

ANNUAL REPORT 2006

For the Year Ended March 31, 2006





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

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



Cover Story

The cover photograph shows a modular ultrapure water production system being manufactured at Kurita’s Shizuoka Plant, which will be installed at a semiconductor manufacturing plant. This process includes stringent quality management standards by Kurita employees, from module assembly to test operation. Under this integrated approach, Kurita achieves very short delivery times for these exceptionally high-quality ultrapure water production systems.

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Note on Projections of Future Results

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

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

Water Treatment Chemicals Business

PRINCIPAL PRODUCTS and SERVICES

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



Water Treatment Facilities Business

For the Electronics Industry

PRINCIPAL PRODUCTS and SERVICES

- ▶ Ultrapure water production systems
- ▶ Wastewater reclamation systems
- ▶ Wastewater treatment facilities
- ▶ Maintenance services
- ▶ Ultrapure Water Supply Business
- ▶ Tool cleaning



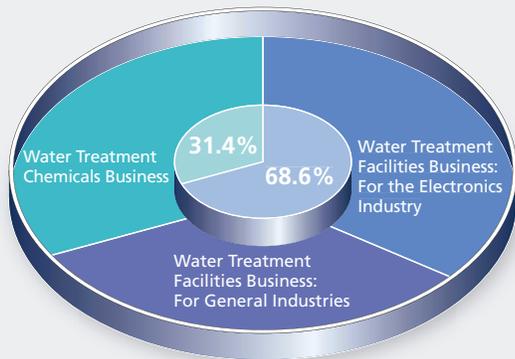
For General Industries

PRINCIPAL PRODUCTS and SERVICES

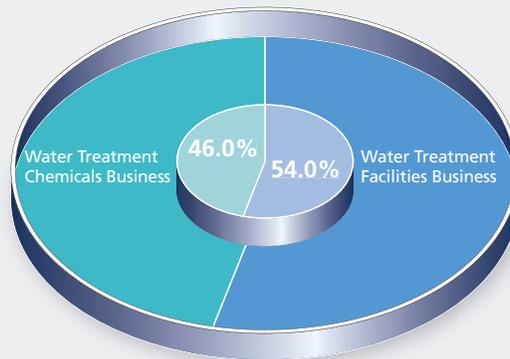
- ▶ Deionized water production systems
- ▶ Wastewater treatment facilities
- ▶ Soil remediation
- ▶ Chemical cleaning
- ▶ Operation and maintenance services



Percentage of Net Sales



Percentage of Operating Income



(For the year ended March 31, 2006)



Hiroshi Fujino
President

Performance Overview

In the year ended March 31, 2006, the final year of our medium-term management plan Powerful Advance 2005 (PA-5), we achieved growth in net sales and operating income for the third consecutive year.

On a consolidated basis, total orders received during the period rose 7.3% compared with the previous fiscal year, to ¥183,910 million, and net sales increased 7.9%, to ¥173,683 million. Operating income grew 8.5%, to ¥17,311 million, and net income increased 12.1%, to ¥10,519 million. Net income per share rose from ¥71.76 in the previous fiscal year to ¥81.76.

Kurita declared a year-end dividend of ¥11.00 per share, up ¥2.00 compared with the previous fiscal year, bringing total annual dividends to ¥22.00 per share after adding the ¥11.00 interim dividend. This payment reflects Kurita's basic policy of maintaining stable

dividends while giving due consideration to full-year performance and allocating the necessary funds for future business expansion.

During the year under review, in the private sector, robust capital investment activity in the electronics industry was chiefly driven by flat-panel display (FPD) manufacturers, both in Japan and overseas. In such basic materials industries as steel, oil refining and petrochemical, domestic capacity utilization and capital expenditures remained firm, which contributed to growth in orders received and net sales by the Kurita Group. In contrast, in the public sector, declining public works budgets led to shrinkage in overall market size and intensified competition. These conditions had a negative impact on the Group's operating performance. In addition, crude oil prices, which began rising substantially in the previous fiscal year, continued their advance unabated, leading to higher raw materials costs

Financial Highlights

Years ended March 31	Millions of yen		Percentage change	Thousands of U.S. dollars
	2006	2005	2006/2005	2006
For the year:				
Net sales	¥173,683	¥160,896	+7.9%	\$1,478,531
Operating income	17,311	15,951	+8.5	147,365
Income before income taxes	18,200	16,376	+11.1	154,933
Net income	10,519	9,383	+12.1	89,546
At year-end:				
Total assets	212,774	192,428	+10.6	1,811,305
Total shareholders' equity	145,366	136,366	+6.6	1,237,473
Per share of common stock:				
	Yen			U.S. dollars
Net income	¥81.76	¥71.76		\$0.70
Cash dividends applicable to the year	22.00	18.00		0.19

Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥117.47 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2006.

for water treatment chemicals and increases in logistics costs.

Within this operating environment, the Kurita Group worked to bolster the value added it provides and enhance its competitiveness by offering finely tuned solutions and business models to meet its customers' increasingly sophisticated needs. On a segment basis, the Water Treatment Chemicals Business grew at a healthy rate, while such profitable businesses as the Ultrapure Water Supply Business, tool cleaning and maintenance services all posted robust growth within the Water Treatment Facilities Business.

Review of PA-5

The central theme of the PA-5 medium-term management plan, which reached completion during the year under review, was "Win trust and make a strong impression." In other words, to address a range of issues including mitigation

of environmental impact and risk, productivity improvement and cost reduction, the Kurita Group aimed to provide effective solutions through its business operations. By doing so, we have sought to gain the trust and capture the imagination of our customers and the community at large. Simultaneously, we strove to reinforce our earnings base and expand net sales and operating income by pursuing aggressive capital expenditure and business development strategies in line with this theme.

Over the three years covered by the PA-5 plan, the Kurita Group actively invested in its outsourcing businesses, including the Ultrapure Water Supply Business and tool cleaning, resulting in significant expansion of these businesses. In the areas of wastewater treatment and soil remediation, we focused on reducing costs and environmental impact to meet customer requirements, while minimizing environmental

risk to serve the greater needs of society.

To meet objectives in reinforcing our earnings base and expanding net sales and operating income, in addition to the Water Treatment Chemicals Business—a stable earnings source—we also grew sales in maintenance and other services in the Water Treatment Facilities Business. Combined sales from water treatment chemicals and services (within the Water Treatment Facilities Business) accounted for 75% of consolidated net sales in the year ended March 31, 2006.

For the year under review, we were unable to achieve the original performance targets set in the PA-5 plan. This result was mainly attributable to such factors as a jump in the price of crude oil and a fall in demand in the public works market, both of which exceeded our initial estimates. On the positive side, during the three years of the plan, we were successful in doubling net income per share.

Over the course of the PA-5 plan, we implemented a range of rationalization and efficiency measures aimed at bolstering profitability. In our analysis and tool cleaning businesses, we integrated and reorganized Group companies. In our domestic Water Treatment Chemicals Business, we made certain sales agents into subsidiaries with the aim of strengthening our customer-focused operational structure, and revamped our production system. To cater to increased demand, we also added new manufacturing bases for water treatment facilities in Japan and China. To expedite research and development (R&D), we integrated most R&D activities into one main location. These measures bolstered Group efforts to increase net sales and operating income over the three-year period, and established a sound platform from which

the Kurita Group will be able to move to its next stage of growth.

New Medium-Term Management Plan: Growth 2008

In April 2006, the Kurita Group launched a new medium-term management plan, Growth 2008 (G-8). This plan, consistent with previous medium-term management plans, aims to realize our corporate vision for 2010: to become “an advanced water and environmental management company.” The plan marks the final stage in the process of achieving this vision.

The plan’s name, “G-8,” stands for the Kurita Group, its global business expansion and growth, and 2008, the final year the plan will be implemented. In other words, G-8 communicates the Kurita Group’s focus on advancing corporate value.

The new plan carries the twin management themes of “growth and innovation.” Through innovation in the value it provides to customers, the Kurita Group continues evolving and transforming itself. It aims to win the trust of customers and the wider community while growing as a corporate Group. In line with these aims, the G-8 plan calls for all products and services to be underpinned by rigorous theory and empirical data, thereby providing superior quality and reliability to Kurita customers.

The G-8 plan’s performance targets include net sales totaling ¥200.0 billion, operating income amounting to ¥27.0 billion and net income totaling ¥15.4 billion in the year ending March 31, 2009. To reach these goals, we will build on the successful policies pursued under our previous medium-term management plan. Specifically, we aim to accelerate Kurita’s shift to high-value-added service businesses, expand

Kurita's global business operations and carry out aggressive investment in these areas.

In addition, under the G-8 plan, in order to maintain the trust of stakeholders, including customers and shareholders, Kurita is committed to upholding stringent compliance standards.

Outlook

For the operating environment in the year ending March 31, 2007, we anticipate continuing strength in such areas as FPD-related capital expenditures in the domestic electronics sector, and high capacity utilization and capital investment levels in basic materials industries. At the same time, with crude oil prices hovering at or near historical highs, raw materials and logistics costs are likely to rise further. There is also concern over a range of macroeconomic risks, including a possible slowdown in global economic growth and an increase in foreign exchange rate and interest rate volatility.

Conscious of these conditions, the Kurita Group will pursue a rapid implementation of key strategies within its newly launched medium-term management plan. These strategies include profitability enhancement in each of its businesses through the provision of high-value-added products, and expansion of its service businesses with a concomitant program of investments to drive expansion. Based on this plan, Kurita will aim to record orders totaling ¥187.0 billion, net sales amounting to ¥190.0 billion, operating income totaling ¥20.5 billion and net income amounting to ¥11.5 billion in the year ending March 31, 2007.

To Our Stakeholders

In June 2006, Kurita Water Industries and one of its employees were indicted under the unreasonable restraint of trade provisions of the Antimonopoly Act. This action concerned construction projects for sludge (human waste) treatment facilities. Despite the Company having implemented a wide range of compliance-related policies in recent years, these were, unfortunately, insufficient to prevent this regrettable occurrence, and the Company offers its unreserved apologies to its shareholders and other stakeholders.

Kurita takes this incident extremely seriously, and will extend its utmost efforts to insure such lapses do not occur in the future. By redoubling our compliance efforts, we will vigorously strive to regain the trust lost owing to this incident.

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

August 2006



Hiroshi Fujino
President

Basic Stance

Kurita's basic stance on corporate governance seeks to improve the transparency and efficiency of its management systems and realize a steady increase in corporate value over the long term. Furthermore, Kurita aims to maximize the effectiveness of its operational execution and management oversight functions.

Corporate Governance System

Kurita has adopted the corporate auditor system. The Board of Corporate Auditors comprises four corporate auditors, including two outside auditors. In addition to conducting audits based on policies and apportionment of responsibilities determined by the Board of Corporate Auditors, the corporate auditors also monitor and audit the operational execution of representative directors and the management performance of directors.

As of June 29, 2006, the Board of Directors comprised 13 members, including one outside director. The Board makes decisions on management policies and other important managerial matters, and monitors and audits the operational execution of representative directors.

The Executive Committee, which comprises five directors including the representative directors, deliberates on important matters pertaining to Group management and bolsters the decision-making functions of the Board of Directors.

To reinforce the effectiveness of operational execution, in June 2005 Kurita introduced an executive officer system. At present, Kurita has appointed seven executive officers.

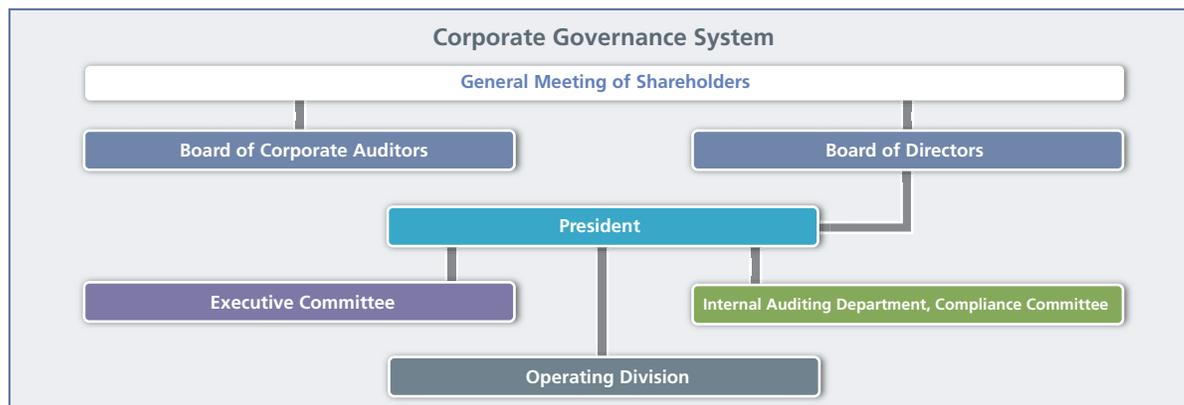
In addition to these measures, the following systems reinforce Kurita's internal control and risk management functions:

◆ Internal Auditing Department

The Internal Auditing Department reports directly to the president. It conducts internal audits, including of Group companies, to identify issues and problems related to the execution of operations, and submits proposals for improvement to the president.

◆ Compliance Committee

The establishment of the Compliance Committee, which reports directly to the president, reflects the priority placed by management on ensuring legal and ethical compliance. The Committee oversees the activities of subordinate compliance committees set up in each business division. In the year ended March 31, 2005, Kurita extended its compliance initiatives to cover overseas Group companies. To further strengthen its compliance system, Kurita has established an internal compliance consultation desk and a hotline operated by an independent third party, which employees may consult anonymously.





Formulation of G-8

In April 2006, the Kurita Group launched Growth 2008 (G-8) as its new medium-term management plan. The plan marks the final stage in the process of realizing our corporate vision for the Kurita Group for 2010: “An advanced water and environmental management company.”

Our corporate vision expands our business domain to encompass not only water but also water and environmental management. Furthermore, we will not limit ourselves to the supply of material goods, such as water treatment chemicals and water treatment facilities, but strive to transform the Group into one that addresses a diverse array of customer and community needs relating to water and the environment and provides effective solutions. Since the Kurita Group formulated its corporate vision in 1999, it has sought to realize it by recognizing and contributing to the needs of society through business operations built on advanced technological capabilities.

To enhance Group profitability under PA-5, our previous medium-term management plan, operative from April 2003 to March 2006, we aimed to expand our business domain and bolster value added through the provision of solutions to issues faced by customers and society. By anticipating changes in customer and market needs, we achieved significant progress under the PA-5 plan.

The G-8 plan, launched April 2006, proposes the twin themes of “growth and innovation.” Its key policy is to be innovative in the value we provide every day and win the overwhelming trust of our customers. Under the plan, we are leveraging the Group’s strengths built up through previous medium-term management plans—cutting-edge technology, sound financial health and a broad customer base—as a springboard to future growth. By further enhancing these advantages, the Group is working to transform itself, enabling it to continue to address the needs of customers and society.

Three-Year Vision for Kurita

Based on these fundamental themes and goals, the G-8 plan aims to realize the following aspects of the Kurita Group’s vision by the final year of the plan:

1. We will be providing unique value and cutting-edge services in the field of water and environmental management, enabling us to win the overwhelming trust and loyalty of our customers, both in Japan and overseas.
2. We will have improved not only our core business profitability but also will have dramatically bolstered corporate value through growth and expansion of the entire Group.
3. We will have built a commanding competitive position based on the Kurita Group’s proprietary technologies. All Kurita products and services will be backed up by sound theory and rigorous data, ensuring superior quality and reliability.
4. We will have launched new businesses that are able to drive Group growth and expansion.
5. We will have developed strict compliance systems and built relationships between the Kurita Group, its employees and the community based on transparency and fairness.

Performance Targets and Key Strategies

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

Net sales	¥200.0 billion
Operating income	¥27.0 billion
Net income	¥15.4 billion

To realize the three-year vision outlined above and achieve the stated performance targets, the Kurita Group is pursuing the following key strategies under the G-8 plan:

Reinforcing Kurita's firm foundation as a technology-oriented company

Under the G-8 plan, to realize our goal of becoming an advanced water and environmental management company, we recognize the necessity to support our activities with sound scientific theory and data. We aim to base all facets of our business activities—the services we provide, the safety and quality of our products, our solution proposals and the reliability of our responses—on scientific judgment. This includes continued striving for innovation in both the theoretical and practical aspects of what we do.

Through these efforts, we are working to create cutting-edge products and services and building our competitive advantage. We believe this will enable us not only to secure a sound earnings base but also gain the trust and loyalty of our customers.

Accelerating Kurita's shift to a service-based business model

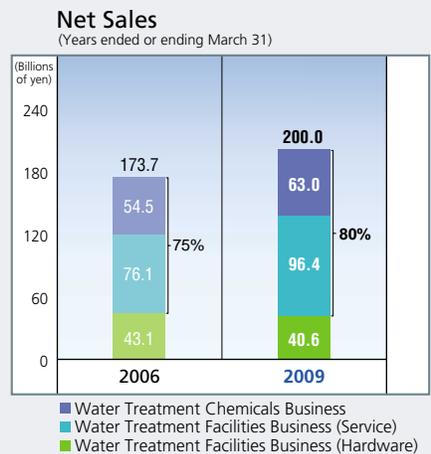
The Group is working to accelerate the expansion of its service businesses, which are a stable income source and can serve as an engine for growth and profitability.

Since its launch in 2002, the Ultrapure Water Supply Business has expanded steadily, and, based on the significant level of latent demand, we anticipate further growth. In response, we will continue to invest aggressively in this business. We are

confident this outsourcing business will be one of the Group's largest growth drivers over the course of the G-8 plan.

As the Water Treatment Chemicals Business has generated steady income so far, we will now concentrate on reinforcing intra-Group linkages in water treatment chemicals, tool cleaning, maintenance and soil remediation, and our customer-focused operational structure. In doing so, we are aiming to provide superior quality products and services in an expedient manner.

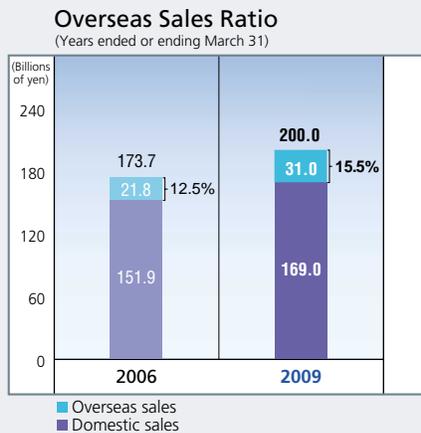
By pursuing the strategies outlined above, by the year ending March 31, 2009, we are projecting combined total sales from the Water Treatment Chemicals Business and service businesses within the Water Treatment Facilities Business to account for 80% of consolidated net sales.



Expanding Kurita's global business operations

The Kurita Group also views overseas markets as a key source of future growth. On a regional basis, Asian markets are expected to exhibit the highest growth rates, but we plan to invest ambitiously in the development of our businesses in other regions as well. To support growth in overseas markets, we are striving to develop globally competitive new products and businesses.

By augmenting coordination among our Water Treatment Chemicals Business, Water Treatment Facilities Business and maintenance businesses, as well as extending collaboration among Group companies on a global scale, we are projecting overseas sales to comprise 15.5% of consolidated net sales by the year ending March 31, 2009.



Revamping Kurita's organizational structure

To ensure implementation of the key strategies outlined above, in April 2006, Kurita Water Industries revamped its organizational structure. The reforms comprised three specific measures:

1. To speed up strategy implementation and clarify responsibility for earnings, we introduced a structure that unifies all stages, from product development to production, to sales and maintenance, for both water treatment chemicals and water treatment facilities.

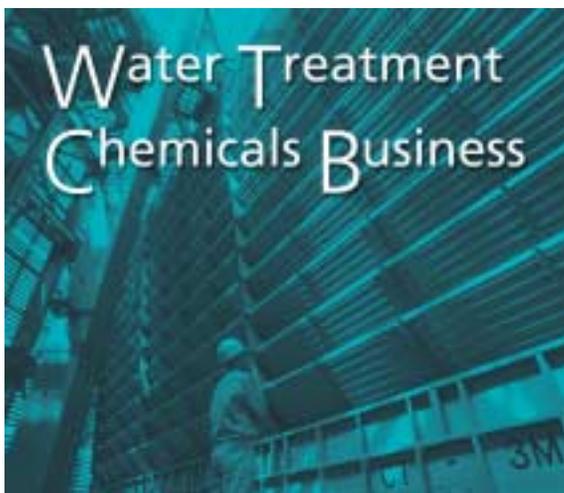
2. In our overseas businesses, we have established organizational units responsible for controlling overseas Group companies in both water treatment chemicals and water treatment facilities. This move is aimed at making Kurita more responsive to market changes and expediting business expansion.
3. In the Water Treatment Facilities Business, we have combined private and public sector businesses into a single division in light of the decline in size of the public sector business.

Reinforcing Kurita's compliance functions

Under the G-8 plan, we express our commitment to reinforce compliance functions. We believe this is absolutely essential in building Kurita's trustworthiness through its capabilities relating to water and environmental management.

As well as reiterating the need for every employee to comply with all laws and regulations, we are undertaking thorough staff training programs on compliance issues to increase understanding of our legal responsibilities throughout the Group. By accumulating and reinforcing our efforts in this area, we aim to gain public trust and grow into a Group ever more able to contribute significantly to the communities in which we operate.

We, the Kurita Group, are committed to upholding and will continue to carry out our 2010 management policy: "Through all our business activities, we strive to build transparent and fair relationships with all stakeholders—shareholders, customers, employees, local communities and business partners." We believe this is an indispensable prerequisite for the sustainable development of any company.



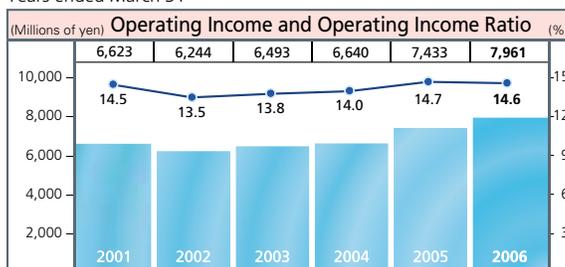
Years ended March 31



Years ended March 31



Years ended March 31



Years ended March 31

Selected Highlights	Millions of yen		Percentage change
	2006	2005	
Assets	¥46,191	¥43,433	+6.4%
Depreciation and amortization	1,608	1,465	+9.8
Capital expenditures	2,018	1,322	+52.6

Summary of Results

During the year ended March 31, 2006, in the domestic market, sales of process treatment chemicals for basic materials industries recorded growth. This reflected high capacity utilization during the period in the steel, oil refining, petrochemical, and pulp and paper industries. Kurita also focused on proposals for wastewater treatment solutions, which fully utilize the Group's comprehensive strengths. Consequently, wastewater treatment chemicals, related equipment and customized services all achieved robust growth. In overseas markets, backed by solid growth in the Asia region, sales increased at a healthy pace.

On the cost side, rising crude oil prices pushed up raw materials costs. In response, Kurita implemented a variety of cost-reduction measures to secure profit margins, including manufacturing efficiency improvements and optimization of logistics.

As a result, segment orders received increased 3.4%, to ¥53,903 million, and sales rose 7.7%, to ¥54,549 million, while operating income climbed 7.1%, to ¥7,961 million.

Responding to Customer Needs

For Kurita's customers, which face intensifying domestic and international competition, the most pressing issues are cost-cutting measures at plants and environmental impact reduction. By optimizing wastewater treatment, Kurita contributes to solving such key issues faced by customers.

In response to customers seeking wastewater treatment systems that will lower costs and reduce environmental impact, Kurita is able to provide systems that optimize the volume of wastewater treatment chemicals used. This may involve, for example, the use of inorganic flocculant in combination with a chemical injection and dosing system, which automatically controls chemical

dosage amounts based on wastewater quality and volume. By adopting such a system, customers can significantly reduce the quantity of chemicals they use compared with a conventional system in which a fixed chemical dosage is used at regular intervals to treat wastewater. Kurita's systems not only reduce customers' wastewater treatment chemicals costs but also lower industrial waste disposal costs, as the volumes of sludge-forming chemicals are reduced. At the same time, our systems contribute to lower environmental impact through such benefits as more stable discharge water quality and reduced volume of sludge to landfill. Kurita has achieved a superior reputation among customers by producing results of this kind in response to extremely demanding expectations.

The type of solution outlined above leverages Kurita's comprehensive capabilities, including the know-how of its Water Treatment Facilities Business related to wastewater treatment. Consequently, in this field, Kurita is able to provide a level of value added unmatched by its competitors. Kurita can also provide this type of high-value-added proposal in the form of a blanket contract to reduce the various wastewater treatment costs of its customers. In this case, since it is possible to include a provision in the contract whereby the benefits of cost reductions are shared with the customer, Kurita is able to realize higher profitability compared with the standard sales of wastewater treatment chemicals. In our domestic operations, this is driving growth in similar contract-based businesses, while also contributing to the fulfillment of one of our key strategies—accelerating the shift to service businesses.

Outlook

In the year ending March 31, 2007, we forecast capacity utilization at customers' domestic facilities to remain high, especially in such basic materials

industries as steel, oil refining, petrochemical, and pulp and paper. We expect these customers to continue implementing measures to increase productivity. Although there is the danger that this may lead to downward pressure on water treatment chemicals pricing, we believe it also presents many business opportunities for the Kurita Group to provide solution proposals and contribute to customers' productivity improvements through its process treatment chemicals. Furthermore, we are confident that customer needs related to environmental impact reduction will generate opportunities to differentiate the Group from its competitors.

Our efforts to improve profit margins will focus on such mainstay categories as boiler water treatment chemicals and cooling water treatment chemicals as well as the expansion of customized services.

On the organizational side, we have moved to a unified structure comprising development, technical services and sales functions. In particular, for boiler water treatment chemicals, a high-value-added product category, we have established a specialist business unit responsible for driving domestic sales expansion. Through such measures we are aiming to increase market share and secure profitability despite intense competition. We have also set up a division within the Kurita head office to supervise overseas business operations including subsidiaries. This structure is designed to facilitate flexible investment of management resources.

We anticipate the recent trend of rising raw materials prices will continue through the year ending March 31, 2007. To counter the effects of this trend, we will work to realize further efficiency gains in our manufacturing and logistics to enhance profitability.





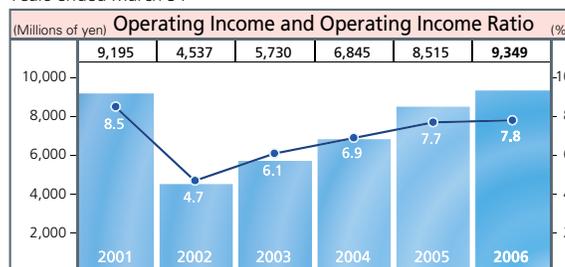
Years ended March 31



Years ended March 31



Years ended March 31



Years ended March 31

Selected Highlights	Millions of yen		Percentage change
	2006	2005	
Assets	¥124,280	¥108,025	+15.0%
Depreciation and amortization	3,298	2,895	+13.9
Capital expenditures	14,519	5,383	+169.7

Summary of Results

In the year under review, in the electronics industry, orders and sales of ultrapure water production systems recorded growth, driven by aggressive capital investment among domestic FPD-related manufacturers. In overseas markets, orders were strong in South Korea and Taiwan. The Ultrapure Water Supply Business—an outsourcing business—steadily expanded, reflecting growing customer needs in this area. Growth in the tool cleaning business also contributed to increased sales and operating income in the electronics industry.

In general industries, against a background of robust corporate performance in various basic materials industries, water treatment facilities orders increased from such sectors as steel, oil refining, petrochemical and food processing. In the soil remediation field, in addition to projects related to land sales, the business expanded as projects involving factory sites currently in operation began to increase. However, in the public sector, as public works budgets continued to be trimmed—leading to market shrinkage—and competition for projects intensified, orders and sales declined and profitability deteriorated.

As a result, segment orders received grew 9.1%, to ¥130,007 million, and sales rose 8.0%, to ¥119,133 million, while operating income climbed 9.8%, to ¥9,349 million.

Ultrapure Water Supply Business

In the Ultrapure Water Supply Business, Kurita installs water treatment facilities—for which it retains ownership—at the customer's site, and then operates and maintains these facilities to supply the customer with ultrapure water. The contracts on which these services are based are long-term, usually between five and 10 years. During this period, Kurita guarantees the quality

and volume of ultrapure water supplied, and the customer pays for the volume of ultrapure water it uses each month. Up until now, the majority of customers that have chosen to adopt this model have been in the electronics sector, including semiconductor, liquid crystal display (LCD) and plasma display panel (PDP) manufacturers.

In the past, Kurita's business performance has been significantly affected by cyclical fluctuations in capital expenditure levels in the electronics industry. The Ultrapure Water Supply Business model insulates Kurita from such effects and provides revenue stability over a long period. For Kurita's customers, the need for up-front investment in water treatment facilities is eliminated. In addition, since Kurita provides 24-hour operation and maintenance of water treatment systems, customers no longer need to employ and train their own water treatment specialists.

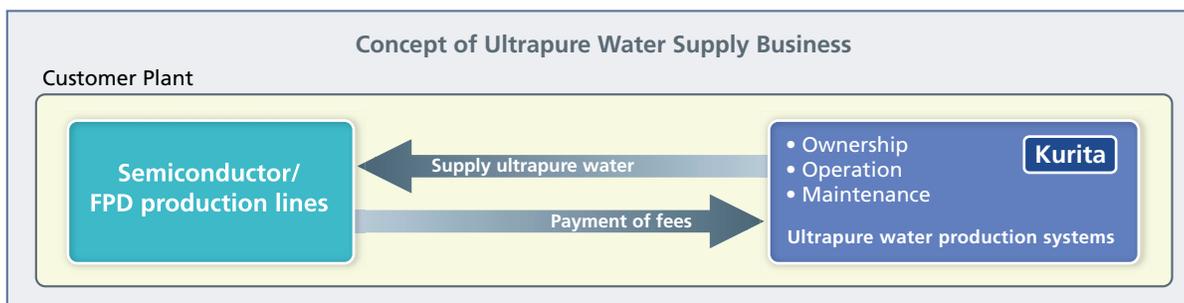
This business model is based on a precise understanding of customer needs, which is reflected in growing demand for the service. Sales in the Ultrapure Water Supply Business are expected to grow from ¥5.7 billion in the year under review to ¥9.4 billion in the year ending March 31, 2007. Since Kurita retains ownership of the water treatment facilities used in this business, it applies stringent financial criteria to its investment decisions as a means of ensuring profitability. In the year under review, this business required capital investment amounting to ¥11.9 billion, and for the year ending March 31,

2007, we are projecting capital investment outlays totaling around ¥16 billion.

From Maintenance to Solutions

The reliable supply of pure water to production facilities and the retention of normal wastewater treatment functions have a direct impact on the stable operation of a customer's factory. Consequently, the maintenance of water treatment facilities carries an extremely heavy responsibility. Kurita's sales engineers diagnose the status of water treatment facilities and formulate both short- and long-term plans encompassing component replacement cycles, equipment maintenance and facility renovations. These efforts are aimed at ensuring the customer's factory continues to operate reliably and efficiently.

Furthermore, through day-to-day maintenance routines, Kurita gains a firsthand understanding of water treatment-related issues faced by the customer. This in turn enables Kurita to propose and implement appropriate solutions. For example, in the crucial area of environmental impact reduction, Kurita can provide energy-savings proposals based on the selection of efficient equipment, and implement waste-reduction measures through improvements to wastewater treatment systems. In these ways, Kurita aims to build a high degree of trust with its customers by providing a superior level of value added.



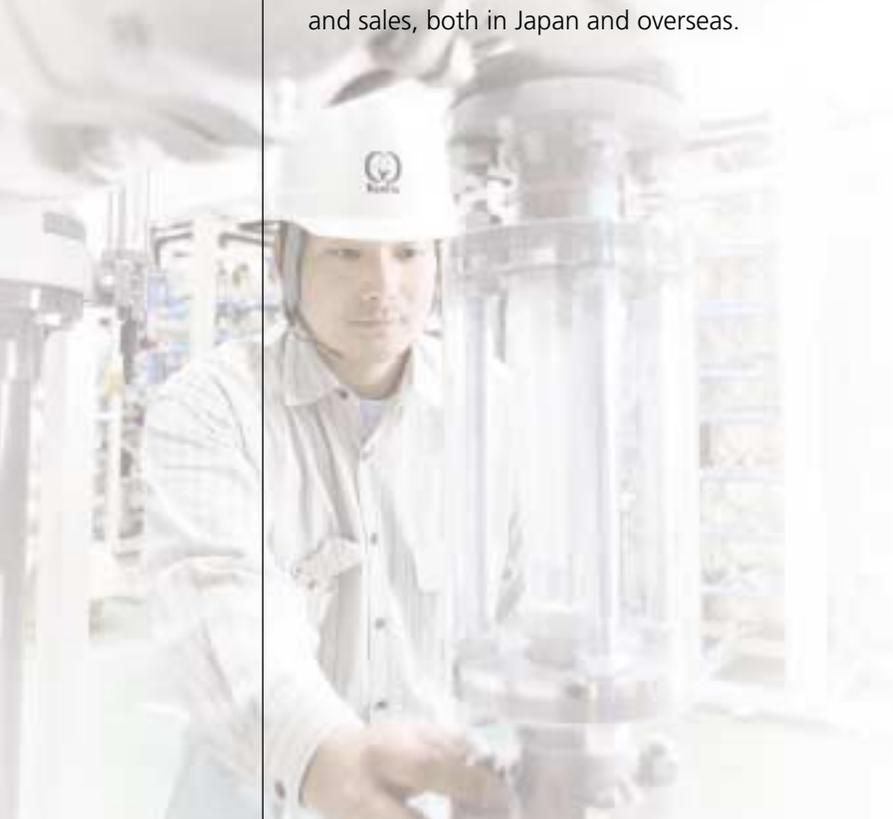
Outlook

In the domestic electronics industry, during the year ending March 31, 2007, in addition to FPD manufacturers, we are projecting a continuation of capital investment to bolster production capacity by manufacturers of FDP-related components and other electronic component makers. Within this environment, we are predicting that semiconductor and FPD manufacturers will be a significant source of growth for the Ultrapure Water Supply Business. However, beyond these customer categories, it seems likely there will be a temporary lull in large-scale investment, and, accordingly, we are taking a prudent view of domestic demand for the ultrapure water production system. In overseas markets, we are forecasting robust demand to continue in South Korea, Taiwan and China, leading to steady orders for water treatment facilities. Based on the factors mentioned above, our projections regarding the electronics industry are for firm growth in orders and sales, both in Japan and overseas.

In general industries, we are assuming a continuation in capital expenditure involving the addition of new production capacity and renewal of existing capacity in such basic materials industries as steel, oil refining and petrochemical. We also anticipate investment targeting environmental impact reduction. In the soil remediation business, we are forecasting demand increases for projects stemming from land sales and for projects involving plant sites that are currently in operation—leading to further expansion of this business. In the public sector, we are projecting ongoing market shrinkage. Against this background, in May 2006 Kurita Water Industries made the decision to withdraw from all business involving the construction of human waste treatment facilities. Consequently, we are anticipating a substantial drop in orders for this category. With regard to the operation and maintenance of existing facilities, there is no change in our stance, as these services will continue to be carried out by our wholly owned subsidiary, Kuritaz Co., Ltd.

On the cost side of the equation, we will implement a range of cost-reduction strategies, including a drive for more streamlined facilities as well as design efficiency. On the production side, we will endeavor to strengthen our domestic production cost competitiveness through such measures as reinforcement of cost control for outside contractors, which allow us to meet demand during our busiest periods, and improvement of capacity at the Yamaguchi Plant, which commenced operations in August 2005.

Through such strategies, we are aiming to bolster sales and operating income as well as the operating income ratio for the entire Water Treatment Facilities Business.



Kurita's R&D activities are conducted principally by the parent company's Research and Development Division and the technical development departments of each operating division. Approximately 200 employees are involved in R&D, accounting for around 5.5% of overall Group personnel. Total R&D expenses for the year ended March 31, 2006, amounted to ¥4,213 million, equivalent to 2.4% of net sales.

Water Treatment Chemicals Business

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

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

- ▶ An extremely effective non-zinc/non-phosphorus corrosion and scale inhibitor for cooling water systems in oil refineries and petrochemical plants, which has a very low environmental impact;
- ▶ A scale inhibitor, a stickies control agent and a yield enhancer to raise the productivity of pulp and paper manufacturing processes;
- ▶ A continuous quality monitoring system for steam generation facilities; and
- ▶ Pelletizing additives for the sintering process and a bulk density enhancer to raise the productivity of steel manufacturing processes.

Research and development expenses in the Water Treatment Chemicals Business totaled ¥2,019 million.

Water Treatment Facilities Business

Kurita pursued ongoing R&D in such areas as ultra-pure water production technologies for cutting-edge

facilities in the semiconductor industry and environmental protection technologies, in anticipation of future changes in environmental regulations. At the same time, we conducted R&D for a sustainable society, including development of technologies for wastewater reclamation and reusability and sludge elimination. We also modified our water treatment units, making them more compact, and redesigned our water treatment systems from a custom-made configuration to a standardized system. Key achievements in this segment during the year under review include the development of:

- ▶ Cleaning and conditioning technologies for ultra-pure water production systems that thoroughly suppress the leaching of impurities from system components, such as a demineralizer, and the world's most advanced technology for detecting and analyzing trace amounts of heavy metals in ultrapure water;
- ▶ An oil-containing wastewater treatment system that uses bacterial waste degraders to digest grease and reduce waste; and
- ▶ A flocculant control system for drinking water treatment plants using a membrane system that automatically adjusts the flocculant solution feed rate, thereby preventing contamination caused by high concentrations of organic matter in raw water.

Research and development expenses in the Water Treatment Facilities Business amounted to ¥2,194 million.



Promoting Environmental Sustainability

In March 2004, Kurita Water Industries formulated a Basic Policy regarding the promotion of environmental sustainability. In April 2004, we further developed a three-pronged approach to promote environmental sustainability, which comprises (1) responding to customer needs; (2) changing Kurita; and (3) changing society.

The first approach, responding to customer needs, focuses on contributing to our customers' efforts to promote environmental sustainability through our business operations. Examples of our achievements using this approach include:

- ▶ A 100% recycle rate for ultrapure water used in the LCD manufacturing process through a wastewater reclamation system that reduces municipal water usage volume on a factory-wide basis;
 - ▶ The use of a sludge drying system that reduces waste volume and converts waste to compost.
- We have defined the unique environmental benefits obtained through customers' use of our technologies and systems as "customer environ-

mental improvements." By quantifying and managing these improvements, we can devise and implement strategies to further increase the environmental benefits.

The second approach focuses on changing Kurita, which involves our own internal efforts to improve environmental sustainability. Under the slogans of "all business units" and "all employee participation," we focus on optimizing our manufacturing and logistics systems for water treatment chemicals and water treatment facilities to reduce CO₂ emissions and waste output as well as safely manage chemical substances. Each year, we use the quantified results of our efforts as the basis for revising our systems, as we work to progressively expand the scope of our targets.

The third approach focuses on changing society by contributing to fundamental solutions to society's environmental issues. We aim to achieve this by developing innovative new technologies and businesses. In the year ended March 31, 2006, products and systems developed in line with this approach include the following:

- ▶ The development of a non-zinc/non-phosphorus water treatment chemical that will reduce environmental impact;
- ▶ An oil-containing wastewater treatment system that uses bacterial waste degraders to digest grease and reduce waste.

From April 2006, we have applied our philosophy of promoting environmental sustainability through these three approaches to the entire Kurita Group. Consequently, the measures previously undertaken by individual Group companies will now be carried out under a consistent Groupwide set of policies. Detailed results of our environmental sustainability activities during the year ended March 31, 2006, will be presented in our 2006 Environmental Report, which is due to be published in October 2006.

Overview of Kurita's Activities to Promote Environmental Sustainability



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Selected Financial Data

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

	Millions of yen					
	2006	2005	2004	2003	2002	2001
For the year:						
Net sales	¥173,683	¥160,896	¥146,819	¥141,628	¥142,678	¥153,435
Cost of sales	122,630	112,077	101,433	97,846	99,039	105,587
Selling, general and administrative expenses	33,741	32,867	31,895	31,474	32,848	32,030
Operating income	17,311	15,951	13,490	12,307	10,790	15,817
Income before income taxes	18,200	16,376	14,918	10,263	9,121	14,727
Net income	10,519	9,383	8,444	5,476	5,670	8,366
Capital expenditures	16,537	6,706	9,718	6,198	4,760	3,079
Research and development (R&D) expenses	4,213	4,228	4,289	4,484	5,071	4,743
Depreciation and amortization	4,906	4,361	3,872	3,307	3,487	3,268
At year-end:						
Total current assets	125,231	116,400	118,923	107,180	103,490	115,263
Total current liabilities	54,877	44,465	42,954	38,643	36,585	51,625
Total shareholders' equity	145,366	136,366	128,676	120,969	122,590	119,209
Total assets	212,774	192,428	183,620	173,689	172,145	183,175
Amounts per share of common stock (yen):						
Net income	81.8	71.8	64.6	40.7	42.9	63.2
Shareholders' equity	1,129.7	1,058.9	999.7	939.8	926.5	900.8
Cash dividends applicable to the year	22.0	18.0	16.0	16.0	16.0	16.0
Ratios:						
Return on assets (ROA) (%)	5.2	5.0	4.7	3.2	3.2	4.8
Return on sales (%)	6.1	5.8	5.8	3.9	4.0	5.5
Total assets turnover (times)	0.9	0.9	0.8	0.8	0.8	0.9
Shareholders' equity ratio (%)	68.3	70.9	70.1	69.6	71.2	65.1
Return on equity (ROE) (%)	7.5	7.1	6.8	4.5	4.7	7.2

Operating Environment

In the Kurita Group's operating environment during the year ended March 31, 2006, the private sector market was characterized by robust demand for water treatment-related products, facilities and services in the electronics industry. In water treatment for general industries, capacity utilization and capital expenditures remained at high levels, particularly in basic materials industries. Meanwhile, the public sector market saw a continuation of severe conditions, as public works budgets were trimmed and competition further intensified.

Performance

Net Sales

Consolidated net sales for the year ended March 31, 2006, rose 7.9% compared with the previous fiscal year, to ¥173,683 million. This increase reflects higher sales in both the Water Treatment Chemicals Business and Water Treatment Facilities Business segments.

In the Water Treatment Chemicals Business, we focused on reinforcing our customer-driven operating structure and expanding sales of products that closely fit customer needs. As a result, the segment achieved a 7.7% increase in sales, to ¥54,549 million.

In the Water Treatment Facilities Business, increased sales in the electronics industry and basic materials industries as well as higher sales from our soil remediation business more than offset a decline in sales in the public sector. These factors bolstered segment sales 8.0%, to ¥119,133 million.

Gross Profit

Gross profit rose 4.6%, to ¥51,052 million, however, the gross profit margin edged down 0.9 percentage point, to 29.4%. This was mainly attributable to rising prices for water treatment chemical raw materials and higher external contracting costs in the Water Treatment Facilities Business accompanying an increase in production volume. Although we made improvements to our purchasing practices and bolstered manufacturing and logistics efficiency, these cost-reduction measures were insufficient to offset the cost increases mentioned above.

Operating Income

Operating income climbed 8.5%, to ¥17,311 million. Selling, general and administrative (SG&A) expenses grew 2.7%, to ¥33,741 million, primarily owing to a rise in personnel expenses (salaries, provision for employees' bonuses and retirement benefit expenses) accompanying higher gross profit. Thanks to the increase in net sales, the ratio of SG&A expenses to net sales declined 1.0 percentage point, to 19.4%. This contributed to a 0.1 percentage point improvement in the operating income margin, to 10.0%.

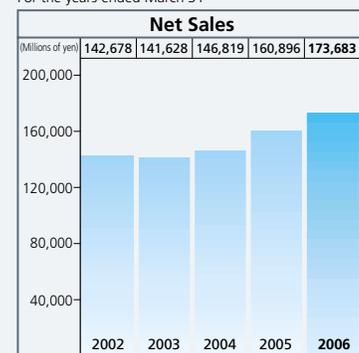
Income before Income Taxes

Income before income taxes grew 11.1%, to ¥18,200 million. In addition to higher operating income, other income grew ¥464 million, to ¥889 million. Significant items within this figure included a ¥1,077 million increase in gain on sales of investments in securities and an impairment loss amounting to ¥846 million.

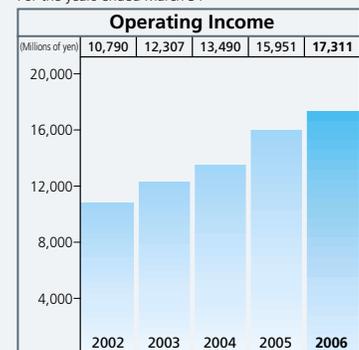
Net Income

Mainly owing to the increase in income before income taxes, net income advanced 12.1%, to ¥10,519 million. Net income per share rose from ¥71.76 to ¥81.76.

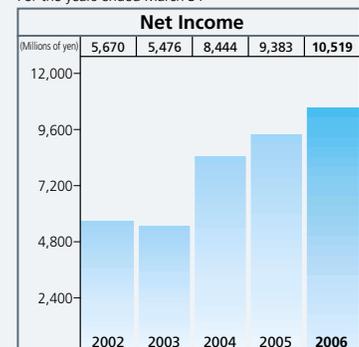
For the years ended March 31



For the years ended March 31



For the years ended March 31



Segment Information

For the years ended March 31

(Millions of yen)

	2006	2005	2004	2003	2002
Orders (not included in the consolidated statements of income: shown for reference purposes only)					
Water Treatment Chemicals Business	¥ 53,903	¥ 52,120	¥ 47,516	¥ 46,450	¥ 46,953
Water Treatment Facilities Business	130,007	119,213	102,218	81,981	93,538
Total	¥183,910	¥171,334	¥149,735	¥128,431	¥140,492
Sales					
Water Treatment Chemicals Business	¥ 54,549	¥ 50,637	¥ 47,442	¥ 47,116	¥ 46,277
Water Treatment Facilities Business	119,133	110,259	99,377	94,512	96,401
Total	¥173,683	¥160,896	¥146,819	¥141,628	¥142,678
Operating income					
Water Treatment Chemicals Business	¥ 7,961	¥ 7,433	¥ 6,640	¥ 6,493	¥ 6,244
Water Treatment Facilities Business	9,349	8,515	6,845	5,730	4,537
Elimination or corporate	0	1	5	82	8
Total	¥17,311	¥15,951	¥13,490	¥12,307	¥10,790

Water Treatment Chemicals Business

During the year under review, in the domestic market sales of our mainstay boiler water treatment chemicals and cooling water treatment chemicals were flat, reflecting continued customer efforts to rein in costs as well as escalating competition. In contrast, sales of process treatment chemicals for a range of industries recorded growth, driven by high capacity utilization in such basic materials industries as steel, oil refining, petrochemicals, and pulp and paper. We also focused on proposals for wastewater treatment solutions, which fully utilize the Group's comprehensive strengths. As a result, wastewater treatment chemicals, related equipment and customized services all posted solid growth.

In our overseas operations, backed by strong economic growth in the Asia region, we achieved a jump in sales of approximately 20%. The percentage of overseas net sales to consolidated net sales reached 12.5%.

On the cost side, raw materials costs were pushed up by rising crude oil prices. In response, Kurita implemented a variety of cost-reduction measures to secure profit margins, including manufacturing efficiency improvements and optimization of logistics.

As a result, orders received in this segment increased 3.4%, to ¥53,903 million, and sales rose 7.7%, to ¥54,549 million. Segment operating income climbed 7.1%, to ¥7,961 million.

Water Treatment Facilities Business

In this segment, against a backdrop of strong capital expenditures in the electronics industry and the basic materials sector, we focused on expanding our outsourcing businesses and providing solutions in such areas as productivity enhancement and environmental impact reduction.

On the cost side, in the first half of the fiscal year, in response to an increasing backlog of orders and shorter delivery times, we increased our use of outside contractors, leading to a temporary jump in costs. In the second half of the fiscal year, however, through the move to full operations at the Yamaguchi Plant and strengthened project cost management, production recovered to a steady level. In addition, we focused on a range of cost-cutting measures,

including the production of more streamlined systems, an assessment of materials purchasing and the use of more standardized designs.

As a result, orders received grew 9.1%, to ¥130,007 million, and sales rose 8.0%, to ¥119,133 million. Segment operating income increased 9.8%, to ¥9,349 million.

Electronics Industry

In the domestic market, backed by aggressive capital investment among FPD manufacturers, orders and sales of water treatment facilities—including ultrapure water production systems—recorded growth. In overseas markets, orders for water treatment facilities increased in South Korea and Taiwan, however, owing to the level of orders received in the previous period and the lead times required to fulfill orders, sales declined. The Ultrapure Water Supply Business—an outsourcing business—steadily expanded as customer needs in this area grew. Although our domestic maintenance business faced downward pricing pressure, the category achieved sales growth. Sales by the tool cleaning business rose at a faster pace than our initial projections thanks to efforts aimed at expanding our customer base.

As a result, orders received from the electronics industry jumped 20.3%, to ¥67.8 billion, and sales climbed 13.2%, to ¥62.1 billion.

General Industries

In the fiscal year under review, driven by robust capital investment in basic materials industries and our customer proposals in the area of wastewater solutions, orders grew from such industries as steel, oil refining, petrochemicals and food processing. In the soil remediation business, in addition to projects related to land sales, operations expanded as projects increased from large corporations undertaking reorganization of their production facilities. Sales from such services as maintenance and chemical cleaning were also steady.

In the public sector, as public works budgets continued to be trimmed—leading to market shrinkage—competition for projects related to new facilities further intensified. Consequently, orders and sales declined and profitability deteriorated. In the area of maintenance and operations services, although we faced pricing pressure, sales remained relatively stable.

As a result, orders received from general industries edged down 1.0%, to ¥62.2 billion, and sales increased 3.0%, to ¥57.0 billion.

Liquidity and Capital Resources

Financial Position

At fiscal year-end, total current assets amounted to ¥125,231 million, up ¥8,831 million compared with the previous fiscal year-end. Significant factors contributing to this rise included a ¥5,956 million increase in notes and accounts receivable, trade, and a ¥3,368 million increase in marketable securities. The rise in notes and accounts receivable, trade, was primarily attributable to an increase in sales of water treatment facilities, while the increase in marketable securities was mainly the result of a transfer from investments in securities.

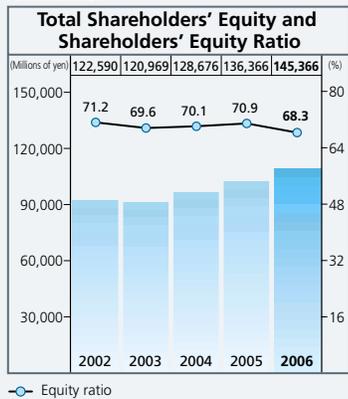
Total noncurrent assets—comprising total investments and long-term receivables; property, plant and equipment, net; and other assets—amounted to ¥87,542 million, up ¥11,514 million. This was largely attributable to a ¥10,136 million rise in property, plant and equipment, net, which mainly comprised investment in facilities for the Ultrapure Water Supply Business; and a ¥2,550 million increase in investments in securities.

Total current liabilities stood at ¥54,877 million, up ¥10,412 million, stemming principally from a ¥2,248 million rise in notes and accounts payable, trade; a ¥5,939 million increase in

As of March 31



As of March 31



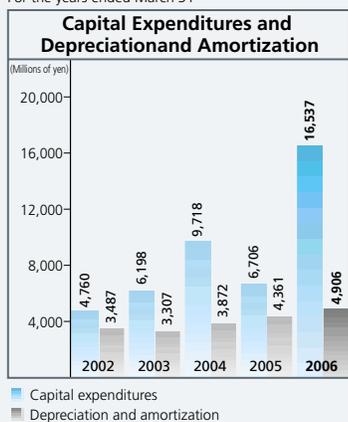
accounts payable, other; and a ¥1,113 million rise in advances received. The increase in notes and accounts payable, trade, was primarily a result of higher materials, outsourcing and other costs associated with the increase in net sales. Although accounts payable, other, is presented as a separate item in the consolidated balance sheets for the first time in the fiscal year under review, at the previous fiscal year-end it was included within other current liabilities and amounted to ¥5,712 million. Accounts payable, other, stood at ¥11,651 million as of March 31, 2006, with the increase being mainly associated with purchases of plant and equipment for use in the Ultrapure Water Supply Business.

Total long-term liabilities were up ¥748 million, to ¥11,233 million. Although accrued employees' retirement benefits decreased, deferred tax payable on revaluation of land rose ¥1,526 million, which was due to a change in the method of presentation for this item from the period under review. Previously, deferred tax liabilities on land revaluation had been presented on a net basis, offset by deferred tax assets on land revaluation. However, from the fiscal year under review, deferred tax payable on revaluation of land is presented separately on a gross basis, and deferred tax assets on revaluation of land has been transferred to unrealized gains on revaluation of land.

Total shareholders' equity at fiscal year-end amounted to ¥145,366 million, up ¥9,000 million compared with the previous fiscal year-end. This was mainly attributable to a ¥7,032 million rise in retained earnings stemming from the ¥10,519 million in net income, and a ¥1,806 million increase in unrealized gains on available-for-sale securities.

At March 31, 2006, total assets amounted to ¥212,774 million, up ¥20,346 million compared with the end of the previous fiscal year. Shareholders' equity per share increased to ¥1,129.74, from ¥1,058.90. Shareholders' equity ratio declined 2.6 percentage points, from 70.9% to 68.3%.

For the years ended March 31



Capital Expenditures

The Kurita Group enjoys a healthy financial position and is capable of generating ample cash flows from its operating activities. Therefore, the Group believes that it has sufficient funds to meet its own future working capital and capital investment needs and to maintain Group growth. Consequently, in principle, external fund-raising is not necessary.

In the fiscal year under review, the Group carried out capital expenditures totaling ¥16,537 million, up ¥9,831 million. This mainly comprised capital investment related to operations and the construction of an additional research building at the Kurita Global Technology Center accompanying the integration of our R&D facilities. The Group invested ¥2,018 million in its Water Treatment Chemicals Business, mainly comprising capital investment in its boiler build-own-operate (BOO) business and investment relating to the reorganization of its water treatment chemical production plant. The Group invested ¥14,519 million in its Water Treatment Facilities Business, principally relating to facilities for its Ultrapure Water Supply Business and for expansion of its tool cleaning facilities.

Cash Flows

Net cash provided by operating activities amounted to ¥13,856 million, an increase of ¥5,559 million compared with the previous period. Factors bolstering operating cash flows included income before income taxes of ¥18,200 million, depreciation and amortization totaling ¥4,906 million and increase in trade payables amounting to ¥2,314 million. Factors constraining operating cash flows included increase in trade receivables amounting to ¥4,182 million accompanying the increase in net sales, as well as income taxes paid totaling ¥6,981 million.

Net cash used in investing activities totaled ¥12,318 million, an increase of ¥1,649 million compared with the previous fiscal year. This rise stemmed mainly from payments for purchase of marketable securities and investments in securities exceeding proceeds from sales and redemption of marketable securities and investments in securities by ¥1,697 million, and payments for purchase of property, plant and equipment amounting to ¥10,962 million.

Net cash used in financing activities amounted to ¥2,516 million, up ¥94 million compared with the previous fiscal year. This was primarily owing to cash dividends paid totaling ¥2,572 million.

As a result, cash and cash equivalents at end of year stood at ¥29,871 million, a decline of ¥494 million compared with a year earlier.

Risk Factors

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

In the Water Treatment Chemicals Business, our operations are affected by demand fluctuations determined by the plant capacity utilization rates of our customers in the steel, oil refining, petrochemicals, and pulp and paper industries. In the Water Treatment Facilities Business, our operations are influenced mainly by demand fluctuations resulting from capital expenditures in electronics industries, a major source of demand.

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

Sales and Operating Income by Segment

For the years ended March 31

(Millions of yen)

	2006			2005			2004		
	1st Half	2nd Half	Total	1st Half	2nd Half	Total	1st Half	2nd Half	Total
Water Treatment Chemicals Business									
Sales	26,521	28,028	54,549	24,760	25,877	50,637	23,645	23,797	47,442
Operating income	4,008	3,953	7,961	3,951	3,482	7,433	3,273	3,367	6,640
Water Treatment Facilities Business									
Sales	45,978	73,155	119,133	46,409	63,850	110,259	40,936	58,441	99,377
Operating income	800	8,549	9,349	2,493	6,022	8,515	843	6,002	6,845

Foreign exchange risk

For the Kurita Group, overseas sales represent a relatively small portion of net sales. Consequently, we believe the potential impact of foreign exchange risk on Group operating results is low.

Consolidated Balance Sheets

Kurita Water Industries Ltd. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and time deposits (Note 8)	¥ 30,107	¥ 30,679	\$ 256,295
Notes and accounts receivable, trade	77,072	71,116	656,099
Allowance for doubtful accounts	(125)	(156)	(1,064)
Marketable securities (Note 9)	6,162	2,794	52,456
Inventories (Note 10)	8,070	8,075	68,698
Deferred tax assets (Note 13)	2,170	2,038	18,473
Other current assets	1,773	1,852	15,093
Total current assets	125,231	116,400	1,066,068
Investments and long-term receivables:			
Investments in securities (Note 9)	23,179	20,629	197,318
Investments in nonconsolidated subsidiaries and affiliates	2,582	2,352	21,980
Deferred tax assets (Note 13)	886	1,775	7,542
Deferred tax assets on revaluation of land	—	176	—
Other investments	4,151	4,194	35,337
Allowance for doubtful accounts	(111)	(133)	(945)
Total investments and long-term receivables	30,687	28,993	261,233
Property, plant and equipment, at cost:			
Land (Note 5)	13,745	14,483	117,009
Buildings and structures	36,059	31,658	306,963
Machinery and equipment	25,005	17,110	212,863
Construction in progress	2,115	1,734	18,005
Other facilities	10,231	10,047	87,095
Total	87,155	75,032	741,934
Accumulated depreciation	(33,163)	(31,178)	(282,310)
Property, plant and equipment, net	53,991	43,855	459,615
Other assets	2,863	3,180	24,372
Total assets	¥212,774	¥192,428	\$1,811,305

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Current portion of long-term borrowings (Note 12)	¥ 320	¥ 85	\$ 2,724
Notes and accounts payable, trade	30,411	28,163	258,883
Accounts payable, other (Note 7)	11,651	—	99,183
Income taxes payable	4,376	3,924	37,252
Advances received	2,055	942	17,494
Accrued employees' bonuses	2,362	2,060	20,107
Allowance for product warranty	739	992	6,291
Other current liabilities (Note 7)	2,960	8,297	25,198
Total current liabilities	54,877	44,465	467,158
Long-term liabilities:			
Long-term borrowings (Note 12)	180	270	1,532
Accrued employees' retirement benefits (Note 14)	8,261	8,689	70,324
Accrued retirement benefits for directors and corporate auditors	488	704	4,154
Deferred tax payable on revaluation of land	1,526	—	12,991
Other long-term liabilities	777	821	6,614
Total long-term liabilities	11,233	10,485	95,624
Total liabilities	66,111	54,951	562,790
Minority interests in consolidated subsidiaries	1,295	1,110	11,024
Contingent liabilities (Note 17)			
Shareholders' equity:			
Common stock, 2006 and 2005			
Authorized: 531,000,000 shares			
Issued: 2006—132,800,256 shares			
2005—132,800,256 shares	13,450	13,450	114,497
Additional paid-in capital	11,426	11,409	97,267
Retained earnings (Notes 4 and 18)	122,350	115,318	1,041,543
Unrealized gains on revaluation of land (Note 5)	(740)	(257)	(6,299)
Unrealized gains on available-for-sale securities	3,873	2,067	32,970
Foreign currency translation adjustment	(200)	(790)	(1,703)
	150,159	141,197	1,278,275
Treasury stock, at cost:			
2006—4,127,639 shares, 2005—4,163,793 shares	(4,793)	(4,830)	(40,802)
Total shareholders' equity	145,366	136,366	1,237,473
Total liabilities and shareholders' equity	¥212,774	¥192,428	\$1,811,305

Consolidated Statements of Shareholders' Equity

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Common stock:				
Beginning of year	¥ 13,450	¥ 13,450	¥ 13,450	\$ 114,497
End of year	13,450	13,450	13,450	114,497
Additional paid-in capital:				
Beginning of year	¥ 11,409	¥ 11,398	¥ 11,398	\$ 97,123
End of year	11,426	11,409	11,398	97,267
Retained earnings:				
Beginning of year	¥115,318	¥108,180	¥101,637	\$ 981,680
Net income for the year	10,519	9,383	8,444	89,546
Increase of nonconsolidated subsidiaries and related companies applying the equity method	—	93	—	—
Reversal of unrealized (losses) gains on revaluation of land (Note 5)	(724)	—	278	(6,163)
Cash dividends paid	(2,572)	(2,185)	(2,058)	(21,895)
Bonuses to directors and corporate auditors	(164)	(148)	(118)	(1,396)
Decrease due to change in scope of consolidation (net of inclusion and exclusion of consolidated subsidiaries)	(14)	—	—	(119)
Other	(11)	(4)	(3)	(94)
End of year	¥122,350	¥115,318	¥108,180	\$1,041,543

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, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
I. Cash flows from operating activities:				
Income before income taxes	¥18,200	¥16,376	¥14,918	\$154,933
Depreciation and amortization	4,906	4,361	3,872	41,764
Impairment loss	846	—	—	7,202
Decrease in allowance for employees' retirement benefits	(447)	(463)	(2,317)	(3,805)
Gain on sales of investments in securities	(1,205)	(128)	(1,414)	(10,258)
Equity in earnings of nonconsolidated subsidiaries and affiliates	(266)	(244)	(208)	(2,264)
Interest and dividend income	(452)	(356)	(409)	(3,848)
Interest expenses	41	38	27	349
Payments of bonuses to directors and corporate auditors	(180)	(138)	(118)	(1,532)
Increase in accrued employees' bonus (Note 7)	238	—	—	2,026
(Decrease) increase in other allowances, accrual and non-cash items, net (Note 7)	(196)	235	510	(1,669)
Change in assets and liabilities:				
Increase in trade receivables	(4,182)	(4,494)	(6,793)	(35,601)
Decrease (increase) in inventories	156	(1,375)	(442)	1,328
Increase in trade payables	2,314	848	2,995	19,699
Others, net	325	(334)	308	2,767
	20,096	14,323	10,927	171,073
Interest and dividends received	589	424	482	5,014
Interest paid	(43)	(36)	(27)	(366)
Income taxes paid	(6,981)	(6,479)	(5,829)	(59,428)
Others, net	195	65	20	1,660
Net cash provided by operating activities	13,856	8,297	5,574	117,954
II. Cash flows from investing activities:				
Decrease (increase) in time deposits, net	9	(1,924)	(76)	77
Payments for purchase of property, plant and equipment	(10,962)	(5,905)	(8,364)	(93,317)
Proceeds from sales of property, plant and equipment	817	100	1,183	6,955
Payments for purchase of marketable securities and investments in securities	(14,721)	(13,134)	(2,412)	(125,317)
Proceeds from sales and redemption of marketable securities and investments in securities	13,024	10,554	10,687	110,871
Others, net	(486)	(361)	(1,166)	(4,137)
Net cash used in investing activities	(12,318)	(10,669)	(146)	(104,861)
III. Cash flows from financing activities:				
Increase (decrease) in short-term debt, net	220	(60)	—	1,873
(Decrease) increase in long-term debt, net	(84)	(125)	346	(715)
Cash dividends paid	(2,572)	(2,185)	(2,057)	(21,895)
Cash dividends paid to minority interests in consolidated subsidiaries	(106)	(42)	(32)	(902)
Contributions from minority interests in consolidated subsidiaries	38	—	—	323
Payments for purchase of treasury stock, net	(11)	(10)	(4)	(94)
Others, net	—	—	28	—
Net cash used in financing activities	(2,516)	(2,422)	(1,720)	(21,418)
IV. Effect of exchange rate changes on cash and cash equivalents	173	22	(127)	1,473
V. Net (decrease) increase in cash and cash equivalents	(804)	(4,772)	3,580	(6,844)
VI. Cash and cash equivalents at beginning of year (Note 8)	30,365	35,137	31,507	258,492
VII. Cash and cash equivalents of newly consolidated subsidiaries, net of excluded subsidiaries from consolidation	310	—	50	2,639
VIII. Cash and cash equivalents at end of year (Note 8)	¥29,871	¥30,365	¥35,137	\$254,286

The accompanying notes are an integral part of these statements.

1. Basis of presenting consolidated financial statements

Kurita Water Industries Ltd. (the "Company") and its domestic subsidiaries maintain their books of account and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, while its foreign subsidiaries maintain their books of account and prepare their financial statements in conformity with those of the countries of their domicile. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements, prepared in accordance with accounting principles and practices generally accepted in Japan, were filed with the Japanese Ministry of 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 consolidated financial statements to facilitate understanding by readers outside Japan. These reclassifications and modifications have no effect on net income or shareholders' equity.

All figures in the consolidated financial statements and notes are stated in millions of Japanese yen by discarding fractional amounts of less than ¥1 million. As a result, the totals shown in the consolidated financial statements and notes in yen do not necessarily agree with the sum of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers and has been made for 2006, as a matter of arithmetical computation only, at the rate of ¥117.47 to US\$1, the prevailing rate on the Tokyo Foreign Exchange Market on March 31, 2006. 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: 34 (31 for 2005)

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

In the year ended March 31, 2006, 4 companies (Kurita Water Industries (Suzhou) Ltd., Aoi Industries Co., Ltd., Nippon Fine Co., Ltd., and San Kako Co., Ltd., which were accounted for by the equity method) were newly consolidated because the companies have become material to the consolidated financial statements of the Company.

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

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

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

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

(3) Application of equity method

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

Number of nonconsolidated subsidiaries applying equity method: 2

Number of related companies applying equity method: 5

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

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

(4) Fiscal year of consolidated subsidiaries

The fiscal year of Kurita (Singapore) Pte. Ltd., Kurita do Brasil LTDA., Kurita America Inc., Kuritec Europe GmbH, Kurita Europe GmbH, Kurita Water (Malaysia) Sdn. Bhd., Kurita (Taiwan) Co., Ltd., Kurita-GK Chemical Co., Ltd., Kurita Water Industries (Dalian) Co., Ltd., P.T. Kurita Indonesia, Kurita Water Industries (Suzhou) Ltd., Hansu Technical Service Ltd., Kuritec Singapore Pte. Ltd. and Kuritec (Shanghai) Co., Ltd., ended December 31, 2005. Those financial statements were used for consolidation purposes. However, material transactions that have occurred during the period from January 1, 2006 to March 31, 2006, have been adjusted for consolidation purposes.

3. Significant accounting policies

(1) Valuation basis and method

Available-for-sale securities

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

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

Inventories

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

(2) Depreciation method of property, plant and equipment

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

The estimated useful lives of these assets are as follows:

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

(3) Impairment of long-lived assets

On August 9, 2002, the Business Accounting Council of Japan issued a new accounting standard entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6, "Application Guidance on Accounting Standards for Impairment of Fixed Assets." Effective as of March 31, 2006, the Company adopted these new accounting standards for impairment of fixed assets.

As a result of adopting the new accounting standards, income before income taxes decreased by ¥846 million (\$7,202 thousand) for the year ended March 31, 2006, compared with what would have been recorded under the previous accounting method. Accumulated impairment losses are directly deducted from the values of the relevant assets in accordance with the revised consolidated financial statement rules.

(4) Allowances and accruals

Accrued employees' bonuses:

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

Accrued employees' retirement benefits:

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

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

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

(6) 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.

(7) Earnings per share

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

(8) Consumption taxes

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

(9) Amortization of goodwill

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

(10) Derivatives transactions

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

(11) Cash and cash equivalents

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

4. Appropriation of retained earnings

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

5. Unrealized gains on revaluation of land

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

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

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

Revaluation date: March 31, 2002

Difference between fair market value of the land at fiscal year-end and the carrying value after land revaluation: ¥673 million (US\$5,729 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
	2006	2005	2004	2006
	¥4,213	¥4,228	¥4,289	\$35,864

7. Changes in disclosure

- (1) Due to the fact that "Accounts payable, other" had exceeded 5/100 of "Total liabilities and shareholders' equity," it was classified separately from "Other current liabilities" in the year ended March 31, 2006. "Accounts payable, other" amounted to ¥5,712 million in the previous fiscal year.
- (2) Due to their growing importance, "Increase in accrued employees' bonus" was classified separately from "Increase (decrease) in other allowances, accrual and non-cash items, net" in the year ended March 31, 2006. "Increase in accrued employees' bonus" amounted to (¥112) million in the previous fiscal year.

8. Reconciliation between cash and cash equivalents

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

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Cash and time deposits	¥30,107	¥30,679	¥35,512	\$256,295
Time deposits having original maturity of more than three months	(236)	(313)	(374)	(2,009)
Cash and cash equivalents	¥29,871	¥30,365	¥35,137	\$254,286

9. Marketable securities and investment securities

(1) Available-for-sale securities with fair value at March 31, 2006 and 2005, are summarized as follows:

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

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

At March 31, 2006	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stocks	\$ 75,500	\$ 131,387	\$ 55,878
Bonds:			
National and local government bonds	6,802	6,810	0
Corporate bonds	2,554	2,562	9
Other	25,530	25,530	0
Subtotal	110,403	166,298	55,895
Book value not exceeding acquisition cost:			
Stocks	145	128	(9)
Bonds:			
National and local government bonds	27,241	27,173	(60)
Corporate bonds	38,980	38,427	(545)
Other	—	—	—
Subtotal	66,374	65,744	(621)
Total	\$ 176,777	\$ 232,051	\$ 55,265

(2) Available-for-sale securities sold during the years ended March 31, 2006, 2005 and 2004, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Sales amount	¥2,460	¥210	¥2,222	\$ 20,942
Total gains on sales	1,205	148	1,414	10,258
Total losses on sales	—	—	—	—

(3) The schedule of redemption for available-for-sale securities with maturity at March 31, 2006 and 2005, is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2006		March 31, 2005		March 31, 2006	
	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years
Bonds:						
National and local government bonds	¥2,398	¥1,594	¥ —	¥2,401	\$ 20,414	\$ 13,569
Corporate bonds	763	4,052	768	4,927	6,495	34,494
Other	2,999	—	1,999	—	25,530	—
Total	¥6,162	¥5,647	¥2,768	¥7,328	\$ 52,456	\$ 48,072

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

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Available-for-sale securities:				
Non-public company (excluding over-the-counter bulletin board)	¥2,082	¥3,082	¥3,075	\$17,724

10. Inventories

Inventories at March 31, 2006 and 2005, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products	¥1,508	¥1,438	\$12,837
Raw materials	1,090	972	9,279
Work in process	5,471	5,664	46,574
Total	¥8,070	¥8,075	\$68,698

11. Impairment loss

Place	Purpose	Category
Atsugi-shi, Kanagawa	Idle assets	Buildings and land

The Company categorizes business assets by type of business structures, and assets used for the purpose of leases and idle assets without a specific future use are categorized by individual property type. Assets for business and leasing assets are not subject to impairment loss for the year ended March 31, 2006. However, due to a restructure of the research and development divisions, Kurita Technology Center, the previous Corporate Research & Development Center (Atsugi-shi, Kanagawa) was taken over and integrated into Kurita Global Technology Center (Shimotsuga-gun, Tochigi). As a result, Kurita Technology Center in Atsugi-shi, Kanagawa became an idle asset. Due to substantial declines in the fair market value of land and buildings, book values are written down to the recoverable amount, and such write-downs are recorded as an impairment loss of ¥846 million (\$7,202 thousand), of which buildings and structures accounted for ¥522 million (\$4,444 thousand), land for ¥297 million (\$2,528 thousand) and other for ¥27 million (\$230 thousand). Recoverable amounts for relevant assets are measured at their net selling price and evaluated in accordance with real estate appraisal standards.

12. Long-term borrowings

Long-term borrowings at March 31, 2006 and 2005, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loan from banks at interest rates from 4.5% to 4.6%	¥264	¥355	\$2,247
Less current portion	(84)	(85)	(715)
Total	¥180	¥270	\$1,532

13. Income taxes

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Excess provision for accrued employees' retirement benefits	¥3,304	¥3,080	\$28,126
Excess provision for accrued bonuses to employees	901	827	7,670
Accrued enterprise taxes not deductible	289	325	2,460
Accrued retirement benefits for directors and corporate auditors	189	280	1,609
Excess provision of allowance for product warranty	286	395	2,435
Excess portion of design expenses	291	196	2,477
Unrealized gains on sales of property, plant and equipment	423	433	3,601
Excess depreciation of property, plant and equipment	592	282	5,040
Devaluation loss on property, plant and equipment	—	287	—
Impairment loss	343	—	2,920
Loss on write-down of golf club membership	129	139	1,098
Other	611	535	5,201
Subtotal	7,363	6,785	62,680
Valuation allowances	(366)	(310)	(3,116)
Total deferred tax assets	6,996	6,474	59,556
Deferred tax liabilities:			
Capital gain on properties deferred for tax purposes	(757)	(867)	(6,444)
Valuation gain on available-for-sale securities	(2,634)	(1,409)	(22,423)
Estimated income taxes pertaining to retained earnings of overseas consolidated subsidiaries	(546)	(379)	(4,648)
Other	—	(4)	—
Total deferred tax liabilities	(3,939)	(2,660)	(33,532)
Deferred tax assets, net	¥3,057	¥3,813	\$26,024

14. Retirement benefits and pension plans

(1) The Company and 23 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 7 domestic consolidated subsidiaries have only qualified pension plans.

(2) Benefit obligation:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(23,195)	¥(22,967)	\$(197,455)
Fair value of pension plan assets	15,059	14,264	128,194
Unfunded retirement benefit obligation	(8,135)	(8,703)	(69,252)
Unrecognized actuarial (gain) loss	(125)	13	(1,064)
Accrued employees' retirement benefits	¥ (8,261)	¥ (8,689)	\$ (70,324)

(3) Benefit cost:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost	¥1,163	¥1,109	¥1,239	\$ 9,900
Interest cost	537	532	540	4,571
Expected return on plan assets	(85)	—	—	(724)
Actuarial gain	(115)	(39)	(679)	(979)
Additional retirement payments	13	52	35	111
Net periodic benefit cost	¥1,514	¥1,654	¥1,136	\$12,888

(4) Assumptions to determine above obligation and cost:

	2006	2005
Periodic allocation of projected benefit obligation	Equal amount over each period	Equal amount over each period
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	0.8%	0.0%
Amortization period of actuarial loss	1–2 years	1–2 years

15. Leases

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

a) Leased assets (lessee)

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Acquisition costs	¥1,537	¥1,572	¥ 1,705	\$13,084
Accumulated depreciation	(924)	(777)	(1,024)	(7,866)
Net book value	¥ 612	¥ 794	¥ 681	\$ 5,210

b) Lease obligations (net book value)

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Due within one year or less	¥224	¥303	¥287	\$1,907
Due within more than one year	388	490	394	3,303
Total	¥612	¥794	¥681	\$5,210

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

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Lease payments	¥270	¥338	¥340	\$2,298
Depreciation	270	338	340	2,298

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
	2006	2005	2004	2006
Due within one year or less	¥146	¥ 78	¥120	\$1,243
Due within more than one year	208	101	124	1,771
Total	¥355	¥180	¥245	\$3,022

16. Segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2005 and 2004, is outlined as follows:

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

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

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

Year ended March 31, 2006	Thousands of U.S. dollars				
	Water Treatment Chemicals Business	Water Treatment Facilities Business	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	\$464,365	\$1,014,157	\$1,478,531	\$ —	\$1,478,531
2) Intersegment sales	2,741	4,878	7,619	(7,619)	—
Total	467,115	1,019,035	1,486,150	(7,619)	1,478,531
Operating costs and expenses	399,336	939,448	1,338,793	(7,619)	1,331,165
Operating income	\$ 67,770	\$ 79,586	\$ 147,357	\$ 0	\$ 147,365
II. Assets, depreciation, impairment loss and capital expenditures					
Assets	\$393,215	\$1,057,972	\$1,451,188	\$360,109	\$1,811,305
Depreciation and amortization	13,689	28,075	41,764	—	41,764
Impairment loss	—	—	—	7,202	7,202
Capital expenditures	17,179	123,598	140,776	—	140,776

Principal products and services of each segment:

Water Treatment Chemicals Business

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

Water Treatment Facilities Business

For the electronics industry:

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

For general industries:

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

For the public sector:

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

The total assets that were offset during the consolidation procedure for the years ended March 31, 2006 and 2005, were ¥42,362 million (\$360,627 thousand) and ¥40,983 million, respectively, which primarily included abundant capital and long-term investment capital.

Overseas net sales:

	Millions of yen					Thousands of U.S. dollars
	Asia	North America	Europe	Other	Total	Total
For the year ended March 31, 2006						
Overseas net sales	¥16,602	¥2,340	¥1,121	¥1,724	¥ 21,788	\$ 185,477
Consolidated net sales	—	—	—	—	173,683	1,478,531
Percentage of overseas net sales to consolidated net sales	9.6%	1.3%	0.6%	1.0%	12.5%	12.5%
For the year ended March 31, 2005						
Overseas net sales	¥18,966	¥979	¥1,015	¥1,440	¥ 22,402	
Consolidated net sales	—	—	—	—	160,896	
Percentage of overseas net sales to consolidated net sales	11.8%	0.6%	0.6%	0.9%	13.9%	

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

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

Asia: South Korea, China, Taiwan, Singapore, Indonesia, Thailand
 North America: United States of America
 Europe: Germany
 Other: Brazil

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

17. Contingent liabilities

Guarantees for employees' indebtedness from bank housing loans at March 31, 2006 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	¥10	¥19	\$85

18. Subsequent event

Appropriation of unappropriated retained earnings

The following appropriations of unappropriated retained earnings for the year ended March 31, 2006, were approved at the general meeting of shareholders of the Company held on June 29, 2006.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,415	\$12,046
Bonuses to directors and corporate auditors	—	—

19. Per share information

	Yen				U.S. dollars
	2006	2005	2004	2006	
Net assets per share	¥1,129.74	¥1,058.90	¥999.63		\$9.62
Earnings per share (EPS)	81.76	71.76	64.57		0.70

Calculation for EPS is as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Net income	¥10,519	¥9,383	¥8,444	\$89,546
Net income relating to common stock	10,519	9,229	8,302	89,546
Average number of shares	128,654,537	128,615,153	128,584,628	128,654,537

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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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in period ended March 31, 2006, 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. These 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles and practices generally accepted in Japan as described in Note 1 to the consolidated statements.

As described in Note 3, effective the year ended March 31, 2006, the Company has adopted new accounting standards for impairment of fixed assets in the preparation of its consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2006, have been translated into U.S. 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 U.S. dollars on the basis set forth in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo ASG

Tokyo, Japan
June 29, 2006

Nonconsolidated Balance Sheets, at March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Current assets	¥100,714	¥ 97,053	\$ 857,362
Property, plant and equipment	45,247	35,531	385,186
Intangible assets	2,051	2,327	17,467
Investments and other assets	36,276	34,442	308,813
Total assets	¥184,290	¥169,355	\$1,568,828
Liabilities			
Current liabilities	¥ 46,320	¥ 38,390	\$ 394,320
Long-term liabilities	9,439	8,373	80,361
Total liabilities	55,760	46,764	474,681
Shareholders' equity			
Common stock	13,450	13,450	114,504
Additional paid-in capital	11,426	11,409	97,274
Retained earnings	105,391	100,778	897,177
Unrealized gains on revaluation of land	(740)	(257)	(6,306)
Unrealized gains on available-for-sale securities	3,795	2,040	32,308
Treasury stock, at cost	(4,793)	(4,830)	(40,810)
Total shareholders' equity	128,529	122,590	1,094,147
Total liabilities and shareholders' equity	¥184,290	¥169,355	\$1,568,828

Nonconsolidated Statements of Income, for the Years Ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Net sales	¥123,403	¥119,175	¥112,206	\$1,050,510
Cost of sales	90,191	85,251	79,761	767,779
Gross profit	33,212	33,924	32,444	282,731
Selling, general and administrative expenses	23,255	23,904	23,390	197,971
Operating income	9,956	10,020	9,053	84,760
Other income	4,319	2,704	3,438	36,767
Other expenses	1,508	723	974	12,841
Income before income taxes	12,767	12,002	11,517	108,686
Income taxes	4,771	4,633	4,748	40,620
Net income	¥ 7,995	¥ 7,369	¥ 6,768	\$ 68,066

Company Name

Kurita Water Industries Ltd.

Address4-7, 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 Employees1,566 (parent company)
3,668 (on a consolidated basis)**DOMESTIC OFFICES****Head Office:**4-7, Nishi-Shinjuku 3-chome, Shinjuku-ku, Tokyo 160-8383
Tel.: 81 (3) 3347-3111**Osaka Branch:**2-22, Kitahama 2-chome, Chuo-ku, Osaka 541-0041
Tel.: 81 (6) 6228-4800**Kurita Global Technology Center:**1-1, Gochoyama, Kawada, Nogi-machi, Shimotsuga-gun,
Tochigi 329-0105
Tel.: 81 (280) 54-1511**Branches:**

Sapporo, Tohoku, Nagoya, Hiroshima, Shikoku and Kyushu

OVERSEAS OFFICES**Singapore Branch:**30 Joo Koon Road, Singapore 628984
Tel.: 65 (6861) 2622**Taiwan Branch:**5F-3, No. 295, Section 2, Kuang-Fu Road,
(Empire Commercial Bldg.) Hsinchu, Taiwan, R.O.C.
Tel.: 886 (3) 575-1157**Major Consolidated Subsidiaries and Affiliates**

Company Name	Paid-in Capital (Millions)	Equity Ownership (%)	Main Business
OVERSEAS			
North America • South America			
Kurita do Brasil LTDA.	R\$6.986	100.0	Manufacture & sale of water treatment chemicals
Kurita America Inc.	US\$3.0	100.0	Sale of water treatment facilities, facility operation and maintenance services
Kurita de Mexico S.A. de C.V.	M.N. PESO8.120	45.0	Manufacture & sale of water treatment chemicals
Europe			
Kurita Europe GmbH	EUR2.301	85.0	Manufacture & sale of water treatment chemicals
Kuritec Europe GmbH	EUR0.959	100.0	Sale of water treatment facilities, facility operation and maintenance services
Asia			
Kurita (Singapore) Pte. Ltd.	S\$4.0	100.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kuritec Singapore Pte. Ltd.	S\$1.49	100.0	Ultrapure water supply for specified customers
Kurita Water (Malaysia) Sdn. Bhd.	RM\$0.6	83.3	Sale of water treatment chemicals and water treatment facilities
Kurita Water Industries (Dalian) Co., Ltd.	¥550	85.1	Manufacture & sale of water treatment chemicals
Kuritec (Shanghai) Co., Ltd.	¥30	100.0	Maintenance services and sale of small water treatment facilities
Kurita Water Industries (Suzhou) Ltd.	¥100	100.0	Manufacture & sale of water treatment facilities
Kurita (Taiwan) Co., Ltd.	NT\$20	95.0	Manufacture & sale of water treatment chemicals
P.T. Kurita Indonesia	US\$2.0	90.0	Manufacture & sale of water treatment chemicals and water treatment facilities
Kurita-GK Chemical Co., Ltd.	BAHT92	60.0	Manufacture & sale of water treatment chemicals
Hansu Ltd.	W2,500	33.2	Manufacture & sale of water treatment chemicals
Hansu Technical Service Ltd.	W400	59.4	Sale of water treatment facilities and maintenance services
DOMESTIC			
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical cleaning
Kurita Creation Co., Ltd.	¥160	100.0	Manufacture & sale of household and industrial water purifiers
Kuritz Co., Ltd.	¥220	100.0	Operation & maintenance of water treatment facilities, soil and groundwater assessment and remediation
Land Solution Inc.	¥450	51.0	Soil and groundwater contamination assessment and consulting, contamination risk-hedging support and post-remediation land usage support
Kuritec Service Co. Ltd.	¥50	100.0	Tool cleaning

Stock Exchange Listings First Section of the Tokyo Stock Exchange
First Section of the Osaka Securities Exchange

Common Stock Authorized: 531,000,000 shares
Issued: 132,800,256 shares
(Stock trading unit: 100 shares)

Number of Shareholders 14,586

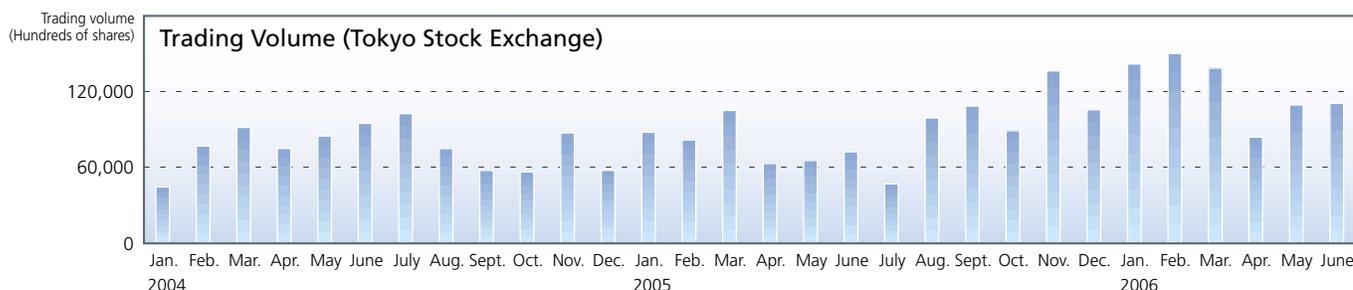
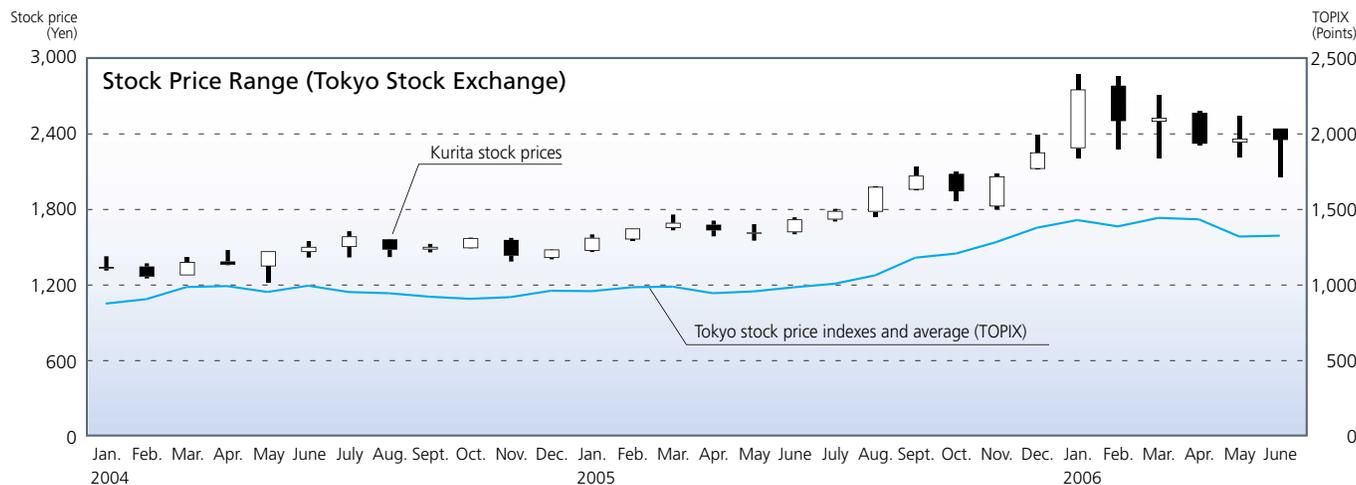
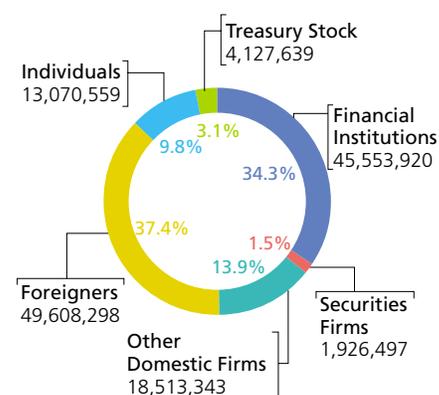
Independent Auditor Grant Thornton Taiyo ASG
Akasaka Oji Bldg., 8F, 1-22, Akasaka 8-chome, Minato-ku, Tokyo 107-0052, Japan

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

Main Shareholders

	Shareholdings (Shares)	Percentage of total shares issued (%)
Itochu Corporation	10,268,000	7.73
Japan Trustee Services Bank, Ltd. (Trust Account)	8,258,700	6.21
Nippon Life Insurance Company	7,284,283	5.48
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,472,800	4.12
Northern Trust Company (AVFC) Sub-account American Client	4,476,600	3.37
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,311,526	3.24
Kurita Water Industries Ltd.	4,127,639	3.10
State Street Bank and Trust Company 505202	4,016,900	3.02
UBS AG London-IPB Client Account	3,303,000	2.48
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,936,131	2.21

Distribution of Shares



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

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