

Annual Report 2004



Profile

Since its establishment in 1949, Kurita Water Industries Ltd. has provided integrated solutions to meet its clients' water treatment needs. Kurita's cutting-edge technologies have gained the Company recognition as a global leader in water treatment chemicals and facilities. In addition, through its facilities maintenance, operation, and consulting businesses, Kurita provides a range of services that anticipate its customers' needs in the areas of quality control, safety, and the reduction of operating costs.

Along with the evolution of our society, the environmental protection needs of our clients have continued to grow at an accelerating rate. We at Kurita see it as our job to use the wide range of technologies and know-how we have developed and mastered through our experience in the field of water treatment to satisfy these needs in an expanding range of environmental fields, such as in our soil and groundwater remediation business. Our corporate vision of becoming an advanced water and environmental management company reflects our drive to establish an organization that provides high-value-added management services and that demonstrates overwhelming superiority in its chosen business fields. Through the integrated management of water and other environmental resources, our aims are to achieve a high level of customer satisfaction and to benefit society.

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Names of companies, products and technologies appearing in this report are the trademarks or registered trademarks of each company.

Note on Projections for Future Results

Projections for 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.

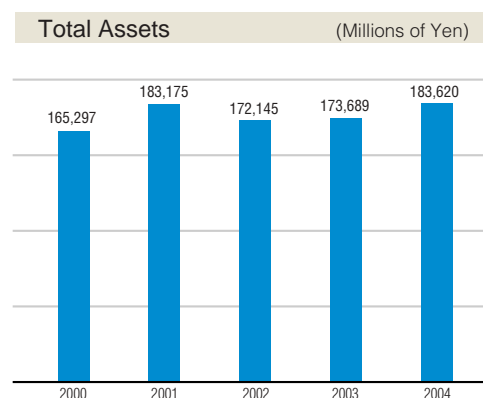
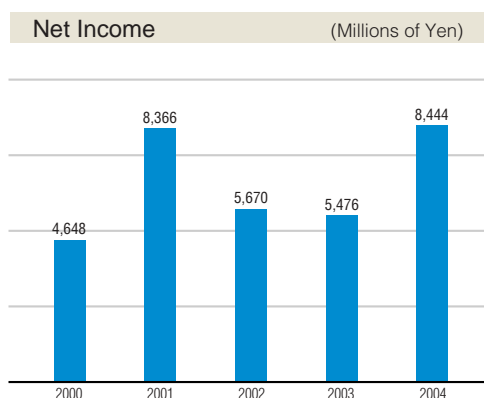
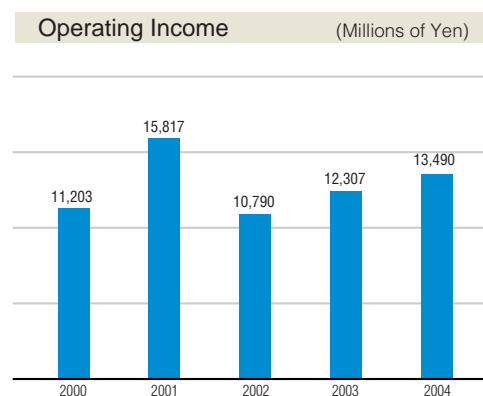
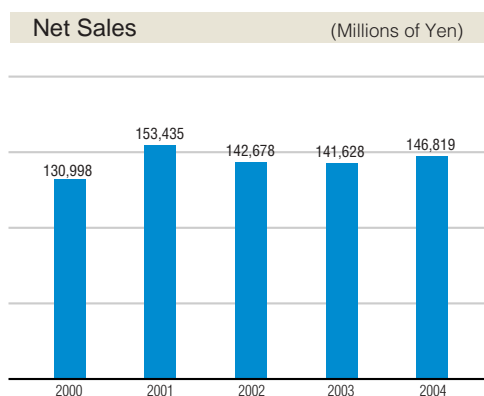
Since projections for future results lack the substance of fact and may be based on data from other sources, the accuracy and reliability of which we are unable to guarantee, you are requested not to rely on such projections alone.

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 these influence the markets and industries directly related to our main businesses.

Financial Highlights (Consolidated)

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
For the year:			
Net sales	¥ 146,819	¥ 141,628	\$ 1,389,147
Operating income	13,490	12,307	127,637
Income before income taxes	14,918	10,263	141,148
Net income	8,444	5,476	79,894
At year end:			
Total assets	¥ 183,620	¥ 173,689	\$ 1,737,345
Total Shareholders' equity	128,676	120,969	1,217,485
Per share of common stock (Yen and U.S. dollars):			
Net income	¥ 64.6	¥ 40.7	\$ 0.61
Cash dividends applicable to the year (parent company)	16.0	16.0	0.15

Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥105.69 to US\$1.00, the approximate exchange rate prevailing on March 31, 2004.



Message from the President



Hiroshi Fujino
President

The reporting term was the first year under our new three-year medium-term management plan Powerful Advance 2005, known as PA-5 for short, which went into action in April 2003. Kurita aimed during the reporting term to lay the groundwork for its development into an outstanding presence in the fields of water and environmental management.

Despite stiff competition, which forced sales prices down, the Company's Water Treatment Chemicals Business posted growth in both orders and sales thanks to the expansion of customized services and incinerator chemicals. Meanwhile, the Water Treatment Facilities Business recorded sharp increases in orders and sales, led by growth in the domestic electronics industry. As a result, orders received during the term rose 16.6% year-on-year, to ¥149,735 million on a consolidated basis, while sales were up 3.7%, at ¥146,819 million.

At the profit level, the launch on the market of new, high-valued-added products by the Water Treatment Chemicals Business helped improve profitability, as did the expansion of the scope for ready-made facility modules in the product lineup offered by the Water Treatment Facilities Business, by helping to reduce production costs. Thanks to these efforts, operating income posted a year-on-year gain of 9.6%, to

¥13,490 million, while net income soared 54.2% to ¥8,444 million. Earnings per share rose steeply to ¥64.60 from ¥40.67 for the previous term.

Customer-focused management strategies bear fruit

Great changes having been taking place in the demands that our customers make on us. Their requirements have expanded from facilities and chemicals that simply fulfill narrow product function specifications to those that help them solve a wide range of the problems they face, including reducing production costs, improving overall productivity, and lowering the environmental burden of their business activities.

To answer these needs, in April 2003 Kurita carried out a structural reorganization with the aim of realizing greater synergy among the operations of the Company's divisions and enabling us to gain a more comprehensive and more accurate grasp of our customers' diversifying needs, thereby making possible the proposal of carefully tailored solutions.

Firstly, we amalgamated the Chemicals Group and the Maintenance Group to facilitate the offering of services more precisely tailored to each customer's

needs through the sharing of customer information between these two formerly separate groups. At the same time, we established a new organization – the Eco-Solution Group. The purpose of this group is to optimally leverage a balanced portfolio of businesses incorporating chemicals, facilities, and maintenance services so as to offer customers ideal solutions covering both their hardware and software needs. During the reporting period, many of our customers were highly impressed by the problem-solving capabilities of the Eco-Solution Group, leading to the receipt of a large number of orders from new customers.

Customers are increasingly seeking to outsource water treatment processes, and Kurita's ultrapure water supply business is benefiting from this trend. The Company installs ultrapure water production systems on customers' premises, and is responsible for all operations and management as well as maintenance. Following the start of an ultrapure water supply business in Singapore in the term ended March 2003, in the reporting term we commenced such services for two customers in Japan. This new business model is steadily establishing itself as a solid earnings generator.

Aggressive business expansion program at home and overseas

During the term under review, the management of Kurita also occupied themselves with active measures to lay the basis for future business growth.

Overseas, as part of our plan for business expansion, in July 2003 we acquired via our subsidiary Kurita Europe GmbH the oil process treatment chemicals business of Pitco NV, a Belgian manufacturer of chemicals. With this move, we have strengthened our ability to operate our chemicals business in Europe and the Middle East.

In East Asia, we took the decision to establish a production base in China, and to open a sales office in

Taiwan, so as to give us footholds in the rapidly growing East Asian market.

In Japan, we successively transformed our sales agents for water treatment chemicals into subsidiaries, in a strategic move to assure greater control over the market in the future.

Regarding new business lines we are preparing to enter, we are participating in two government-sponsored projects – for hydrogen fueling stations for vehicles, and for the testing of fuel cells for household use, and we will press ahead with these projects in the hope of commercializing them in the near future.

Future prospects

The current term, ending March 2005, will be a challenging one for Kurita, in light of industrial reorganization on a global scale, downward pressure on prices due to severe competition, and uncertainty about the capital investment trend that our target industries will follow. The situation will probably remain difficult for some time to come.

Amid these circumstances, we hope to kick-start our business performance by drawing on our achievements to date to further speed up our response to changing user needs. We plan to strengthen our capability to provide solutions through the establishment of new business models, and to expand our marketing channels. We will also reinforce our dominant position in the domestic and overseas markets alike through the launching of new products and the fostering of new businesses. We plan to aggressively invest both financial and human resources into the achievement of these goals.

I look forward to the continued support of our shareholders and other stakeholders in our continuing endeavors.

July 2004



Hiroshi Fujino
President

Kurita at a Glance

Business Domains

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 segment - Water Treatment Chemicals and Water Treatment Facilities.

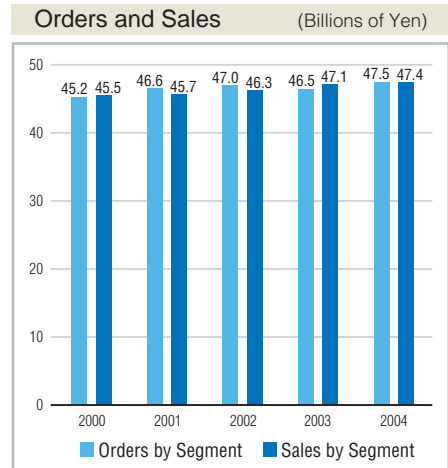
Water Treatment Chemicals

We at Kurita began our foray into the water treatment chemicals business by selling boiler water treatment chemicals, later going on to develop numerous chemical products, such as cooling water treatment chemicals, wastewater treatment chemicals and process treatment chemicals, thereby expanding and developing our target market as we grew. We are highly regarded by our customers not only for the fundamental efficiency exhibited by our water treatment chemicals, which facilitate the stable and efficient operation of factories and the like, but also for our ability to develop technology that accurately caters to market needs. We also help customers to resolve

the issues they face through the realization of optimal water treatment applications, made possible through our nationwide sales network and attentive, customer-focused service.

PRINCIPAL PRODUCTS and SERVICES

- Boiler water treatment chemicals
- Cooling water treatment chemicals
- Flocculants and sludge dehydration agents
- Process treatment chemicals
- Chemical injection and dosing systems
- Maintenance services
- Customized services
 - Steam supply service
 - Contract-based maintenance service
 - Wastewater treatment service etc.



Water Treatment Facilities

From the production of ultrapure water that is virtually impurity-free to the treatment of industrial wastewater and domestic sewage, Kurita develops essential water treatment facilities for a wide variety of applications and continues to contribute to the development of industry and reduction of pollution. Applying the water treatment technology we have cultivated to date, today we at Kurita have extended the scope of our business to include soil and groundwater remediation. We have also established a nationwide maintenance service network to ensure that the systems we deliver operate stably at all times. We make sure that our customers' systems and facilities continue to operate at peak efficiency, not only by responding immediately to problems that occur, but also by putting forward active suggestions for improvements and upgrades. We have also leveraged the know-how we have built up

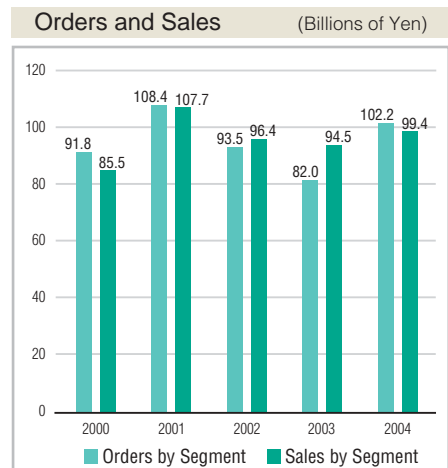
through our involvement in the maintenance business to establish a business model that also encompasses outsourcing and consulting operations, which we use to help customers reduce the environmental impact of their operations and achieve productivity improvements.

PRINCIPAL PRODUCTS and SERVICES

- Electronics Industries
 - Ultrapure water production systems
 - Water reclaim system
 - Wastewater treatment facilities
 - Tool cleaning
 - Maintenance and operations services
 - Ultrapure water supply business

- General Industries
 - Pure water production systems
 - Wastewater treatment facilities
 - Soil and groundwater remediation
 - Chemical cleaning
 - Maintenance services

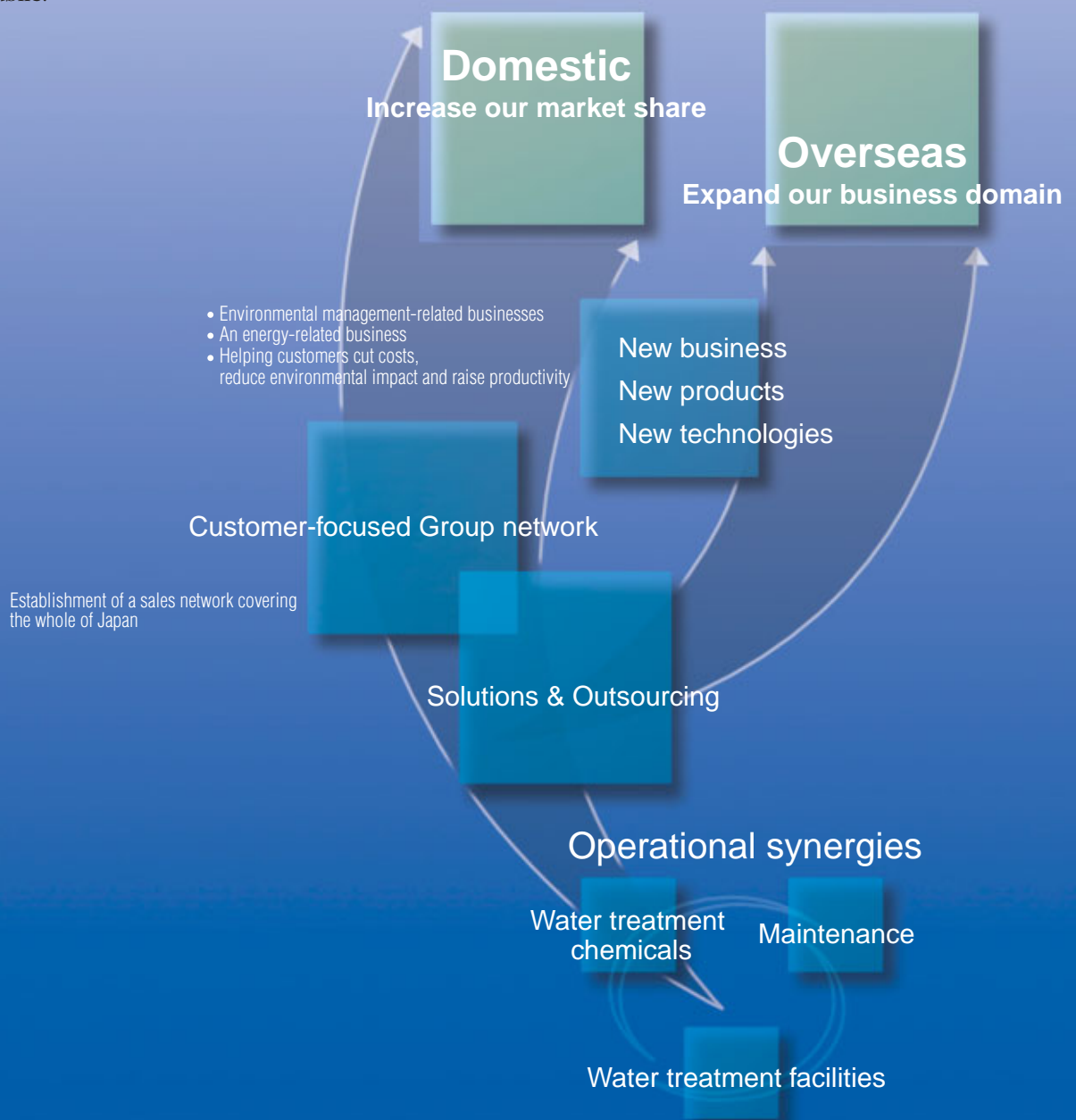
- Public-Sector
 - Sewage treatment facilities
 - Sludge (human waste and other) recycling facilities
 - Landfill leachate treatment facilities
 - Operation and maintenance services



Steps for achieving our medium-term business plan: Powerful Advance 2005

Kurita is applying its vast accumulation of technology and know-how regarding chemicals, facilities, and maintenance to the solution of the water treatment and other environmental problems facing its customers and the general public. Taking full advantage of our expertise in this field, we offer a wide range of services, including consulting services – whereby we make proposals for comprehensive solutions on environmental issues – and outsourcing services that allow customers to concentrate management resources on their core areas. Furthermore, we are expanding the network that directly links us with our clients, which helps us to extend these services without delay.

Kurita seeks not only to fully utilize existing management resources, but also to expand the range of solutions it provides through the development of new technologies and new products. We offer the results of these efforts as our contribution to our customers and the general public.



Increasing Profitability

Hereunder, we describe the measures taken by Kurita to improve its profitability. We are focusing on the development and deployment of new business models, the reinforcement of our customer support services, and steps to achieve cost-cutting and greater efficiency in facilities production and operation as well as distribution.

Development and Deployment of New Business Models

Meeting outsourcing needs through build, own and operate (BOO) projects

Ultrapure Water Supply Business

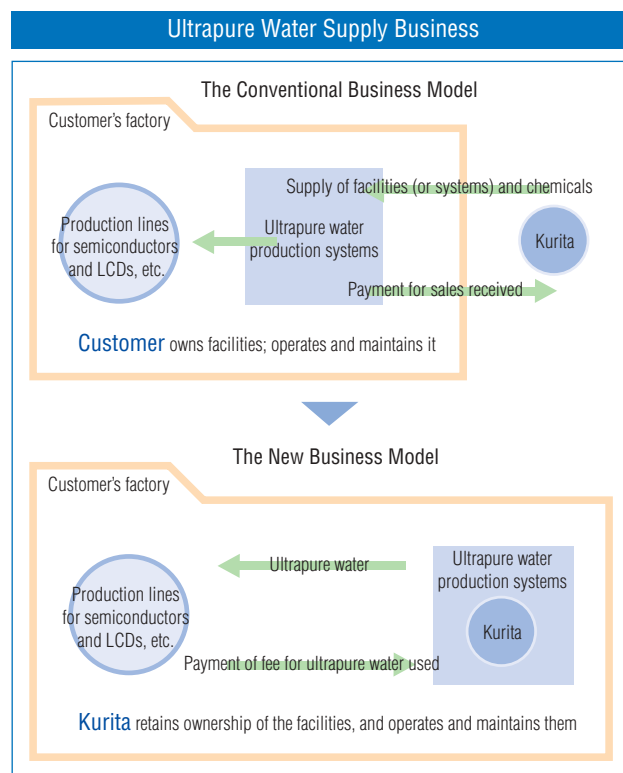
Makers of semiconductors and liquid crystal displays (LCDs) are increasingly looking to reduce initial investment and running costs for water treatment facility, and simultaneously raise production efficiency through the outsourcing of water-treatment services.

To supply such semiconductor and LCD makers with the ultrapure water they require, Kurita erects the water treatment facilities on their factory site. Under the BOO (build, own and operate) system employed, Kurita remains the owner of the facilities, and conducts all maintenance and operation itself. This arrangement is perfect for meeting our customers' needs. The customers pay only for the amount of ultrapure water they use, and there are no initial start-up costs. Moreover, the BOO contract method saves on the time and expense that would otherwise be involved in training staff to operate the facility.

Thanks to the advantages offered by our BOO contract services, the last two periods saw us conclude three contracts (one overseas and two in Japan) with semiconductor and LCD manufacturers. In the current term, too, we expect further contracts and a concomitant growth in revenue.

Steam Supply Service

Making full use of the operational and management know-how we have built up over our many years in the business, we provide steam supply services under which we guarantee a stable supply of steam at a specified quality. These services are operated under BOO contracts, whereby we install, own and operate the boilers. The user pays a fee based on the amount of steam used, and this business model has the advantage from the customer's side of reducing costs.





Offering total solutions to customers' water treatment needs

Many of Kurita's customers are facing severe competition both at home and abroad, and these days, what they frequently seek from Kurita is not simply this or that product with particular functions or benefits: they have come to require the services of the Company as a specialist in all aspects of water treatment who can provide solutions to their needs in this field on a comprehensive basis. We are being asked to design optimal solutions to customers' needs in respect of cost reduction, achieving higher production efficiency, and lowering the environmental impact of their business activities. And these solutions must fully take into account the particular features of each customer's operations.

Our Eco-Solution Group, established in April 2003, boasts a high-level problem-solving capability that adapts well to our customers' changing needs. The Eco-Solution Group offers ideal solutions for the reduction of the environmental impact of customers' business operations, encompassing energy saving and reduced use of natural resources, as well as a smaller volume of industrial waste discharged. The Eco-Solution Group is able to optimally utilize the expertise of all Kurita's group companies in the areas of chemicals, facilities, and maintenance. Taken together, these various benefits allow the achievement of considerable cost reductions.

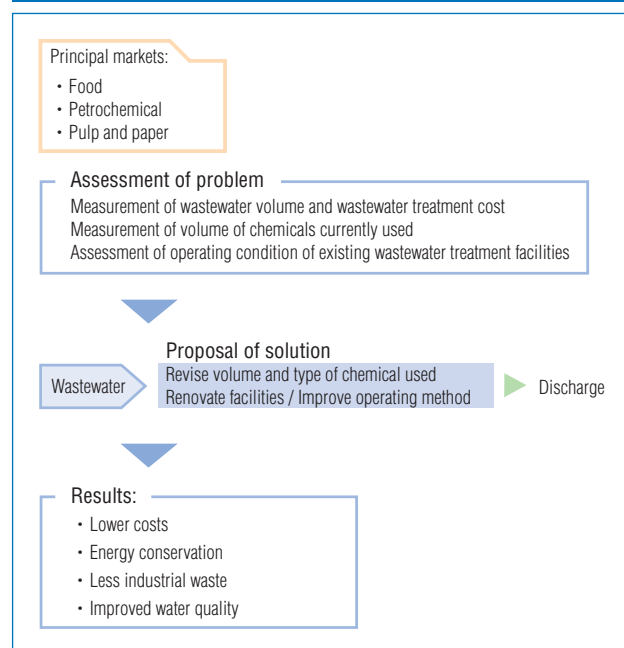
This new, integrated approach to water treatment solutions has won high praise from corporate customers who have hitherto not done business with Kurita, and we have already succeeded in winning a number of orders.

Kurita's Water Treatment Chemicals Business, too, is going beyond the simple provision of chemicals and equipment to offer solution-type services including operation and maintenance.

One example of the special services we offer is a remote monitoring system for water treatment operations. Via a telecommunications network, our control center staff monitor

the water quality and concentration of chemicals in the boilers, cooling water, and discharged wastewater at the customer's premises. This system allows us to immediately pinpoint problems and forestall trouble. We also offer various customized services to meet users' needs for energy conservation, reduction in water use, and lowering the discharge volume of sludge for final disposal, utilizing dehydration methods. We plan to make maximal use of the overall capabilities of the Kurita Group to continue expanding and refining our menu of solutions services.

Comprehensive Wastewater Treatment Contract Scheme

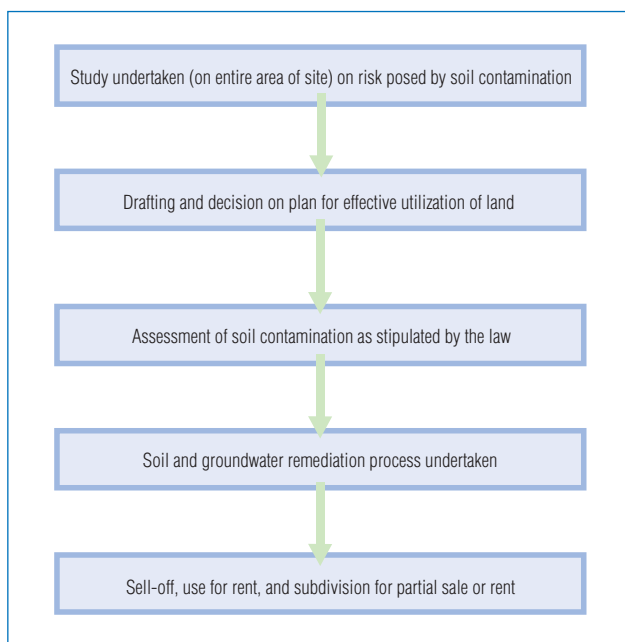


Ideal solutions for soil contamination problems

In the early 1990s, Kurita became the first Japanese company to seriously address the growing social problem posed by soil contamination. We have now amassed considerable expertise in assessment of land for soil and groundwater contamination and applying remediation techniques, with Kurita-led assessments numbering 1,600, and 600 soil and groundwater remediation projects successfully completed. In particular, we are the world's leading company in terms of our track record in the application of remediation methods, in which we possess proprietary technology. Kurita aims to use its extensive lineup of technologies – particularly its in-situ (on-site) soil and groundwater bioremediation techniques – to meet customers' needs for soil and groundwater remediation at factories without halting production operations.

Land Solution Inc., a subsidiary established in 2001, provides a soil contamination risk assessment and hedging service – utilizing liability insurance – for landowners and financial institutions engaging in real estate transactions. In this way, we are doing our part in meeting the needs of society for enhanced liquidity in real estate transactions.

Soil and groundwater remediation scheme for land utilization proposed by Land Solution Inc.



Built a new organization to provide finely customized services

Customers have pressing needs for even more comprehensive and timely support services, available on request, to realize trouble-free efficient operation for high productivity, allowing them to concentrate their management resources on their core businesses.

To meet with these exacting needs, Kurita in April 2003 has merged its former Water Treatment Chemicals Division with the Maintenance Service Division. The newly integrated organization operates under the name of the Chemicals and Maintenance Services Division. This reorganization has facilitated the sharing of information relating to a larger number of customers, enabling us to provide more precisely tailored services to meet with each customer's complicated and exacting requirements. Moreover, the integration of chemicals and maintenance into one division gives our staff a more accurate grasp of changes in the customer's production processes and their impact on water supply and effluent discharge. A deep understanding of operating conditions at users' plants enables us to provide more efficient on-site expert services, thereby raising customer satisfaction.

To offer the regionally-based services conducted by our on-site experts with a close understanding of their customers' needs, we have been restructuring our sales network by acquiring majority shareholdings in companies that have hitherto acted as our sales agents. In the future, our domestic sales in Japan will be operated mainly on a direct operation basis through the network, in combination with our own offices and those of other Group companies.

We are confident that the measures we have taken will lead to the generation of greater user satisfaction, and to increasing the number of loyal customers through our finely customized high-quality services.

Working to cut costs through improved manufacturing and distribution

Pursuing modularization

With the aim of manufacturing even higher-quality water treatment facilities at a lower cost, Kurita has pursued the path of standardization in manufacturing. Standardization is classified into two stages: the first stage consists of modularization, and the second stage covers work from the design stage. Modularization refers to a manufacturing system under which design work and manufacturing are carried out on a module basis, which is applied in our factories from the production stage through to the test operation stage. This system has various advantages, including saving space, shortening the time to delivery, improving product quality, and reducing outsourcing expenses in line with the reduced amount of on-site work.

A representative example of this first-stage standardization comes from our pure water production systems for the pharmaceutical industry, which are strictly regulated by law (see Note). Currently, almost all our water-purification facilities for pharmaceutical makers in Japan is made from standardized modules.

Our KuriAqua ultrapure water production systems for the electronics industry represents, which means standardization from the design stage. The KuriAqua system enables customers to automatically select the system most appropriate to their needs, and to combine systems, simply by specifying their water quality and volume requirements. Currently, over 70% of our ultrapure water production systems for the Japanese electronics industry consists of modules made by an advanced standardized manufacturing system.

We intend to widen the scope of application of modularization to contribute to cost-cutting.

(Note)

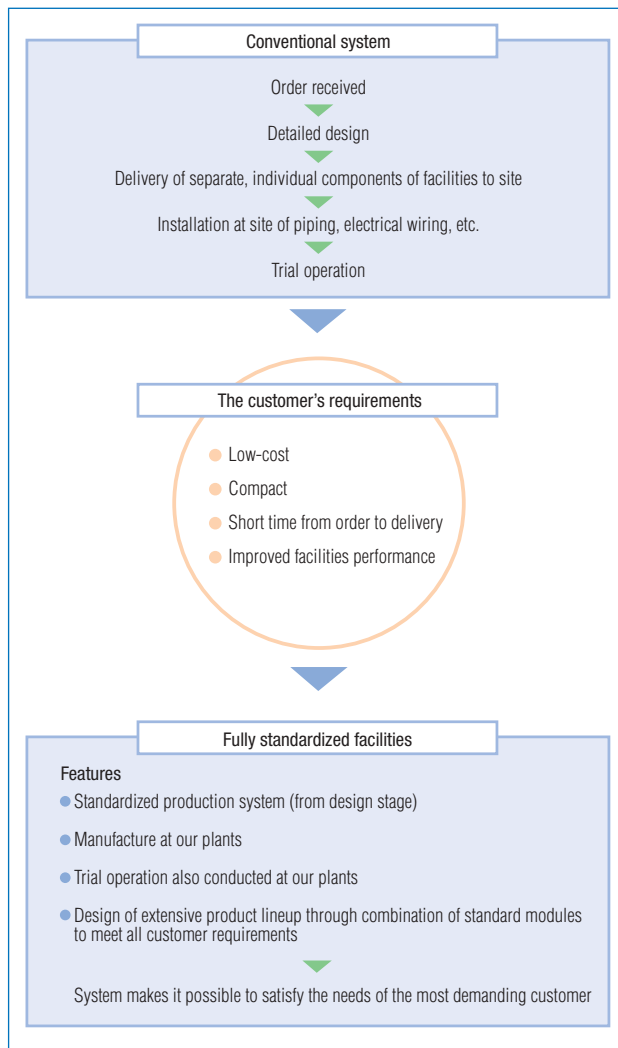
In the pharmaceutical industry, validation is required that both product quality and the performance of the facilities meet the standards stipulated by law.



KuriAqua

An example of Kurita's product standardization, right from the design stage, the KuriAqua supplies ultrapure water of extremely high quality to manufacturing plants in the electronics industry. It offers the advantages of a short delivery time, quick start-up from installation, compactness, and low cost.

Fully standardized ultrapure water production systems



Achieving greater efficiency in production and distribution through system restructuring

We are tackling the reduction of production costs by cutting the number of components through the standardization process described above.

For water treatment chemicals, we are also seeking out optimal materials procurement sources in Japan and overseas, looking for a better balance between in-house production and outsourcing, and reapportioning the ratios of production volumes among our plants to cut distribution costs. We are also taking various steps to reduce the cost of outsourced distribution.

In addition, we are taking another close look at the roles of our manufacturing plants and distribution depots within the context of the needs of each region, to enable us to redesign the system for greater efficiency.

Kurita's Global Development Gathers Pace

Kurita is also seeking to expand its operational scope and market share in overseas markets, principally in Europe and East Asia, by carefully assessing user needs and building up a business support infrastructure that will enable the proposal and provision of optimal solutions for each customer.

Expanding operational scope in Europe

In July 2003, Kurita Europe GmbH, a German-based subsidiary which manufactures water treatment chemicals for sale in Europe and the Middle East, acquired the oil process treatment chemicals business of Pitco NV, a Belgian manufacturer of chemicals. Pitco has proprietary technologies that not only enable productivity improvements in oil refining and petrochemical plant production processes, but also help to reduce the discharge of toxic substances. Through the purchase of these operations from Pitco by Kurita Europe, we will be able to integrate the compatible and synergistic elements of our water treatment technology with the newly acquired petrochemical production process chemicals technology. This will allow us to offer total solutions to customers in Europe and the Middle East for their needs relating to production processes and water treatment.

Response to Growth in East Asian Market for FPDs

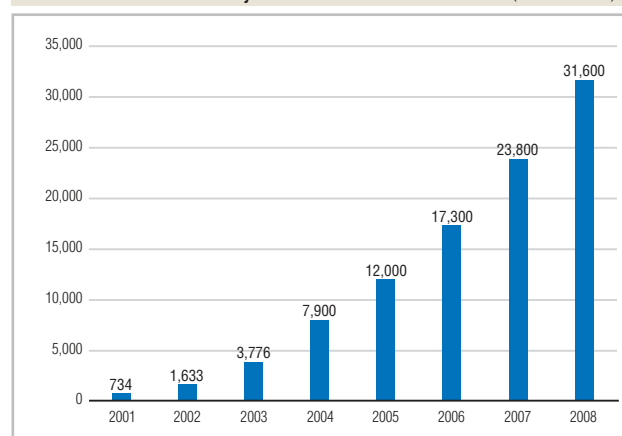
Demand for flat-panel display (FPD) television models, both of the LCD screen and plasma display panel type, is growing at a fast pace all over the world, and the average screen size is also increasing rapidly. East Asia, particularly Japan, Taiwan, and South Korea, account for almost all global FPD production, and manufacturers are maintaining high levels of investment on FPD production facilities. In pursuit of greater production efficiency, "mother glass" substrates (the thin sheets of glass from which LCD screens are cut) are becoming larger, in line with which demand for ultrapure water for the cleansing process is growing year by year.

Kurita has an extensive record of deliveries of ultrapure water production systems for large-scale semiconductor manufacturing plants in Japan. Our systems, capable of supplying ultrapure water in very large volumes, have an excellent

reputation for reliability throughout the semiconductor industry. In addition to the strong brand image of our existing products and services, we have also been successful in helping customers cut back on the volume of water used, through our reclaim systems for water employed in the cleansing process. The need for water conservation has become particularly acute in recent years as a result of the increasing size of the glass substrates. Moreover, we have carved out an established place for ourselves in the East Asian market for ultrapure water production systems for LCD manufacturers.

Production of large-screen FPDs is projected to expand further in the foreseeable future, and we aim to expand our business operations across the East Asian region by offering solutions that precisely meet our customers' needs for large-volume ultrapure water supply to match the growing scale of their manufacturing equipment, as well as their water conservation requirements.

Global Demand Projections for FPD-TV (Thousands)



Source: Japan Electronics and Information Technology Association (JEITA)



Constructing a comprehensive operational system in China

Kurita is now stepping up the pace of its operational expansion in China, where fast market growth in the water treatment business is anticipated. Recently, non-Chinese companies – not only Japanese and other East Asian companies, but also European and American companies – have been setting up production ventures in a wide variety of industrial sectors. In line with these developments, demand for water treatment chemicals and facilities is growing strongly. At Kurita, we have worked hard over the past few years to build a production and delivery system capable of exploiting this demand, and we expect our efforts to bear fruit over the coming years.

In May 1995 we established Kurita Water Industries (Dalian) Co., Ltd. as our local subsidiary in northeast China for the production and sale of water treatment chemicals. This was followed in December 2001 by the founding in Shanghai of Kuritec (Shanghai) Co., Ltd., which conducts maintenance services on water treatment facilities. Through these two subsidiaries, we have been catering to the water-related needs of customers in various industries, including paper manufacturing, petrochemicals, steelmaking, vehicles, and electronics. Our latest such development in China was the establishment, in May of this year, of Kurita Water Industries (Suzhou) Ltd. This subsidiary is a manufacturer of water treatment facilities, and is charged with the role of improving the Kurita Group's supply of high-quality water treatment facilities in China in terms of delivery speed and cost-competitiveness. Thus, the Group now has a comprehensive system in place in China encompassing the production of water treatment chemicals, the manufacture of water treatment facilities, and maintenance services.

Kurita plans to fully leverage its comprehensive capabilities to provide a wide range of users in China with optimal solutions to their water treatment needs, offering unbeatable satisfaction to maintain solid customer loyalty.

Kurita's business development in China

1974	Received order for water treatment facilities for Wuhan Iron and Steel
1978	Established China Section to deal with large-scale projects
1979	Dispatched mission to China to exchange technical expertise
	Installed wastewater treatment facilities at Wuhan Iron and Steel
	Received orders for pure water production facilities from five industrial complexes (in Beijing, Shanghai, Nanjing, and Shengli)
1980	Received order for water production/waste water treatment facilities from Baoshan Iron & Steel in Shanghai
1985	Received order for water treatment chemicals from Baoshan Iron & Steel
	First blast furnace of Baoshan Iron & Steel started up, together with our water treatment facilities
1995	Established Kurita Water Industries (Dalian) Co., Ltd.
2001	Established Kuritec (Shanghai) Co., Ltd.
2004	Established Kurita Water Industries (Suzhou) Ltd.

Our Technological Strengths

The Kurita Group has been engaged in the development of water treatment technologies since its establishment. We also focus on environmental protection technologies, and are making efforts to meet a variety of needs that have arisen as a result of changes in industry and society.

Our R&D system, and details of research and development

Research and development activities at the Kurita Group are conducted principally by the parent company's Research and Development Division, as well as by the technical development departments of each operating division. Approximately 200 employees are involved in R&D, accounting for about 6% of total Group staff.

In the field of water treatment chemicals, we are continuing to develop chemicals that meet customer needs for energy and resource conservation, as well as cost-cutting. We also put effort into developing new environment-friendly materials and non-chemical methods of water treatment, all with the aim of reducing the environmental impact of water treatment. We also develop technologies that facilitate the maintenance of water treatment facilities to provide comprehensive water treatment management services on a contract basis.

During the business term ended March 2004, we recorded the following main achievements in the field of water treatment chemicals.

- We developed a chemical for boiler water that is highly effective in lowering the oxygen content of the water in boilers: it is also safer than products already in use.
- We developed a long-lasting chemical that prevents the release of odors from sludge or slurry, including dehydrated sludge (cake), as well as a control system for the application of the chemical.
- We developed a chemical that is highly effective in breaking down and rendering non-toxic the dioxins contained in incinerator fly ash.

In the water treatment facilities field, we continued to develop technologies that anticipate environmental regulations by addressing issues relating to environmental preservation. At the same time, we developed technologies that respond to the growing need for the infrastructure of a sustainable society, such as methods of reclaiming and reusing wastewater, and of

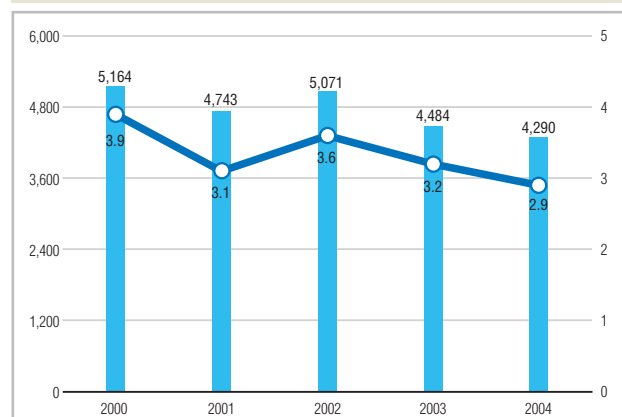
reducing sludge volume for final disposal.

The following achievements were recorded in the term ended March 2004 in R&D in the water treatment facilities field.

- We developed a new denitrification system utilizing microorganisms, which enables major reductions in initial investment and operating costs compared with conventional methods.
- We developed a special "functional water" production system for use by the electronics industry in the cleansing process. The system both reduces costs and lowers the environmental impact, and allows centralized control of operations at multiple locations in one factory.
- We developed an on-site groundwater remediation method that lowers the concentration of heavy metals in groundwater to below the limits set under environmental regulations.

R&D Expenses / Ratio of R&D Expenses to Sales

(Millions of yen / %)





Business and Technology Development Center

In addition to ultrapure water production and control technology, the staff of the Center pursue the further development of technologies in the fields of industrial waste detoxification, waste volume reduction, and recycling / reuse, with the aim of creating commercially viable new businesses.



Analytical technology

The density of system LSIs continues to increase in response to demand from makers of digital electronic consumer appliances, which is constantly becoming more sophisticated. In line with this, LSI manufacturers require ever-higher levels of purity in the water-treatment systems they employ, to ensure stable operation and higher productivity. Kurita is being forced to respond to increasingly precise technical specifications. We are applying our proprietary advanced technology for fast and accurate analysis of ultrapure water quality to meet customers' needs. We also possess technological know-how in the analysis of silicon wafers and LCD substrates. This comprehensive array of technologies allows us to offer diagnoses of ultrapure water production systems that can pinpoint problems in the cleansing process for wafers and substrates, leading to more rapid completion of ultrapure water production system solutions that fully satisfy our customer's requirements.

Moving into new businesses: Kurita begins operation of JHFC hydrogen fueling station

Kurita is the only company engaging in water electrolysis to participate in the Japan Hydrogen & Fuel Cell Demonstration Project (JHFC) sponsored by the Ministry of Economy, Trade and Industry, which started in the reporting term. In May 2004, at Sagamihara in Kanagawa Prefecture, adjacent to Tokyo, in a joint project with Sinanen Co., Ltd. and Itochu Enex Co., Ltd., we constructed a hydrogen fueling station at an existing LPG filling station.

This hydrogen fueling station consists of a hydrogen production facilities, in addition to storage facilities and dispensing equipment. Its distinguishing feature is that the hydrogen production and compression facilities are mounted on a truck, which can make the rounds of a number of fueling stations, eliminating the need to install them at each location. (Few LPG

filling stations have sufficient space to install hydrogen production and compression facilities.) The production of hydrogen is accomplished by the alkaline electrolysis method, using only ordinary tap water and electricity. This is the first case in which a truck-mounted hydrogen production and fueling station has been combined with an existing commercial LPG filling station. The practical commercialization of this process would open the way to the installation of hydrogen fueling stations all across the country, utilizing existing LPG filling stations. Its development is therefore a significant step forward in realizing a full-scale network of hydrogen fueling stations.



The JHFC station at Sagamihara, near Tokyo, is the world's first hydrogen fueling station utilizing mobile (truck-mounted) hydrogen production and compression facilities on the same site as an existing commercial LPG filling station.



The hydrogen production and compression facilities are mounted on a truck

Corporate Governance

Kurita Water Industries Ltd. seeks to build an organization capable of rapid and precise decision-making that embodies our corporate philosophy of “study the properties of water, master them, and we will create an environment in which nature and man are in harmony,” and that will continuously increase its enterprise value. To improve transparency for society, the Company also actively discloses corporate information in a timely manner.

At the 2001 general shareholders’ meeting, the Company reduced the number of directors from 21 to 15 currently, with an eye to speeding up its decision-making process. One of these directors is an outside director as prescribed by Article 188, Paragraph 2-7-2 of the Commercial Code.

To improve its auditing system, in addition to adopting an auditor system and taking steps to ensure appropriate audits, the Company increased the number of auditors to four following the 1994 general shareholders’ meeting, in order to further expand and enhance audits. Two of the auditors are outside auditors as stipulated by Article 18, Paragraph 1 of the Law Concerning Special Exceptions to the Commercial Code Concerning Audits of Incorporated Companies, and one is also an attorney.

The Company also has positioned actions related to achieving compliance management as an important management issue. In addition to past activities by the Compliance Committee, since September 2003, Kurita Water Industries Ltd. has been working to expand the activities of the Group Compliance Committee and achieve compliance management for the group as a whole. The Kurita Group does not regard compliance as merely respect for the law, but practices compliance activities as wide-ranging, fundamental ethical behavior based on the five objectives of fairness, transparency, sincerity, safety and a harmonious relationship with society, in accordance with the Ethical Standard drawn up in the term ended March 2003.

In the years ahead, the Company will seek to harmonize its business activities with nature and society, and continue its efforts to build an appropriate corporate governance organization.

Board of Directors and Corporate Auditors (As of June 29, 2004)

President	Directors	Corporate Auditors
Hiroshi Fujino	Toshiyuki Hisamatsu	Tohru Ishizaka
	Kazuyoshi Yoshitomi	Chiaki Kuzuu
Executive Senior Managing Director	Tohru Kawachi	Masahiko Kurita
Toyoaki Inoue	Toshiaki Deguchi	Kazuma Yura
	Kazufumi Moriuchi	
Managing Directors	Yoshinobu Watanabe	
Sumio Miyake	Mitsuru Ogawa	
Takuo Ishida	Norio Takahashi	
Hiroshi Nakamura	Toru Matsushima	
Hiroshi Saitou		

Selected Financial Data

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

	Millions of yen					
	2004	2003	2002	2001	2000	1999
For the year:						
Net sales.....	¥146,819	¥141,628	¥142,678	¥153,435	¥130,998	¥146,754
Cost of sales.....	101,433	97,846	99,039	105,587	88,174	101,366
Selling, general and administrative expenses	31,895	31,474	32,848	32,030	31,619	30,179
Operating income.....	13,490	12,307	10,790	15,817	11,203	15,209
Income before income taxes.....	14,918	10,263	9,121	14,727	8,615	15,580
Net income.....	8,444	5,476	5,670	8,366	4,648	7,567
Capital expenditures*	8,330	5,593	3,268	2,714	1,968	6,642
R&D expenses.....	4,290	4,484	5,071	4,743	5,164	5,178
Depreciation.....	3,295	3,030	3,132	2,946	3,167	3,055
At year-end:						
Current assets.....	118,923	107,180	103,490	115,263	111,017	112,576
Current liabilities.....	42,954	38,643	36,585	51,625	41,633	49,340
Total shareholders' equity.....	128,676	120,969	122,590	119,209	113,383	108,051
Total assets.....	183,620	173,689	172,145	183,175	165,297	165,775
Amounts per share of common stock (Yen):						
Net income per share.....	64.6	40.7	42.9	63.2	35.1	57.1
Shareholders' equity per share.....	999.7	939.8	926.5	900.8	856.8	816.5
Dividends per share (parent company).....	16.0	16.0	16.0	16.0	17.0	16.0
Ratios:						
Return on assets (%).....	4.7	3.2	3.2	4.8	2.8	4.6
Return on sales (%).....	5.8	3.9	4.0	5.5	3.5	5.2
Total assets turnover (times).....	0.8	0.8	0.8	0.9	0.8	0.9
Shareholders' equity ratio (%).....	70.1	69.6	71.2	65.1	68.6	65.2
Return on equity (%).....	6.8	4.5	4.7	7.2	4.2	7.2

*Excluding intangibles

Management Discussion and Analysis (Consolidated)

Operating Environment

The market environment for the Kurita Group was marked by an increase in demand for semiconductors and flat panel displays (FPDs) from manufacturers in the electronics sector. Accordingly, this was accompanied by brisk demand in the field of water treatment, owing to the overall robust pace of capital investment on both the domestic and overseas markets – primarily Korea, Taiwan, and China. Demand in the field of water treatment, however, was lackluster from customers in other industries such as food, pharmaceuticals, vehicles, steel, and electric power. The situation as a whole thus remained difficult. Public-sector demand also remained sluggish, as the tight situation in public finances constrained investment by both by the central and local governments in Japan.

Liquidity and Capital Resources

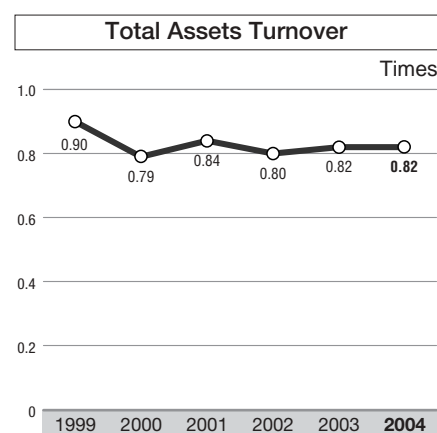
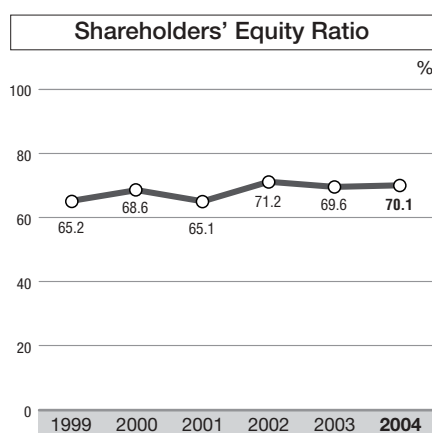
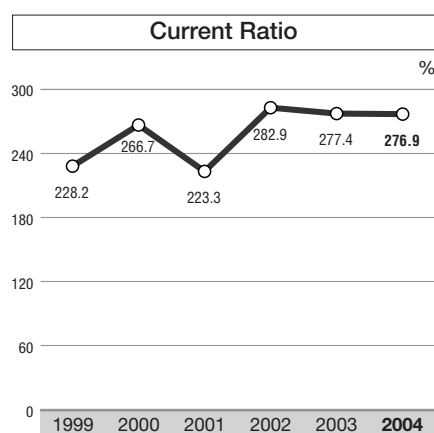
Financial Position

Total assets at March 31, 2004, stood at ¥183,620 million, representing an increase of ¥9,931 million, or 5.7%, from the previous year-end. With respect to current assets and liabilities, the component of current assets that showed the most noteworthy rise was notes and accounts receivable, trade, which increased by ¥6,984 million. The principal reason for this was that the posting of the sales of the water treatment facilities business was concentrated at the fiscal year-end. The increase of ¥3,674 million in cash resulted from the inflow of proceeds from the sale of investment securities. Current assets totaled ¥118,923 million, up by ¥11,743 million from the previous year-end, while current liabilities stood at ¥42,954 million, representing a year-on-year

increase of ¥4,311 million. The main factor behind this increase was a rise of ¥2,627 million in notes and accounts payable, trade, which resulted from a jump in purchasing prompted by the increase in production. The net result of these developments was that the current ratio remained above 270%, as it had been in the previous year, a level indicating a favorable situation in terms of asset liquidity and safety.

Among non-current assets and liabilities, on the asset side, noteworthy movements were a ¥3,361 million increase in property, plant and equipment and a decline of ¥5,860 million in investments and long-term receivables. The main reason for the increase in machinery and equipment was investment in assets for use in the ultrapure water supply business. This business entails the installation of water treatment facilities on customers' factory site to supply them with ultrapure water, and this increase in machinery and equipment arose because the construction funds for the water treatment facilities are provided by Kurita. The fall in investments and long-term receivables was mainly attributable to a decline of ¥4,069 million in investments in securities. Some of them were sold off in line with our policy of reducing cross-shareholdings with banks, and others were reclassified under marketable securities. In addition, with an increase in the unrealized gains on other securities, deferred tax assets fell by ¥1,930 million. As a result of these movements, non-current assets declined by ¥1,811 million from the previous year-end, to ¥64,697 million. Long-term liabilities fell by ¥2,162 million, to ¥10,958 million, primarily because of a decrease in allowances for retirement benefits.

Shareholders' equity increased by ¥7,707 million from the end of the previous year, to ¥128,676 million. This resulted from a profit increase that led to a rise of ¥6,543 million in retained earnings and an increase of ¥1,733 million in



unrealized gains on other securities as a result of the recovery in share prices. Among factors causing declines, the most significant was the expansion of the foreign currency translation adjustment resulting from the appreciation of the yen up to the end of the fiscal year. In consequence, the shareholders' equity ratio rose from 69.6% to 70.1%, while the total assets turnover ratio remained at around its year-earlier level, at 0.82 times. Both return on assets and return on equity recorded improvements, the former up by 1.5 points to 4.7%, and the latter rising by 2.3 points, to 6.8%.

Cash Flows

Net cash provided by operating activities decreased by ¥4,828 million from the ¥10,402 million provided in the previous fiscal year, to ¥5,574 million. The principal components of this were income before income taxes of ¥14,918 million, depreciation and amortization charges totaling ¥3,872 million, and an increase of ¥2,995 million in trade payables. Other major components were an increase in trade receivables of ¥6,793 million resulting from the increase in sales at the year-end, and payments of income taxes of ¥5,829 million.

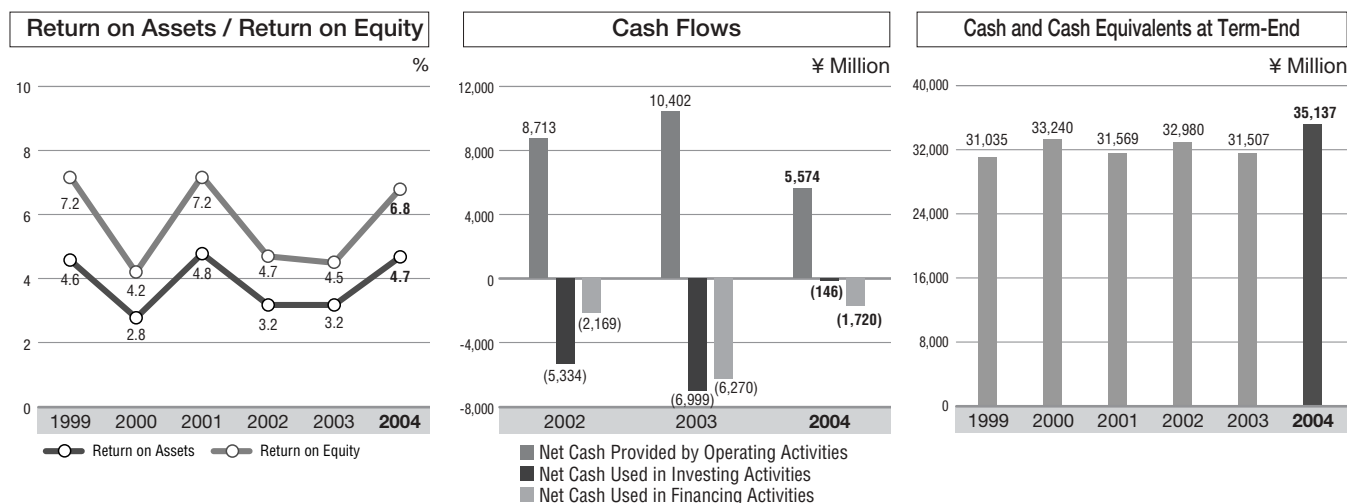
Net cash used in investing activities decreased by ¥6,853 million from the ¥6,999 million used in the previous year, leaving a net outflow of ¥146 million. The principal factors in this were the payment of ¥8,364 million for the purchase of property, plant and equipment, and income (income from sales, etc., net of purchase expenditure) of ¥8,275 million from sales, primarily of securities and investment securities.

Net cash used in financing activities declined from ¥6,270 million in the previous year, to ¥1,720 million. This was attributable principally to a decrease of ¥4,054 million in the net amount expended for the purchase of the Company's own shares.

As a net result of the above, the balance of cash and cash

equivalents at the end of the fiscal year stood at ¥35,137 million, representing an increase of ¥3,630 million from the previous fiscal year-end.

Free cash flow (net cash provided by operating activities minus net cash used in investing activities) increased by ¥2,025 million year-on-year, to ¥5,428 million.



Results of Operations

Net Sales and Orders Received

Net sales in the fiscal year ended March 31, 2004, rose by 3.7% from the previous year, to ¥146,819 million, and orders received jumped by 16.6%, to ¥149,735 million. The prime cause of this sales growth was the increase in the water treatment facilities business catering to the domestic electronics industries.

By segment, in the water treatment chemicals business Kurita placed emphasis on such areas as enhancing its product-development capabilities and marketing more closely attuned to the characteristics of customers and of local regions, and also on proactive marketing that enabled it to assist customers to resolve issues that were confronting them.

Sales of mainstay products such as boiler and cooling water treatment chemicals faltered as a result of unfavorable seasonal factors in the form of cool summer weather and mild winter weather. In contrast, there was favorable growth in sales of process treatment chemicals for the pulp and paper industry, chemicals for incinerators, and in revenues from the blanket contracts for water treatment management services. As a result, sales grew by 0.7% year-on-year, to ¥47,442 million, and orders were up by 2.3%, to ¥47,516 million.

In the water treatment facilities business there were declines in sales of facilities for the food, pharmaceuticals, basic materials, and automotive industry, but there was an increase in sales of ultrapure water production systems to the electronics industry, buoyed by growth in demand for FPDs and semiconductors. Sales to the public sector declined as a result of the reduction of spending on public works resulting from the cutting of budgets by both the national government and local governments. Nevertheless, the order volume increased because the Company was successful in securing orders for large-scale renewals and new projects in the market for sludge

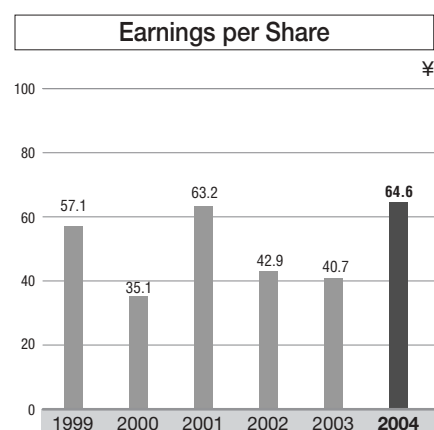
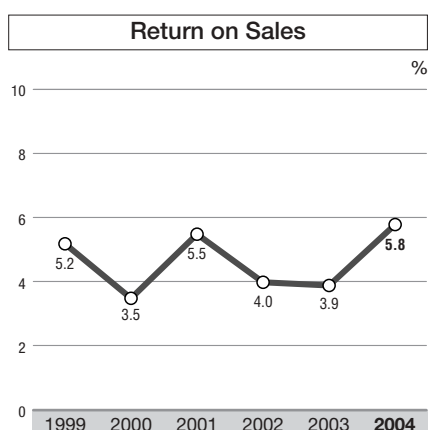
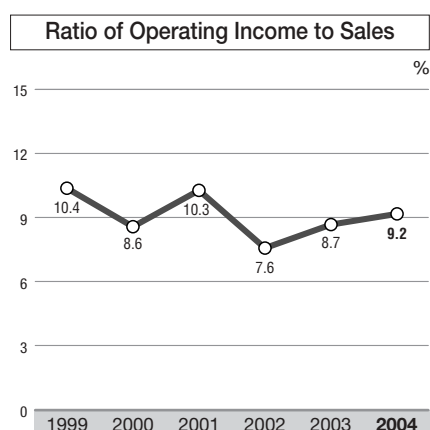
recycling centers. As a result, sales rose by 5.1% from the previous year, reaching ¥99,377 million, and orders rose by a substantial 24.7%, to ¥102,218 million.

Earnings

Accompanying the sales growth, gross profit increased by 3.7% from the previous year, to ¥45,386 million. The gross profit ratio was 30.9%, which was the same level as in the previous year. This was achieved because Kurita was able to cut costs sufficiently to offset a fall in the unit sales price, which resulted from factors such as stepped-up efforts by customers to cut costs and increasingly fierce competition. The cost-cutting was achieved in the water treatment chemicals business primarily in the sphere of procurement and through a more efficient distribution system, and in the water treatment facilities business it was achieved primarily by standardization at the manufacturing stage.

Operating income rose by 9.6% year-on-year, to ¥13,490 million. This was attributable principally to both the growth in sales and the reduction in personnel costs. In the latter case, although the number of personnel on a consolidated basis increased, leading to higher payments for salaries and allowances, in the area of retirement benefit costs, there was a decline in the amount of charge-offs of actuarial differences accompanying an increase in the valuation gain on the market value of pension assets. The ratio of selling, general and administrative expenses to sales fell by 0.5 of a point from a year earlier, to 21.7%, mainly because of the decline in personnel costs, and the operating income ratio rose by 0.5 of a point, to 9.2%.

On a segment basis the operating income ratio in the water treatment chemicals business rose by 0.2 of a point year-on-year, to 14.0%, remaining the core factor underpinning the Company's earnings. In the water treatment facilities business,



meanwhile, the ratio improved from 6.0% to 6.9%, and the amount of operating income exceeded that from the water treatment chemicals business.

Net other income came to ¥1,428 million, compared with net other expenses of ¥2,043 million for the previous year. Income before income taxes increased ¥4,655 million to ¥14,918 million, and net income rose ¥2,968 million to ¥8,444 million. This was attributable primarily to the fact that although income taxes (under tax-effect accounting) increased by ¥1,672 million, Kurita posted a gain on the sale of investment securities. The non-repetition of a ¥1,162 million amortization of the unrecognized effect of the change in accounting standards for employees' retirement benefits in the previous year also contributed to the increase in income. As a result of these factors, net income for the year rose 54.2% over the previous year. The return on sales (ratio of net income to sales) was 5.8%, and earnings per share came to ¥64.57.

Outlook

The market environment for the Kurita Group will continue to give little cause for optimism. Nevertheless, the Group will continue to expand its range of activities and boost earnings by further enhancing its cost competitiveness and by utilizing a new business model that encompasses outsourcing business and a proactive approach that offers solutions for customer issues.

In the water treatment chemicals business, Japanese companies are expected to continue investing in China in such industries as automotive, steel, and paper and pulp, but it is likely that customers' plants will maintain their downward pressure on costs and that fierce competition will persist. Against this backdrop, in the domestic market the Kurita Group will implement measures to strengthen its sales network and to adopt a proactive approach to offering solutions through collaboration with the maintenance division of the water treatment facilities business. In China, it will aim to expand its scope of business and market share by developing full-fledged operations. In Europe it will make full use of the expertise in oil process treatment chemicals newly acquired by its subsidiary Kurita Europe GmbH to expand its scope of business.

In the water treatment facilities business, in the private sector the electronics industries are expected to continue robust capital investment within Japan in such fields as semiconductors and FPDs. Overseas, forecasts indicate that investment in the expansion of liquid crystal display (LCD) plant will be maintained, particularly in Korea and Taiwan, and that there will be an increase in investment in the fields of semiconductors and electronic components in China. Given these circumstances, Kurita will devote efforts to securing orders through a proactive marketing approach proposing products and services in which the Kurita Group has demonstrable superiority, such as in the ultrapure water supply business.

In the fields of food, pharmaceuticals, basic materials, automotives, and electric power, the market environment is expected to remain generally severe, but Kurita will devote itself to securing orders and generating earnings through a range of measures. These will include the cultivation of attractive markets by such means as proactive steps by the Eco-Solution Group to assist customers in cutting costs and reducing their adverse impact on the environment, and the enhancement of cost competitiveness through product standardization. In the field of soil and groundwater remediation, through joint operations with a subsidiary, the Company will provide a new service addressing soil pollution risk, while other approaches will include the development of highly competitive soil and groundwater remediation technologies.

In the public sector, market conditions are forecast to remain severe, characterized by the ongoing reduction of public investment. Kurita will devote efforts to winning business by such means as securing orders for the rebuilding of human waste treatment facilities, drinking water purification using membrane technology, and the sale of sludge reduction facilities employing ozone.

In the field of maintenance services, the Company's approach to expanding orders will focus on continuing promotion of contract services such as facility operation and management services and annual-based blanket contracts.

For the current fiscal year, ending March 31, 2005, the Company is projecting consolidated net sales of ¥161,800 million, orders totaling ¥168,000 million, and net income of ¥10,000 million.

Risk Factors

Risks stemming from the basic nature of the business of the Kurita Group

- The Kurita Group's business performance is closely linked with the operating ratios at customers' plants.

The Group's principal business is the provision of products, technologies, and maintenance services relating to water treatment. Since these are linked very closely with the operating ratios at its customers' plants, which are principally in the manufacturing sector, a characteristic of the Group's business is that its performance is significantly affected by the state of operations and earnings of its customers.

- In water treatment chemicals business, demand fluctuates in accordance with plant operating ratios.

In the water treatment chemicals business, the supply of consumable supplies is fundamental, and demand fluctuates in accordance with the operating ratios at the plants of the Group's major customers in such industries as steel, oil, and paper & pulp. However, given a certain level of operations by customers, this business can generate relatively stable earnings.

- The water treatment facilities business is affected by economic trends and trends in capital investment among major customers.

The water treatment facilities business is oriented towards meeting the needs of customers when they engage in capital investment for the new construction of plants or the expansion or renewal of production capacity. In view of this, this business is very sensitive to macroeconomic developments and trends in capital investment among major customers in such fields as electronics, food, pharmaceuticals, basic materials, and automobiles. In addition, public-sector demand for this business is principally for public works by local governments, and therefore demand fluctuates in accordance with the state of the finances and the budgetary practices of those local governments.

-Net sales and income will be weighted towards the second half of the fiscal year.

Net sales and operating income will be weighted disproportionately towards the second half of the fiscal year. This will reflect revenue accounting based on work-in-progress standards and the completion of large-scale projects, centered on public sector demand in the Group's water treatment facilities business, which are concentrated near the end of the fiscal year (March).

Operating results, on a consolidated basis, for the last four fiscal years, are shown in the table below.

Million yen

	From April 1, 2000 To March 31, 2001			From April 1, 2001 To March 31, 2002			From April 1, 2002 To March 31, 2003			From April 1, 2003 To March 31, 2004		
	First half	Second half	Total	First half	Second half	Total	First half	Second half	Total	First half	Second half	Total
Consolidated net sales												
Water treatment chemicals	22,674	23,035	45,709	23,696	22,581	46,277	23,214	23,902	47,116	23,645	23,797	47,442
Percentage of full year (%).....	49.6	50.4	100.0	51.2	48.8	100.0	49.3	50.7	100.0	49.8	50.2	100.0
Water treatment facilities	47,696	60,029	107,725	45,821	50,580	96,401	38,520	55,992	94,512	40,936	58,441	99,377
Percentage of full year (%).....	44.3	55.7	100.0	47.5	52.5	100.0	40.8	59.2	100.0	41.2	58.8	100.0
Total	70,371	83,064	153,435	69,517	73,161	142,678	61,734	79,894	141,628	64,581	82,238	146,819
Percentage of full year (%).....	45.9	54.1	100.0	48.7	51.3	100.0	43.6	56.4	100.0	44.0	56.0	100.0
Consolidated operating income												
Water treatment chemicals	3,543	3,080	6,623	3,673	2,571	6,244	3,609	2,884	6,493	3,273	3,367	6,640
Percentage of full year (%).....	53.5	46.5	100.0	58.8	41.2	100.0	55.6	44.4	100.0	49.3	50.7	100.0
Water treatment facilities	3,476	5,719	9,195	2,312	2,225	4,537	721	5,009	5,730	843	6,002	6,845
Percentage of full year (%).....	37.8	62.2	100.0	51.0	49.0	100.0	12.6	87.4	100.0	12.3	87.7	100.0
Eliminations and corporate	(12)	10	(2)	3	5	8	8	74	82	106	(101)	5
Total	7,008	8,809	15,817	5,989	4,801	10,790	4,339	7,968	12,307	4,223	9,267	13,490
Percentage of full year (%).....	44.3	55.7	100.0	55.5	44.5	100.0	35.3	64.7	100.0	31.3	68.7	100.0
Consolidated net income												
	3,752	4,614	8,366	2,832	2,838	5,670	2,173	3,303	5,476	2,414	6,030	8,444
Percentage of full year (%).....	44.8	55.2	100.0	49.9	50.1	100.0	39.7	60.3	100.0	28.6	71.4	100.0

Consolidated Statements of Income

Kurita Water Industries Ltd. and Consolidated Subsidiaries
 For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
Net sales	¥146,819	¥141,628	¥142,678	\$1,389,147
Cost of sales	101,433	97,846	99,039	959,721
Gross profit.....	45,386	43,781	43,639	429,425
Selling, general and administrative expenses (Note 6)	31,895	31,474	32,848	301,778
Operating income	13,490	12,307	10,790	127,637
Other income (expenses):				
Interest and dividend income.....	409	416	453	3,869
Interest expenses.....	(27)	(17)	(35)	(255)
Gain on sale of investments in securities	1,414	—	—	13,378
Gain on sale of an affiliated company's stock	—	—	932	—
Equity in earnings of unconsolidated subsidiaries and affiliates	208	143	198	1,968
Loss on write-down of investment in securities	—	(822)	(1,986)	—
Loss on write-down of properties	(499)	—	—	(4,721)
Amortization of unrecognized effect of change in accounting for employees' retirement benefits	—	(1,162)	(1,162)	—
Foreign exchange (losses) gains	(151)	(214)	107	(1,428)
Other, net.....	74	(385)	(177)	700
	1,428	(2,043)	(1,670)	13,511
Income before income taxes	14,918	10,263	9,121	141,148
Income taxes (Note 11):				
Current	6,089	4,957	4,630	57,611
Deferred	257	(283)	(1,229)	2,431
	6,347	4,674	3,401	60,052
Minority interests in earnings of consolidated subsidiaries	126	112	49	1,192
Net income	¥ 8,444	¥ 5,476	¥ 5,670	\$ 79,894

	Yen			U.S. dollars (Note 1)
	2004	2003	2002	2004
Per share of common stock:				
Net income	¥64.57	¥40.67	¥42.85	\$0.61
Cash dividends applicable to the year	16.00	16.00	16.00	0.15

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Kurita Water Industries Ltd. and Consolidated Subsidiaries
At March 31, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash (Note 7)	¥ 35,512	¥ 31,838	\$ 336,001
Notes and accounts receivable, trade	66,681	59,697	630,911
Allowance for doubtful accounts	(140)	(169)	(1,324)
Marketable securities (Note 8).....	6,720	6,615	63,582
Inventories (Note 9).....	6,713	6,301	63,515
Deferred tax assets (Note 11).....	2,070	1,806	19,585
Other current assets	1,365	1,090	12,915
Total current assets	<u>118,923</u>	<u>107,180</u>	<u>1,125,205</u>
Investments and long-term receivables:			
Investments in securities (Note 8).....	13,253	17,322	125,395
Investments in unconsolidated subsidiaries and affiliates	2,025	1,902	19,159
Deferred tax assets (Note 11)	2,121	4,051	20,068
Deferred tax assets on revaluation of land.....	176	—	1,665
Long-term loans	—	116	—
Other investments	2,242	2,186	21,212
Allowance for doubtful accounts	(141)	(40)	(1,334)
Total investments and long-term receivables	<u>19,678</u>	<u>25,538</u>	<u>186,186</u>
Property, plant and equipment, at cost:			
Land (Note 5)	14,346	15,024	135,736
Buildings and structures	30,372	28,772	287,368
Machinery and equipment	15,011	10,470	142,028
Construction in progress	539	1,604	5,099
Other facilities	10,143	11,124	95,969
Total	<u>70,411</u>	<u>66,994</u>	<u>666,203</u>
Accumulated depreciation	<u>(28,741)</u>	<u>(28,684)</u>	<u>(271,936)</u>
Property, plant and equipment, net	<u>41,671</u>	<u>38,310</u>	<u>394,275</u>
Other assets	<u>3,347</u>	<u>2,659</u>	<u>31,668</u>
Total assets	<u>¥183,620</u>	<u>¥173,689</u>	<u>\$1,737,345</u>

The accompanying notes are an integral part of these statements.

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current liabilities:			
Current portion of long-term borrowings (Note 10)	¥ 48	¥ 7	\$ 454
Notes and accounts payable, trade	26,888	24,261	254,404
Income taxes payable	3,593	3,335	33,995
Advances received	1,373	966	12,990
Accrued employees' bonuses	2,173	2,154	20,560
Allowance for product warranty	1,028	848	9,726
Other current liabilities	7,847	7,067	74,245
Total current liabilities	<u>42,954</u>	<u>38,643</u>	<u>406,414</u>
Long-term liabilities:			
Long-term borrowings (Note 10)	349	40	3,302
Accrued employees' retirement benefits (Note 12)	9,149	11,469	86,564
Accrued retirement benefits for directors and corporate auditors	658	813	6,225
Deferred tax liabilities on revaluation of land	—	13	—
Other long-term liabilities	800	783	7,569
Total long-term liabilities	<u>10,958</u>	<u>13,120</u>	<u>103,680</u>
Total liabilities	<u>53,912</u>	<u>51,763</u>	<u>510,095</u>
Minority interests in consolidated subsidiaries	1,031	956	9,754
Contingent liabilities (Note 15)			
Shareholders' equity:			
Common stock, 2004 and 2003			
Authorized: 531,000,000 shares			
Issued: 2004—132,800,256 shares			
2003—132,800,256 shares	13,450	13,450	127,258
Additional paid-in capital	11,398	11,398	107,843
Retained earnings (Notes 4 and 16)	108,180	101,637	1,023,559
Unrealized losses (gains) on revaluation of land (Note 5)	(257)	20	(2,431)
Unrealized holding gains (losses) on other securities	1,625	(108)	15,375
Foreign currency translation adjustment	(829)	(543)	(7,843)
	<u>133,567</u>	<u>125,854</u>	<u>1,263,761</u>
Treasury stock, at cost:			
2004—4,217,542 shares, 2003—4,213,867 shares	(4,890)	(4,885)	(46,267)
Total shareholders' equity	<u>128,676</u>	<u>120,969</u>	<u>1,217,485</u>
Total liabilities and shareholders' equity	<u>¥183,620</u>	<u>¥173,689</u>	<u>\$1,737,345</u>

Consolidated Statements of Shareholders' Equity

Kurita Water Industries Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
Common stock:				
Beginning of the year	¥ 13,450	¥ 13,450	¥13,450	\$ 127,258
End of the year	13,450	13,450	13,450	127,258
Additional paid-in capital:				
Beginning of the year	¥ 11,398	¥ 11,398	¥11,398	\$ 107,843
End of the year	11,398	11,398	11,398	107,843
Retained earnings:				
Beginning of the year.....	¥101,637	¥ 98,804	¥95,444	\$ 961,652
Net income for the year.....	8,444	5,476	5,670	79,894
Increase due to reversal of unrealized gains on revaluation of land (Note 5).....	278	—	—	2,630
Cash dividends paid.....	(2,058)	(2,117)	(2,117)	(19,472)
Bonuses to directors and corporate auditors.....	(118)	(120)	(164)	(1,116)
Decrease due to change in scope of consolidation (net of inclusion and exclusion of consolidated subsidiaries)	—	(336)	—	—
Other	(3)	(69)	(27)	(28)
End of the year	¥108,180	¥101,637	¥98,804	\$1,023,559

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, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
I. Cash flows from operating activities:				
Income before income taxes	¥14,918	¥10,263	¥ 9,121	\$141,148
Depreciation and amortization	3,872	3,208	3,409	36,635
(Decrease) increase in allowance for employees' retirement benefits ...	(2,317)	592	828	(21,922)
(Gain) loss on sales and write-down of investment in securities	(1,414)	824	1,053	(13,378)
Equity in earnings of unconsolidated subsidiaries and affiliates	(208)	(143)	(198)	(1,968)
Interest and dividends income	(409)	(417)	(454)	(3,869)
Interest expenses.....	27	17	35	255
Payments of bonuses to directors and corporate auditors	(118)	(120)	(165)	(1,116)
Increase (decrease) in other allowances, accrual and noncash items, net.....	510	(222)	(252)	4,825
Change in assets and liabilities:				
(Increase) decrease in trade receivables.....	(6,793)	(4,784)	10,880	(64,272)
(Increase) decrease in inventories	(442)	1,369	2,537	(4,182)
Increase (decrease) in trade payables.....	2,995	1,771	(8,854)	28,337
Others, net.....	308	(327)	(270)	2,914
	<u>10,927</u>	<u>12,028</u>	<u>17,669</u>	<u>103,387</u>
Interest and dividends received	482	609	506	4,560
Interest paid.....	(27)	(17)	(35)	(255)
Income taxes paid	(5,829)	(2,058)	(9,490)	(55,151)
Others, net	20	(160)	64	189
Net cash provided by operating activities	<u>5,574</u>	<u>10,402</u>	<u>8,713</u>	<u>52,739</u>
II. Cash flows from investing activities:				
(Increase) decrease in time deposits, net	(76)	78	(507)	(719)
Payments for purchase of property, plant and equipment.....	(8,364)	(4,895)	(2,747)	(79,137)
Proceeds from sales of property, plant and equipment.....	1,183	251	93	11,193
Payments for purchase of marketable securities and investment in securities	(2,412)	(9,360)	(6,218)	(22,821)
Proceeds from sales of marketable securities and investment in securities	10,687	7,073	7,648	101,116
Long-term loans to unconsolidated subsidiaries	—	(66)	(2,461)	—
Others, net	(1,166)	(81)	(1,142)	(11,032)
Net cash used in investing activities	<u>(146)</u>	<u>(6,999)</u>	<u>(5,334)</u>	<u>(1,381)</u>
III. Cash flows from financing activities:				
(Decrease) increase in short-term debt, net	—	(57)	58	—
Increase (decrease) in long-term debt, net.....	346	(11)	(44)	3,273
Cash dividends paid.....	(2,057)	(2,116)	(2,117)	(19,462)
Cash dividends paid to minority interests in consolidated subsidiaries.....	(32)	(28)	(40)	(302)
Payments for purchase of treasury stock, net.....	(4)	(4,058)	(25)	(38)
Other	28	—	—	264
Net cash used in financing activities.....	<u>(1,720)</u>	<u>(6,270)</u>	<u>(2,169)</u>	<u>(16,274)</u>
IV. Effect of exchange rate changes on cash and cash equivalents.....	(127)	(59)	145	(1,201)
V. Net increase (decrease) in cash and cash equivalents	3,580	(2,927)	1,354	33,872
VI. Cash and cash equivalents at beginning of year (Note 7).....	31,507	32,980	31,569	298,107
VII. Cash and cash equivalents of newly consolidated subsidiaries, net of excluded subsidiaries from consolidation	50	1,454	56	473
VIII. Cash and cash equivalents at end of year (Note 7).....	¥35,137	¥31,507	¥32,980	\$332,453

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 subsidiaries in Japan 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 Accounting 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 2004, as a matter of arithmetical computation only, at the rate of ¥105.69 to US\$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2004. 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: 30 (28 for 2003)

Name of principal consolidated subsidiaries: Kurita

Engineering Co., Ltd., Kuritaz Co., Ltd. and Kuritec Service Co. Ltd.

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

All the non-consolidated 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

Number of companies to which the equity method is applied: 5

Affiliates to which equity method has not been applied had no material effect on consolidated net income and consolidated retained earnings in the aggregate.

(4) Fiscal year of consolidated subsidiaries

The fiscal year of Kurita (Singapore) Pte. Ltd. and 12 other overseas consolidated subsidiaries ends December 31. The accompanying consolidated financial statements include the accounts of these subsidiaries as of December 31 and for the year then ended.

3. Significant accounting policies

(1) Valuation basis and method

Held-to-maturity debt securities

Amortized cost (straight-line amortization)

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

Principally cost computed by 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 overseas consolidated subsidiaries

(3) Allowances and accruals

Accrued employees' bonuses:

The Company and its domestic consolidated subsidiaries provide for an amount equivalent to 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.

(4) 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.

(5) Income per share

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

(6) Consumption tax

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

(7) Derivatives transactions

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

(8) 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 (losses) gains on revaluation of land" in the shareholders' equity account, after deduction of tax equivalent from the net amount of revaluation gain and loss. 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 the fiscal year-end and the carrying value after land

revaluation: ¥(1,339) million (US\$(12,669)) 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
2004	2003	2002	2004
¥4,289	¥4,484	¥5,071	\$40,580

7. Reconciliation between cash and cash equivalents

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

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Cash	¥35,512	¥31,838	¥33,408	\$336,001
Time deposits having original maturity of more than three months	(374)	(330)	(428)	(3,538)
Cash and cash equivalents	¥35,137	¥31,507	¥32,980	\$332,453

8. Marketable securities and investment securities

(1) Available-for-sale securities with fair value at March 31, 2004 and 2003 are summarized as follows:

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, 2003	Millions of yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock	¥ 1,308	¥ 1,968	¥ 659
Bonds:			
National and local government bonds	800	800	0
Corporate bonds	7,837	7,876	39
Other	—	—	—
Sub-total	9,946	10,646	699
Book value not exceeding acquisition cost:			
Stock	3,688	2,863	(824)
Bonds:			
National and local government bonds	4,004	4,003	(1)
Corporate bonds	2,891	2,835	(55)
Other	499	499	0
Sub-total	11,083	10,202	(881)
Total	¥21,030	¥20,848	¥(182)

At March 31, 2004	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock	\$ 48,803	\$ 75,276	\$26,473
Bonds:			
National and local government bonds	41,640	41,640	0
Corporate bonds	19,027	19,121	94
Sub-total	<u>109,480</u>	<u>136,058</u>	<u>26,568</u>
Book value not exceeding acquisition cost:			
Stock	7,957	7,285	(662)
Bonds:			
National and local government bonds	3,784	3,784	0
Corporate bonds	12,763	12,744	(18)
Other	—	—	—
Sub-total	<u>24,515</u>	<u>23,824</u>	<u>(690)</u>
Total	<u>\$133,995</u>	<u>\$159,882</u>	<u>\$25,877</u>

During the fiscal year ended March 2003, the Company has written down ¥822 million in available-for-sale securities.

The Company writes down all securities whose market value as of the end of the fiscal year have declined more than 50% from their acquisition cost. Securities whose market value have declined 30% to 50% from their acquisition cost are written down to appropriate amounts, if necessary, after considering their recoverability.

(2) Available-for-sale securities sold during the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Sales amount	¥2,222	¥2	¥4	\$21,023
Total gains on sales	1,414	—	—	13,378
Total losses on sales	—	1	—	—

(3) The schedule of redemption for available-for-sale securities with maturity at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2004		March 31, 2003		March 31, 2004	
	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	¥4,801	¥ —	¥ —	¥ —	\$45,425	\$ —
Corporate bonds	1,918	1,450	6,015	9,500	18,147	13,719
Other	—	—	499	—	—	—
Total	<u>¥6,720</u>	<u>¥1,450</u>	<u>¥6,515</u>	<u>¥9,500</u>	<u>\$63,582</u>	<u>\$13,719</u>

9. Inventories

Inventories at March 31, 2004 and 2003 are consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products	¥1,219	¥1,119	\$11,533
Raw materials.....	1,051	1,296	9,944
Work in process	4,443	3,884	42,038
Total.....	¥6,713	¥6,301	\$63,515

10. Long-term borrowings

Long-term borrowings at March 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loan from banks at interest rates from 4.30% to 4.40%.....	¥397	¥47	\$3,756
Less current portion.....	(48)	(7)	(454)
Total.....	¥349	¥40	\$3,302

11. Income taxes

For the years ended March 31, 2003 and 2002, the breakdown of the principal items causing a difference between the Japanese statutory tax rate and the Company's effective tax rate was as follows (the breakdown for 2004 was omitted due to insignificance of difference):

	2003	2002
Statutory tax rate.....	42.0%	42.0%
(adjustments)		
Entertainment expenses and other expenses not deductible	1.6	2.1
Dividends received not taxable	(0.7)	(0.9)
Per capita equalization and inhabitants' taxes.....	0.9	1.0
Amortization of consolidated differences.....	—	0.4
Deduction of deferred tax assets at the fiscal year-end due to change in tax rate	0.8	—
Other	0.9	0.8
Effective tax rate after application of tax effect accounting.....	45.5%	37.3%

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
	2004	2003	2004
Deferred tax assets:			
Excess provision for accrued employees' retirement benefits.....	¥2,942	¥3,428	\$27,836
Excess provision for accrued bonuses to employees	876	735	8,288
Accrued enterprise taxes not deductible	333	282	3,150
Accrued retirement benefits for directors and corporate auditors	264	343	2,497
Excess provision of allowance for product warranty.....	413	288	3,907
Loss from write-down of marketable securities	—	297	—
Excess portion of design expenses	165	185	1,561
Unrealized gain on sales of property, plant and equipment.....	421	237	3,983
Excess depreciation of property, plant and equipment.....	282	—	2,668
Devaluation loss on property, plant and equipment.....	208	—	1,968
Excess provision of amortization for intangible assets	—	171	—
Unrealized gain on sales of an affiliated company's stock.....	—	150	—
Loss on write-down of golf club membership	142	146	1,343
Other.....	623	680	5,895
Subtotal.....	<u>6,671</u>	<u>6,947</u>	<u>63,119</u>
Provision to valuation reserve.....	<u>(202)</u>	<u>—</u>	<u>(1,911)</u>
Total deferred tax assets.....	<u>6,469</u>	<u>6,947</u>	<u>61,207</u>
Deferred tax liabilities:			
Capital gain on properties deferred for tax purposes.....	(876)	(887)	(8,288)
Gain on valuation of available-for-sale securities	(1,110)	—	(10,502)
Estimated income taxes pertaining to retained earnings of overseas consolidated subsidiaries.....	(272)	(203)	(2,573)
Other.....	(17)	—	(160)
Total deferred tax liabilities.....	<u>(2,277)</u>	<u>(1,090)</u>	<u>(21,544)</u>
Deferred tax assets, net	<u>¥4,191</u>	<u>¥5,857</u>	<u>\$39,653</u>

12. Retirement benefits and pension plans

1. The Company and 16 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
	2004	2003	2004
Retirement benefit obligation	¥(22,697)	¥(22,987)	\$(214,750)
Fair value of pension plan assets	13,624	11,337	128,905
Unfunded retirement benefit obligation	(9,073)	(11,650)	(85,845)
Unrecognized actuarial (gain) loss.....	(76)	180	(719)
Accrued employees' retirement benefits.....	¥ (9,149)	¥(11,469)	\$ (86,564)

3. Benefit cost:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Service cost	¥1,239	¥1,246	¥1,175	\$11,722
Interest cost.....	540	531	577	5,109
Expected return on plan assets	—	—	(65)	—
Amortization of obligation at transition arising from new accounting standards.....	—	1,162	1,162	—
Actuarial (gain) loss.....	(679)	984	1,331	(6,424)
Prior service cost	—	—	137	—
Additional retirement payments	35	164	31	331
Net periodic benefit cost	¥1,136	¥4,090	¥4,349	\$10,748

4. Assumptions to determine above obligation and cost:

	2004	2003
Periodic allocation of projected benefit obligation	Equal amount over each period	Equal amount over each period
Discount rate	2.5%	2.5%
Expected return rate on plan assets	0.0%	0.0%
Amortization period of net obligation at transition.....	—	three years
Amortizations period of actuarial loss.....	one–two years	one–two years

13. Leases

1. The following pro forma amounts concern the finance leases which would have been reflected in the financial statements if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating lease:

1) Leased assets (lessee)

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Acquisition costs.....	¥1,705	¥1,995	¥2,615	\$16,132
Accumulated depreciation	(1,024)	(1,169)	(1,525)	(9,688)
Net book value.....	¥ 681	¥ 826	¥1,089	\$ 6,443

2) Lease obligations (net book value)

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Due within one year or less	¥287	¥306	¥ 402	\$2,715
Due within more than one year	394	519	686	3,727
Total.....	¥681	¥826	¥1,089	\$6,443

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

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Lease payments	¥340	¥403	¥592	\$3,216
Depreciation	340	403	592	3,216

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
	2004	2003	2002	2004
Due within one year or less	¥120	¥ 61	¥ 61	\$1,135
Due within more than one year	124	82	75	1,173
Total.....	¥245	¥144	¥136	\$2,318

14. Segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004, 2003 and 2002 is outlined as follows:

Millions of yen					
Year ended March 31, 2004	Chemicals division	Facilities division	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
Millions of yen					
Year ended March 31, 2003	Chemicals division	Facilities division	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
Millions of yen					
Year ended March 31, 2002	Chemicals division	Facilities division	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	¥46,277	¥96,401	¥142,678	¥ —	¥142,678
2) Intersegment sales	351	337	689	(689)	—
Total.....	46,628	96,739	143,368	(689)	142,678
Operating costs and expenses.....	40,384	92,201	132,585	(697)	131,887
Operating income.....	¥ 6,244	¥ 4,537	¥ 10,782	¥ 8	¥ 10,790
II. Assets, depreciation and capital expenditures					
Assets	¥38,793	¥79,158	¥117,951	¥54,193	¥172,145
Depreciation and amortization	1,169	2,318	3,487	—	3,487
Capital expenditures	1,882	2,877	4,760	—	4,760

Year ended March 31, 2004	Thousands of U.S. dollars				
	Chemicals division	Facilities division	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers.....	\$448,878	\$940,268	\$1,389,147	\$ —	\$1,389,147
2) Intersegment sales.....	1,523	2,819	4,352	(4,352)	—
Total.....	450,411	943,088	1,393,509	(4,352)	1,389,417
Operating costs and expenses.....	387,586	878,323	1,265,909	(4,409)	(1,261,500)
Operating income.....	\$ 62,825	\$ 64,764	\$ 127,590	\$ 47	\$ 127,637
II. Assets, depreciation and capital expenditures					
Assets.....	\$372,703	\$893,197	\$1,265,909	\$471,425	\$1,737,345
Depreciation and amortization.....	14,646	21,979	36,635	—	36,635
Capital expenditures.....	17,929	74,008	91,948	—	91,948

Overseas net sales:

For the year ended March 31, 2004	Millions of yen					Thousands of U.S. dollars
	Asia	North America	Europe	Other	Total	Total
Overseas net sales.....	¥13,256	¥535	¥888	¥1,316	¥ 15,996	\$ 151,348
Consolidated net sales.....	—	—	—	—	146,819	1,389,147
Percentage of overseas net sales to consolidated net sales.....	9.0%	0.4%	0.6%	0.9%	10.9%	10.9%
For the year ended March 31, 2003						
Overseas net sales.....	¥15,837	¥731	¥620	¥1,237	¥ 18,427	
Consolidated net sales.....	—	—	—	—	141,628	
Percentage of overseas net sales to consolidated net sales.....	11.2%	0.5%	0.4%	0.9%	13.0%	

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.

4. Overseas sales accounted for less than 10% of consolidated sales in the fiscal year ended March 2002 and therefore have been omitted from presentation in the financial statements.

15. Contingent liabilities

Guarantees for employees' indebtedness from bank housing loans at March 31, 2004 and 2003 are as follows:

Millions of yen		Thousands of U.S. dollars
2004	2003	2004
¥39	¥78	\$369

16. Subsequent event

Appropriation of unappropriated retained earnings

The following appropriations of unappropriated retained earnings for the year ended March 31, 2004, were approved at the general meeting of shareholders of the Company held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends.....	¥1,028	\$9,726
Bonuses to directors and corporate auditors.....	75	709

Report of Independent Certified Public Accountants

T A I Y O

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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, 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, 2004 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, 2004

Non-Consolidated Summary

Non-Consolidated Balance Sheets, at March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Assets			
Current assets	¥103,061	¥ 94,641	\$ 975,125
Property, plant and equipment	33,902	31,110	320,768
Intangible assets	2,593	2,413	24,534
Investments and other assets.....	25,698	29,722	243,145
	¥165,256	¥157,888	\$1,563,591
Liabilities			
Current liabilities	¥ 39,567	¥ 36,121	\$ 374,368
Long-term liabilities.....	8,702	11,131	82,335
	48,269	47,252	456,703
Shareholders' equity			
Common stock	13,450	13,450	127,258
Additional paid-in capital	11,398	11,398	107,843
Retained earnings.....	95,670	90,753	905,194
Unrealized gains on revaluation of land.....	(257)	20	(2,431)
Unrealized holding (losses) gains on other securities	1,616	(100)	15,289
Treasury stock, at cost	(4,890)	(4,885)	(46,267)
	116,987	110,636	1,106,888
Total liabilities and shareholders' equity.....	¥165,256	¥157,888	\$1,563,591

Non-Consolidated Statements of Income, for the Years Ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Net sales	¥112,206	¥114,115	¥117,518	\$1,061,652
Cost of sales	79,761	81,839	84,731	754,669
Gross profit.....	32,444	32,276	32,787	306,973
Selling, general and administrative expenses	23,390	23,741	25,532	221,307
Operating income	9,053	8,535	7,255	85,656
Other income	3,438	2,630	3,181	32,529
Other expenses	974	2,327	4,005	9,215
Income before income taxes	11,517	8,838	6,431	108,969
Income taxes	4,748	3,388	2,089	44,923
Net income	¥ 6,768	¥ 5,450	¥ 4,341	\$ 64,036

Corporate Data (As of March 31, 2004)

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

1,655 (Parent company)
3,383 (On a consolidated basis)

DOMESTIC OFFICES

Head Office:

4-7, Nishi-Shinjuku 3-chome,
Shinjuku-ku, Tokyo 160-8383
Telephone: 81 (3) 3347-3111

Osaka Office:

2-22, Kitahama 2-chome, Chuo-ku,
Osaka 541-0041
Telephone: 81 (6) 6228-4800

Corporate Research & Development Center:

7-1, Wakamiya Morinosato, Atsugi,
Kanagawa 243-0124
Telephone: 81 (46) 270-2111

Business & Technology Development Center:

1-1, Gochoyama, Kawada, Nogi-machi,
Shimotsuga-gun, Tochigi 329-0105
Telephone: 81 (280) 54-1511

Branches:

Sapporo, Tohoku, Nagoya, Hiroshima,
Shikoku, Kyushu

OVERSEAS OFFICES

Singapore Branch:

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

Taiwan Representative Office:

14th Fl., Section 1, Kuang-Fu Rd.,
Hsinchu, Taiwan
Telephone: 886 (3) 573-6251

Subsidiaries

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\$8.9	100.0	Manufacture and sales of water treatment chemicals
Kurita America Inc.	US\$3.0	100.0	Facility operation
Kurita de Mexico S.A. de C.V.	M.N. PESO8.1	45.0	Manufacture and sales of water treatment chemicals
<i>Europe</i>			
Kurita Europe GmbH	EUR2.301	80.0	Manufacture and sales of water treatment chemicals
Kuritec Europe GmbH	EUR0.959	100.0	Facility operation
<i>Asia</i>			
Kurita (Singapore) Pte. Ltd.	S\$4.0	100.0	Manufacture and sales of water treatment chemicals and water treatment facilities
Kuritec Singapore Pte. Ltd.	S\$1.49	100.0	Urtrapure water supply for specified customers
Kurita Water (Malaysia) Sdn. Bhd.	M\$0.6	83.3	Sales of water treatment chemicals and water treatment facilities
Kurita Water Industries (Dalian) Co., Ltd.	¥550	80.0	Manufacture and sales of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Maintenance services and sales of small water treatment facilities
Kurita Water Industries (Suzhou) Ltd.	¥100	100.0	Manufacture and sales of water treatment facilities
Kurita (Taiwan) Co., Ltd.	NT\$20	95.0	Manufacture and sales of water treatment chemicals
P.T. Kurita Indonesia	US\$2.0	90.0	Manufacture and sales of water treatment chemicals
Kurita-GK Chemical Co., Ltd.	BAHT56	60.0	Manufacture and sales of water treatment chemicals
Hansu Ltd.	₩2,500	33.2	Manufacture and sales of water treatment chemicals
Hansu Technical Service Ltd.	₩400	59.4	Sales of water treatment facilities
DOMESTIC CONSOLIDATED SUBSIDIARIES			
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical cleaning
Kurita Creation Co., Ltd.	¥160	100.0	Manufacture and sales of household and industrial water purifiers
Kuritaz Co., Ltd.	¥220	100.0	Operation and maintenance of water treatment facilities; soil and ground-water 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, 2004)

Stock Exchange Listings
Tokyo, Osaka

Number of Shareholders
14,870

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

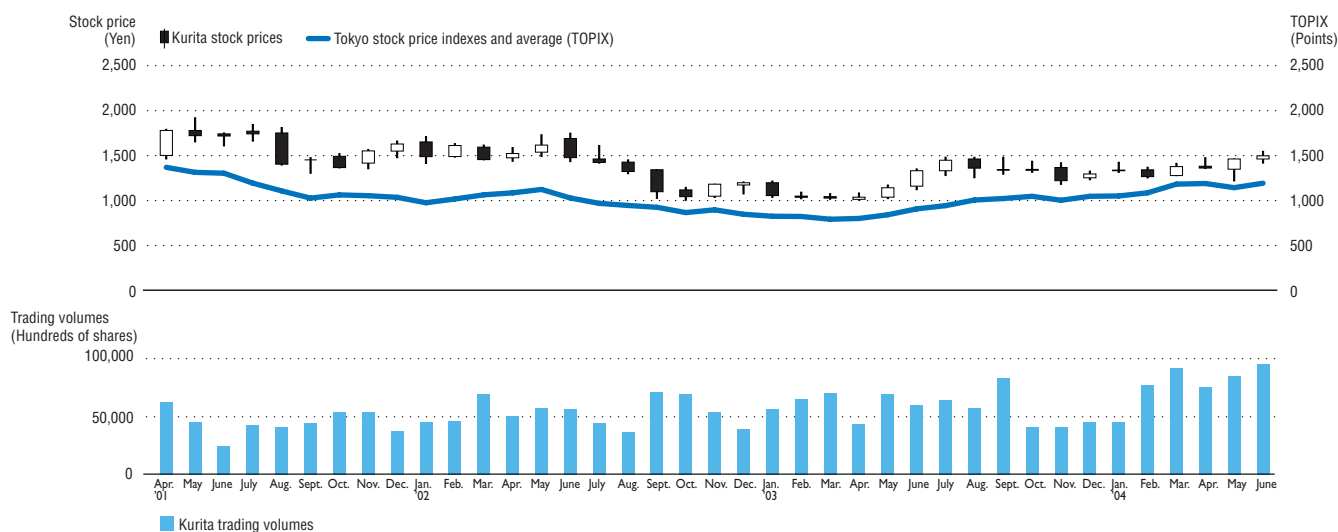
Common Stock
Authorized: 531,000,000 shares
Issued: 132,800,256 shares
(Stock trading unit changed from 1,000
shares to 100 shares, effective
July 1, 2002)

Independent Auditor
Taiyo Audit Corporation
8F, Akasaka Oji Bldg., 1-22, Akasaka
8-chome, Minato-ku,
Tokyo 107-0052, Japan

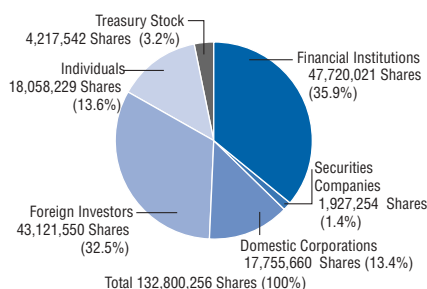
Main Shareholders

	Shareholdings (Sharee)	Percentage of total shares issued (%)
Itochu Corporation	10,268,000	7.73
Japan Trustee Services Bank, Ltd. (Trust Account)	9,393,300	7.07
Northern Trust Company (AVFC) Sub-account American Client	8,111,800	6.10
Nippon Life Insurance Company	7,365,083	5.54
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,426,600	4.08
The Tokio Marine and Fire Insurance Company, Ltd.	4,461,526	3.35
Kurita Water Industries Ltd.	4,217,542	3.17
UFJ Bank Ltd.	3,536,131	2.66
The Chase Manhattan Bank N.A. London	2,983,303	2.24
Resona Bank, Ltd.	2,834,623	2.13

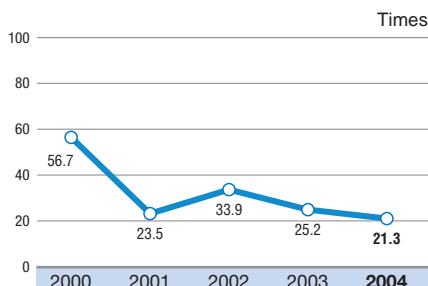
Stock Price Range



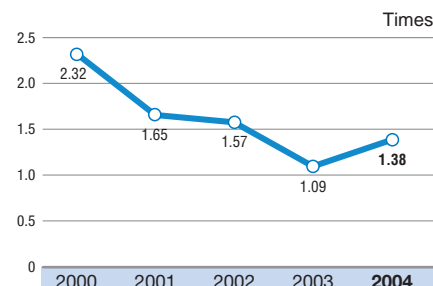
Distribution of Shares



PER (Consolidated)



PBR (Consolidated)





KURITA WATER INDUSTRIES LTD.

Kurita Water Industries Ltd.

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

TEL: 81(3)3347-3111

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



To make more people aware of our corporate vision of becoming an advanced water and environmental management company, we have adopted a service logo. This logo reflects our commitment to and confidence in contributing to society through continued progress in our water and environmental technologies.



Printed on recycled paper in Japan