥180	¥245	¥144	\$1,676

15. Segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005, 2004 and 2003, is outlined as follows:

Year ended March 31, 2005	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	¥50,637	¥110,259	¥160,896	¥ —	¥160,896
2) Intersegment sales	199	681	881	(881)	—
Total	50,837	110,941	161,778	(881)	160,896
Operating costs and expenses	43,403	102,425	145,829	(883)	144,945
Operating income	¥ 7,433	¥ 8,515	¥ 15,949	¥ 1	¥ 15,951
II. Assets, depreciation and capital expenditures					
Assets	¥43,433	¥108,025	¥151,459	¥40,969	¥192,428
Depreciation and amortization	1,465	2,895	4,361	—	4,361
Capital expenditures	1,322	5,383	6,706	—	6,706

Year ended March 31, 2004	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	¥47,442	¥99,377	¥146,819	¥ —	¥146,819
2) Intersegment sales	161	298	460	(460)	—
Total	47,604	99,675	147,280	(460)	146,819
Operating costs and expenses	40,964	92,830	133,794	(466)	133,328
Operating income	¥ 6,640	¥ 6,845	¥ 13,485	¥ 5	¥ 13,490
II. Assets, depreciation and capital expenditures					
Assets	¥39,391	¥94,402	¥133,794	¥49,825	¥183,620
Depreciation and amortization	1,548	2,323	3,872	—	3,872
Capital expenditures	1,895	7,822	9,718	—	9,718

Year ended March 31, 2003	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	¥47,116	¥94,512	¥141,628	¥ —	¥141,628
2) Intersegment sales	378	204	583	(583)	—
Total	47,494	94,716	142,211	(583)	141,628
Operating costs and expenses	41,000	88,985	129,986	(665)	129,321
Operating income	¥ 6,493	¥ 5,730	¥ 12,224	¥ 82	¥ 12,307
II. Assets, depreciation and capital expenditures					
Assets	¥37,351	¥82,607	¥119,958	¥53,730	¥173,689
Depreciation and amortization	1,110	2,196	3,307	—	3,307
Capital expenditures	1,167	5,031	6,198	—	6,198

Year ended March 31, 2005	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	\$471,524	\$1,026,716	\$1,498,240	\$ —	\$1,498,240
2) Intersegment sales	1,853	6,341	8,204	(8,204)	—
Total	473,387	1,033,066	1,506,453	(8,204)	1,498,240
Operating costs and expenses	404,162	953,767	1,357,938	(8,222)	1,349,707
Operating income	\$ 69,215	\$ 79,290	\$ 148,515	\$ 9	\$ 148,533
II. Assets, depreciation and capital expenditures					
Assets	\$404,442	\$1,005,913	\$1,410,364	\$381,497	\$1,791,861
Depreciation and amortization	13,642	26,958	40,609	—	40,609
Capital expenditures	12,310	50,126	62,445	—	62,445

Principal products and services of each division:

Water Treatment Chemicals Division

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

Water Treatment Facilities Division

For the electronics industry:

Ultrapure water production systems, wastewater reclaim systems, wastewater treatment systems, tool cleaning, operation and maintenance services, and ultrapure water supply business

For general industries:

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

For the public sector:

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

The total assets that were offset during the consolidation procedure for fiscal years 2005 and 2004 were ¥49,831 million and ¥40,983 million, respectively, which primarily included abundant capital and long-term investment capital.

Overseas net sales:

	Millions of yen					Thousands of U.S. dollars
	Asia	North America	Europe	Other	Total	Total
For the year ended March 31, 2005						
Overseas net sales	¥18,966	¥979	¥1,015	¥1,440	¥ 22,402	\$ 208,604
Consolidated net sales	—	—	—	—	160,896	1,498,240
Percentage of overseas net sales to consolidated net sales	11.8%	0.6%	0.6%	0.9%	13.9%	13.9%
For the year ended March 31, 2004						
Overseas net sales	¥13,256	¥535	¥888	¥1,316	¥ 15,996	
Consolidated net sales	—	—	—	—	146,819	
Percentage of overseas net sales to consolidated net sales	9.0%	0.4%	0.6%	0.9%	10.9%	

Notes: 1. Countries and regions are classified into segments according to geography and proximity.

2. The major countries or regions classified in each geographic segment are as follows:

Asia: South Korea, China, Taiwan, Singapore, Indonesia, Thailand

North America: United States of America

Europe: Germany

Other: Brazil

3. Overseas sales refer to sales outside Japan generated by the Company and its consolidated subsidiaries.

16. Contingent liabilities

Guarantees for employees' indebtedness from bank housing loans at March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
	¥19	¥39	\$177

17. Subsequent event

Appropriation of unappropriated retained earnings

The following appropriations of unappropriated retained earnings for the year ended March 31, 2005, were approved at the general meeting of shareholders of the Company held on June 29, 2005.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,157	\$10,774
Bonuses to directors and corporate auditors	85	792

18. Per share information

	Yen			U.S. dollars
	2005	2004	2003	2005
Net assets per share	¥1,058.90	¥999.63	¥939.78	\$9.86
Earnings per share (EPS)	71.76	64.57	40.67	0.67

Calculation for EPS is as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net income	¥9,383	¥8,444	¥5,476	\$87,373
Net income relating to common stock	9,229	8,302	5,351	85,939
Average number of shares	128,615,153	128,584,628	131,587,576	128,615,153

Report of Independent Certified Public Accountants

TAIYO AUDIT CORPORATION

AKASAKA OJI Bldg. 8F

8-1-22 AKASAKA MINATO-KU TOKYO 107-0052 JAPAN

Tel: 03-5474-0111 Fax: 03-5474-0112

To the Board of Directors of
Kurita Water Industries Ltd.

We have audited the accompanying consolidated balance sheets of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated statements.

The consolidated financial statements as of and for the year ended March 31, 2005 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.

Taiyo Audit Corporation

Tokyo, Japan
June 29, 2005

Nonconsolidated Summary

Nonconsolidated Balance Sheets, at March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Assets			
Current assets	¥ 97,053	¥103,061	\$ 903,758
Property, plant and equipment	35,531	33,902	330,865
Intangible assets	2,327	2,593	21,669
Investments and other assets	34,442	25,698	320,724
Total assets	¥169,355	¥165,256	\$1,577,034
Liabilities			
Current liabilities	¥ 38,390	¥ 39,567	\$ 357,488
Long-term liabilities	8,373	8,702	77,969
Total liabilities	46,764	48,269	435,466
Shareholders' equity			
Common stock	13,450	13,450	125,246
Additional paid-in capital	11,409	11,398	106,241
Retained earnings	100,778	95,670	938,445
Unrealized gains on revaluation of land	(257)	(257)	(2,393)
Unrealized gains on available-for-sale securities	2,040	1,616	18,996
Treasury stock, at cost	(4,830)	(4,890)	(44,977)
Total shareholders' equity	122,590	116,987	1,141,558
Total liabilities and shareholders' equity	¥169,355	¥165,256	\$1,577,034

Nonconsolidated Statements of Income, for the Years Ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Net sales	¥119,175	¥112,206	¥114,115	\$1,109,758
Cost of sales	85,251	79,761	81,839	793,857
Gross profit	33,924	32,444	32,276	315,900
Selling, general and administrative expenses	23,904	23,390	23,741	222,594
Operating income	10,020	9,053	8,535	93,306
Other income	2,704	3,438	2,630	25,180
Other expenses	723	974	2,327	6,733
Income before income taxes	12,002	11,517	8,838	111,763
Income taxes	4,633	4,748	3,388	43,142
Net income	¥ 7,369	¥ 6,768	¥ 5,450	\$ 68,620

Corporate Data

As of March 31, 2005

Company Name

Kurita Water Industries Ltd.

Address

4-7, Nishi-Shinjuku 3-chome,
Shinjuku-ku, Tokyo 160-8383, Japan

Paid-in Capital

¥13,450,751,434

Date of Establishment

July 13, 1949

Number of Employees

1,600 (parent company)
3,382 (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

Corporate Research & Development Center: 7-1, Wakamiya Morinosato, Atsugi, Kanagawa 243-0124
Tel: 81 (46) 270-2111

Business & Technology Development Center: 1-1, Gochoyama, Kawada, Nogi-machi, Shimotsuga-gun, Tochigi 329-0105
Tel: 81 (280) 54-1511

Branches: Sapporo, Tohoku, Nagoya, Hiroshima, Shikoku, Kyushu

OVERSEAS OFFICES

Singapore Branch: 30 Joo Koon Rd., Singapore 628984
Tel: 65 (6861) 2622

Taiwan Representative Office: Kuang-Fu Rd., 14th Floor, Section 1, Hsinchu, Taiwan
Tel: 886 (3) 577-3874

Major Consolidated Subsidiaries and Affiliates

Company Name	Paid-in Capital (Millions)	Equity Ownership (%)	Main Business
OVERSEAS			
<i>North America • South America</i>			
Kurita do Brasil LTDA	R\$7.0	100.0	Manufacture & sale of water treatment chemicals
Kurita America Inc.	US\$3.0	100.0	Sale of water treatment facilities, facility operation and maintenance services
Kurita de Mexico S.A. de C.V.	M.N. PESO8.1	45.0	Manufacture & sale of water treatment chemicals
<i>Europe</i>			
Kurita Europe GmbH	EUR2.301	85.0	Manufacture & sale of water treatment chemicals
Kuritec Europe GmbH	EUR0.959	100.0	Sale of water treatment facilities, facility operation and maintenance services
<i>Asia</i>			
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 customers
Kurita Water (Malaysia) Sdn. Bhd.	RM\$0.6	83.3	Sale of water treatment chemicals and water treatment facilities
Kurita Water Industries (Dalian) Co., Ltd.	¥550	85.1	Manufacture & sale of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Maintenance services and sale of small water treatment facilities
Kurita Water Industries (Suzhou) Ltd.	¥100	100.0	Manufacture & sale of water treatment facilities
Kurita (Taiwan) Co., Ltd.	NT\$20	95.0	Manufacture & sale of water treatment chemicals
P.T. Kurita Indonesia	US\$2.0	90.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kurita-GK Chemical Co., Ltd.	BAHT56	60.0	Manufacture & sale of water treatment chemicals
Hansu Ltd.	W2,500	33.2	Manufacture & sale of water treatment chemicals
Hansu Technical Service Ltd.	W400	59.4	Sale of water treatment facilities and maintenance services
DOMESTIC			
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical cleaning
Kurita Creation Co., Ltd.	¥160	100.0	Manufacture & sale of household and industrial water purifiers
Kuritz Co., Ltd.	¥220	100.0	Operation & maintenance of water treatment facilities, soil and groundwater assessment and remediation
Land Solution Inc.	¥450	51.0	Soil and groundwater contamination assessment and consulting, contamination risk-hedging support and post-remediation land usage support
Kuritec Service Co. Ltd.	¥50	100.0	Tool cleaning

Investor Information

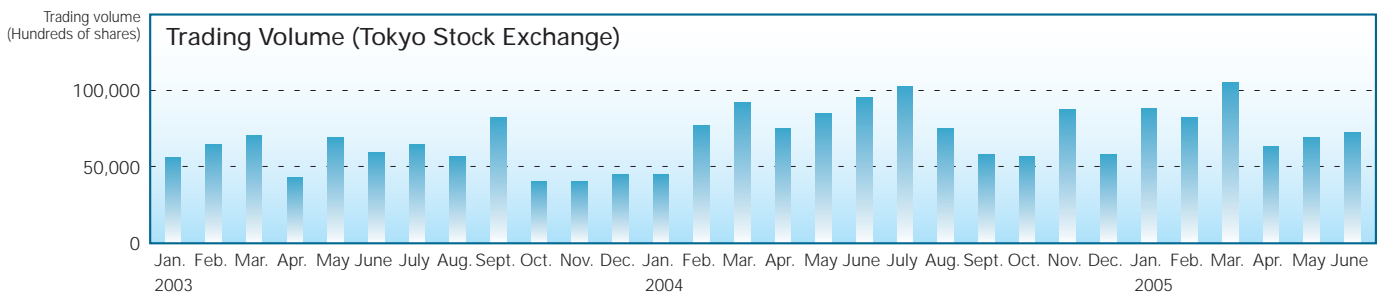
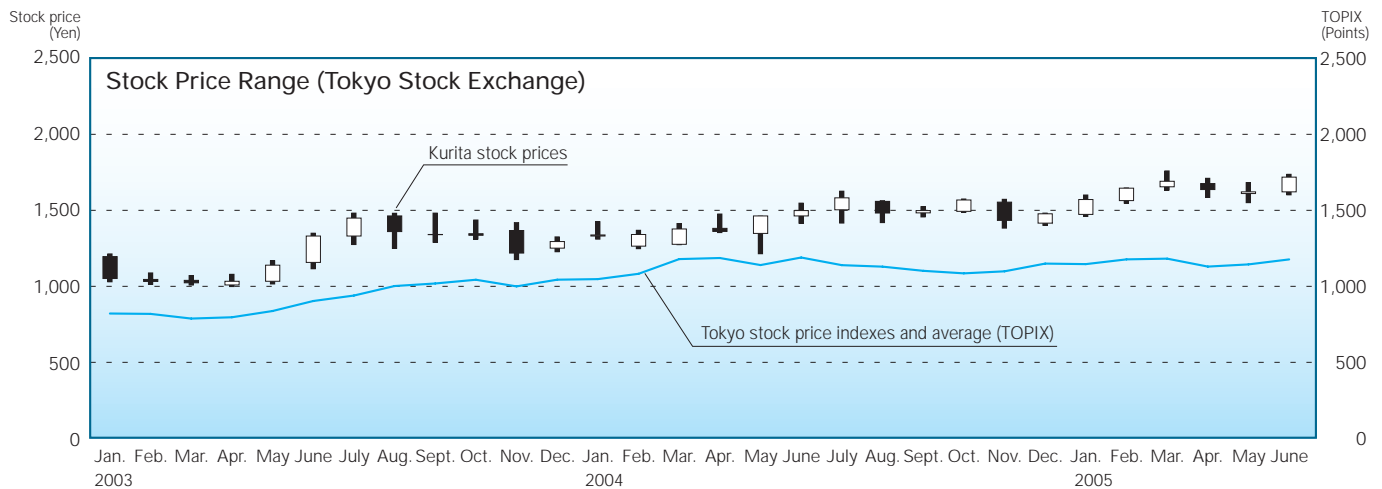
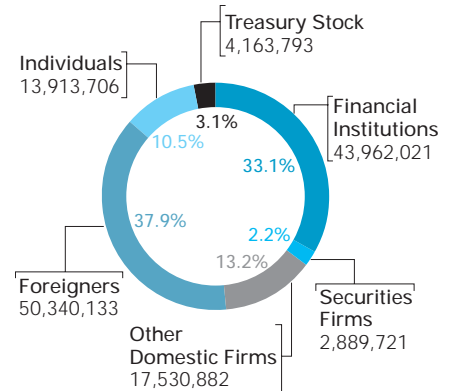
As of March 31, 2005

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	11,807
Independent Auditor	Taiyo Audit Corporation Akasaka Oji Bldg. 8F, 1-22, Akasaka 8-chome, Minato-ku, Tokyo 107-0052, Japan
Transfer Agent	The Chuo Mitsui Trust and Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Main Shareholders

	Shareholdings (Shares)	Percentage of total shares issued (%)
Itochu Corporation	10,268,000	7.73
Japan Trustee Services Bank, Ltd. (Trust Account)	9,251,000	6.96
Nippon Life Insurance Company	7,284,283	5.48
Northern Trust Company (AVFC) Sub-account American Client	5,227,500	3.93
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,495,300	3.38
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,311,526	3.24
Kurita Water Industries Ltd.	4,163,793	3.13
UFJ Bank Limited	2,936,131	2.21
Nomura Securities Co., Ltd.	2,509,000	1.88
Deutsche Bank AG Frankfurt	2,443,400	1.83

Distribution of Shares



For further information please contact us:
E-mail: ir@kurita.co.jp

Note on Projections of Future Results

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

URL: <http://www.kurita.co.jp>

ANNUAL REPORT 2005

Kurita Water Industries Ltd.

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