

# ANNUAL REPORT

Year Ended March 31, 2002

# 2002



## Profile

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

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



To make more people aware of our corporate vision of becoming an Advanced Management Company for Water and the Environment, we have adopted a service logo. This new logo reflects our strong commitment to and confidence in contributing to society through continued progress in our water and environmental technologies.

### Contents

Financial Highlights.....	1
To Our Shareholders.....	2
KURITA at a Glance.....	6
Operational Review and Outlook.....	8
Water Treatment Chemicals.....	8
Water Treatment Facilities.....	9
Developing New Business Fields.....	12
Soil and Groundwater Remediation.....	12
Water Treatment Systems for Clean Energy Fuel Cells.....	14
Selected Financial Data.....	15
Management's Discussion and Analysis.....	16
Consolidated Financial Statements and Notes.....	20
Report of Independent Certified Public Accountants.....	31
Non-Consolidated Summary.....	32
Subsidiaries.....	33
Board of Directors and Corporate Auditors/Corporate Data.....	34
Investor Information.....	35

### Note on Projections for Future Results

Projections for future results contained in this annual report accord with Kurita's plans, prospects and strategies as decided by the management on the basis of information available at the time.

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

Moreover, many factors affecting business results are subject to uncertainty and are therefore a source of risk. These factors include, but are not limited to, the following: macroeconomic changes, such as changes in capital markets and large-scale shifts in demand, especially insofar as these influence the markets and industries directly related to our main businesses.

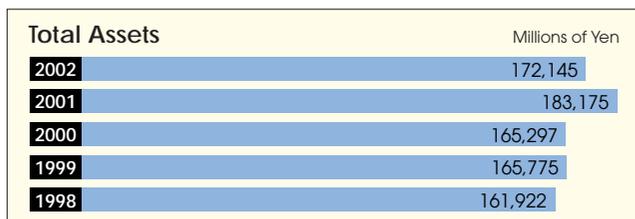
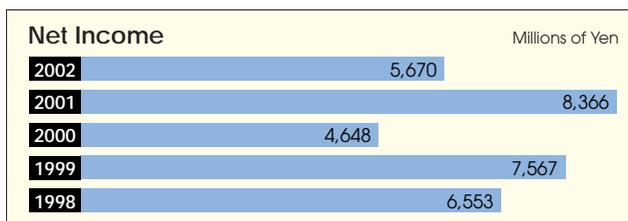
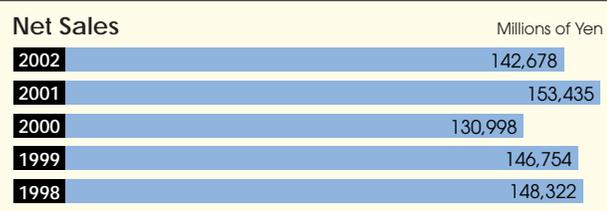


# Financial Highlights

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
<b>For the years ended March 31:</b>			
Net sales .....	¥153,435	¥142,678	\$1,072,767
Operating income .....	15,817	10,790	81,128
Income before income taxes.....	14,727	9,121	68,579
Net income .....	8,366	5,670	42,632
<b>At year-end:</b>			
Total assets .....	¥183,175	¥172,145	\$1,294,323
Total shareholders' equity .....	119,209	122,590	921,729
<b>Per share of common stock (Yen and U.S. dollars):</b>			
Net income.....	¥63.2	¥42.8	\$0.32
Cash dividends applicable to the year (parent company).....	16.0	16.0	0.12

Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥133 to US\$1.00, the approximate exchange rate prevailing on March 29, 2002.



**D**uring the fiscal year ended March 31, 2002, Kurita Water Industries Ltd. felt the brunt of the worldwide economic downturn. Within this markedly deteriorating business operating environment, the Kurita Group is treating Customer Satisfaction as the linchpin of its business activities as it seeks to strengthen its earnings base. In the following interview, President Santo discusses fiscal performance and the Company's strategies for the future.



*Takahide Santo*

Takahide Santo, President

**Could you describe business conditions during the past fiscal year and your consolidated performance?**

The substantial deterioration in our business environment made the past fiscal year an extremely difficult one. Domestically, we contended with a decline in capital investment in the information technology (IT) industry and other private-sector industries, a worsening in employment conditions, and faltering personal consumption. Globally, we faced a worldwide economic downturn. This downward trend in business conditions strengthened through the fiscal year.

Conditions were also difficult in our own market. Companies continued to restrain their capital investment in equipment and investment activities were at low ebb across industrial sectors. Sales of water treatment chemicals suffered because of falling operating rates at customers' facilities resulting from rationalization measures and because of intensifying competition.

On a consolidated basis, orders decreased 9.3% to ¥140,492 million while net sales declined 7.0% to ¥142,678 million. This reduction in earnings translated into unavoidable declines in profitability. Operating income fell 31.8% to ¥10,790 million and net income sunk 32.2% to ¥5,670 million. To maintain a stable dividend

# An Interview with the President

payout record, we declared a year-end cash dividend of ¥8 per share, with total cash dividends for the fiscal year amounting to ¥16 per share, the same amounts as for the previous fiscal year.

## **How about business conditions and performance in each division? Do you have basic business strategies for each of these segments?**

In the Water Treatment Chemicals Division, demand for our products fell because of the lower plant operating rates of our major customers in the basic industries of petroleum, steel, and pulp and papers. The resulting contraction in the market put strong pressure on prices, creating a difficult business environment. Although shipments of water treatment chemicals decreased, we worked hard to expand revenues from sales of contract-type services, focusing our sales efforts on the key areas of each market. As a result, orders edged up 0.8% to ¥46,953 million and sales rose 1.2% to ¥46,277 million. Operating income, however, decreased 5.7% to ¥6,244 million. To further reduce production and distribution costs for our core chemicals business, we absorbed Kurita Chemicals Ltd., our chemicals manufacturing subsidiary, through a merger on April 1, 2002 (after the end of the fiscal year).

To combat worsening business conditions in our Water Treatment Facilities Division, we aggressively targeted customers in the electronics industries of the People's Republic of China, Taiwan, and Southeast Asian countries—where the potential for new investment existed. Despite these efforts to maintain sales levels, the impact of weak domestic demand drove orders down to ¥93,538 million, a 13.7% decrease. Sales dropped 10.5% to ¥96,401 million and operating income slumped 50.7% to ¥4,537 million.

During the fiscal year, we continued to follow the slogan of our sales activities in the previous year—"Changing how to sell and what to sell." For chemicals, we shifted to selling value rather than products. For facilities, we shifted to selling ready-made equipment rather than order-made. And in our maintenance and other services category, we expanded our sales focus to include the entire utility rather than the area around specific equipment. Through these measures, we concentrated our efforts on raising the high-value-added content in our products and services to strengthen our profitability.

## **Would you update us on the progress of your medium-term management plan?**

The basic theme of our Evolution 2002 (EV-2) Plan is to create a new Kurita through a process of evolution based on integrating the strengths of the Kurita Group. Its main goal is to strengthen our profitability structure. During what was the second year of this 3-year plan, guided by the basic principle of customer satisfaction, we worked to further strengthen our business by reinforcing our sales and product development capabilities. Although the further deterioration in business conditions has resulted in us not reaching our original performance goals for the fiscal year under the plan, reform of our structure is steadily progressing. In the last year of the EV-2 Plan, we are continuing to emphasize strengthening our Group and business execution capabilities and reducing overall costs. Through these measures, we are endeavoring to create a new Kurita, the basic theme of the Plan.

### **In what areas of your business do you expect to achieve growth?**

With the business climate as it is and markets contracting, we are concentrating on developing business in fields with growth potential. Our greatest expectations for new business fields are centered on the soil and groundwater remediation and fuel cell businesses. To develop the new market in soil remediation related to real estate business, we jointly established Land Solution Inc. with companies operating in such varied fields as real estate and financial services. Land Solution made a good start as a pioneer in the environmental recovery business for soil contamination related to real estate business—offering comprehensive schemes that make it possible for landowners to acquire a contamination risk hedge when they wish to sell land. To broaden our array of soil and groundwater remediation technologies, we at Kurita have acquired the exclusive rights in Japan to a permeable reactive barrier method from Canada that achieves low-cost processing. The technology was purchased jointly with Dowa Mining Co., Ltd.

To enter the water treatment business for household fuel cells, we formed a strategic alliance with H Power Corporation, of the United States, in

March 2001. During the fiscal year under review, we began supplying them with prototype water treatment systems essential to the functioning of fuel cells. H Power is drawing closer to the production stage for its commercial fuel cells, and Kurita is scheduled to supply them with water treatment systems. We expect this market to grow significantly over the next few years.

Besides these activities, we will be promoting environmental renovation projects with the goal of developing this field into a core business. As part of that process, we have made a full-fledged entry into the business of scrapping incinerators polluted by dioxin, which requires specialized technologies such as those associated with the safe removal of dioxin.

Anticipating continued growth in sales of our ultrapure water production systems to electronics manufacturers in China and Southeast Asian countries, we have strengthened strategic points of our support organization. We established a maintenance service company for ultrapure water production systems in Shanghai, China, and a company in Singapore specializing in owning and operating production systems to supply ultrapure water to its customers.

### **What strategies are you emphasizing to remain competitive?**

Basically, we are expanding in fields where we are already strong. To this end, we are boosting our business execution capabilities through our medium-term management plan. For example, the modular and ready-made products emerging from the standardization of the production of equipment make it possible to lower costs and reduce delivery times. These attributes have already exhibited steady results with ultrapure water production systems for semiconductor manufacturing. Now, we are expanding these techniques to pure water production systems for pharmaceutical purposes. By marshalling our advanced know-how in water treatment, we are also developing our maintenance business. Our main areas of focus are contracts of one year or more, operating management contracts, and Build-Own-Operate (BOO) contracts.

Customer satisfaction is the underlying theme of our business activities. We approach environmental issues directly, leveraging our water treatment and other world-class technologies, proposing effective measures and solutions, and developing business models for new technologies for the removal of pollutants. In this way, we seek to nurture businesses with very high growth potential and social demand.

# An Interview with the President

## **Do you have a vision of the type of company Kurita should aim to be?**

The role we need to play in solving environmental issues grows larger all the time. To grow and develop as a socially significant corporation in an age of sudden changes, we have set our sights on becoming an Advanced Water and Environmental Management Company. As such, we will not only be supplying our customers with chemicals and equipment, but will also be applying our management know-how to provide a full service. Through this process, we will work with our customers in proposing the best systems to ameliorate or solve the problems they face.

## **What is your policy regarding increasing shareholders' value?**

We boast a solid financial position—effectively, we have no debt. By implementing investment and capital measures that take maximum advantage of this strength, we aim to increase our capital efficiency. To enable us to pursue systematic capital measures in response to changes in our business environment due to subsequent events, a resolution was passed at the parent company's general shareholders' meeting held on June 27, 2002, approving a buyback of common stock not exceeding 13,000 thousand shares and an acquisition cost of ¥20,000 million.

The resolution remains valid until the end of the next general shareholders' meeting. Moreover, we have decided to reduce the investment unit for our shares to 100 shares from 1,000 shares, effective July 1, 2002. We are hoping that our shareholder base will swell with individual and other classes of shareholders attracted by such measures, and intend to make full use of the management monitoring function that shareholders provide.

## **Are there any bright points in the outlook for Kurita in the current fiscal year?**

Although there are signs that the economy of Japan has bottomed out, there are many sources of concern, such as the slow recovery in private sector capital investment, diminishing market size due to business reorganizations, and other negative factors. We expect that our business conditions will remain severe.

As for the last year of the EV-2 Plan, we have to bear in mind that conditions are likely to get worse. Our fundamental policy will be for each employee to induce reform within the Kurita Group through change and self-adaptation, working to create new value and increase our cost competitiveness. To improve consolidated profitability, we will be thorough in implementing our major ongoing strategies: strengthening



our business execution capabilities, creating new environmental-related businesses, and reducing total costs. For Kurita, the fiscal year ahead is a year in which we plan to make firm the foundation for our next major advance.

July 2002

Takahide Santo, President



**K**urita's businesses are based on providing comprehensive services encompassing the full range of its customers' water and environmental needs. Serving primarily corporations and public entities, the Company supplies various chemicals, equipment, and facilities, as well as facility consulting, maintenance, and outsourcing services for water treatment, air purification, and soil remediation.

## ◆ WATER TREATMENT CHEMICALS

- ◆ Boiler water treatment chemicals
- ◆ Cooling water treatment chemicals
- ◆ Flocculant and sludge dewatering agents
- ◆ Process treatment chemicals
- ◆ Chemical injection and dosing systems
- ◆ Maintenance services
- ◆ Contract-type services



## ◆ WATER TREATMENT FACILITIES

### WATER TREATMENT FACILITIES FOR THE ELECTRONICS INDUSTRY

- ◆ Ultrapure water production systems
- ◆ Wastewater treatment facilities
- ◆ Maintenance services
- ◆ Precision cleaning



### WATER TREATMENT FACILITIES FOR GENERAL INDUSTRY

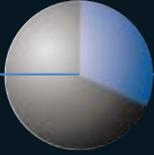
- ◆ Pure water production systems
- ◆ Wastewater treatment facilities
- ◆ Soil and groundwater remediation
- ◆ Chemical cleaning
- ◆ Maintenance services



### PUBLIC SECTOR ENVIRONMENTAL CONTROL FACILITIES

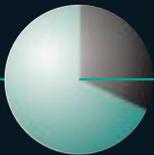
- ◆ Sewage treatment facilities
- ◆ Sludge (human waste, etc.) recycle facilities
- ◆ Incinerators scrapping business
- ◆ Management of facilities operation
- ◆ Maintenance services





Composition of Net Sales  
**32.4%**

Kurita boasts the top share of the domestic water treatment chemicals market in Japan. In using water treatment chemicals, our goal is to use the safest and most appropriate treatment method for water that has or is going to be used in production processes. Our boiler and cooling water treatment chemicals prevent rusting and help improve and maintain heat efficiency, thereby prolonging the useful life of facilities. Our wastewater treatment chemicals purify wastewater and reduce the quantity of sludge. Companies in such industries as petroleum, iron and steel, and pulp and papers use our process treatment chemicals to improve production yield rates as well as to maintain and improve production efficiency. Currently, we are focusing our efforts on expanding our sales of incinerator-related chemicals and revenues from contract-type services, which integrate supplies of equipment and treatment chemicals with maintenance and operation services.



Composition of Net Sales  
**67.6%**

Kurita's ultrapure water production technology is recognized as cutting-edge technology globally. Utilizing such membrane technology as ultrafiltration and reverse osmosis, the Company's systems almost completely remove impurities from water for use in semiconductor and liquid crystal display manufacture. If they wish, customers may assemble the ready-made KuriAqua ultrapure water production system using our standardized equipment units. Among new technology, Kurita offers the KHOW (Kurita Hydrogen Ozone Water) system, functional water production equipment that produces functional water for wet cleaning processes in the manufacturing of electronic materials and devices. In addition to ultrapure water production systems, the Company supplies comprehensive services for the entire water treatment utility, including wastewater treatment systems and maintenance. Kurita is the No.1 producer of ultrapure water production systems in Japan.



Utilizing its membrane and pure water production technologies, Kurita supplies sterile, purified water production systems for pharmaceutical manufacture. Modularization of the pure water production system has been commercialized for the pharmaceutical industry. For the electric power generation industry, the Company provides water production and wastewater treatment systems for thermal and nuclear power plants. Kurita's sludge reduction system greatly reduces the excess organic sludge produced in factories in a variety of industries.



In the soil and underground water remediation field, Kurita employs cutting-edge technology in providing a full range of services, from survey to remediation.

Wastewater treatment technology makes an important contribution to safe recycling of water. As such, it has an important role to play in the public sector, which must respond to the need to eliminate industrial waste, reduce environmental impact, and realize a society that recycles its resources. At the Company's sludge recycle facilities, safety is maintained by combining deodorizing and noise reduction measures with advanced processing and reuse technologies.



Kurita also accepts commissions from regional municipal bodies to manage the operations of human waste and sewage treatment facilities and leisure facilities.

Taking advantage of its dioxin removal technologies, the Company has entered the incinerators scrapping business, which requires advanced safety management.

## Water Treatment Chemicals

Consolidated sales of the Water Treatment Chemicals Division amounted to ¥46,277 million, edging up 1.2% from the previous fiscal year. Orders also increased, rising 0.8%, to ¥46,953 million. Operating income, however, decreased 5.7%, to ¥6,244 million. Although the operating income to sales ratio of division declined one percentage point, to 13.5%, this division remained the chief source of the Kurita Group's stable profitability. If extraordinary expenses provided for retirement benefits are excluded, the operating



**Kurita Kasei Co., Ltd.**  
Effective April 1, 2002, Kurita Kasei transferred its manufacturing facilities to Kurita. Through such measures, the Kurita Group is proceeding with more efficient integration to reduce costs.

income to sales ratio was approximately the same as in the previous fiscal year.

During the fiscal year under review, the division continued its shift to high-value-added products and services under the Company's policy of selling value rather than products. As part of its cost reduction measures, Kurita absorbed Kurita Chemicals, its main producer of chemicals for the domestic market, in a merger concluded on April 1, 2002. The Company took this measure to increase cost competitiveness by integrating the production and distribution organization for chemicals.

Demand for water treatment chemicals weakened during the fiscal year under the significant impact of reduced operating rates in the petroleum, iron and steel, pulp and papers, and other so-called heavy industries. In response, we targeted larger market shares and increased profitability. We redoubled our efforts to make proposal-based sales, offering solutions that contribute to solving individual customers' problems using a combination of chemicals, chemical injection and dosing systems, consulting, and maintenance services. Emphasizing the maintenance of order

levels, we developed the market for contract-type services, such as services aimed at reducing customers' wastewater treatment costs and services that offer a supply of steam to companies based on Build-Own-Operate (BOO) schemes. We also focused our sales efforts on the key points of each market.

Orders increased for contract-type services and other services in our maintenance and other services category. Sales expanded favorably for chemical agents to solidify heavy metals contained in fly ash during waste incineration. Sales of processing chemicals for the pulp and papers industries also moved up slightly. Under the influence of rationalization at customers' factories and intensified competition, however, sales of the division's core line of products—chemicals for treating boilers, cooling



**Merger with Kurita Chemicals Co., Ltd.**  
As part of the restructuring of the Group's manufacturing and distribution bases to minimize their costs, Kurita Chemicals was merged with Kurita on April 1, 2002.

### Sales (Millions of Yen)

2002	46,277
2001	45,709
2000	45,486
1999	44,621
1998	43,563

### Operating Income (Millions of Yen)

2002	6,244
2001	6,623
2000	6,292
1999	5,971
1998	4,455

water, and wastewater—declined as did sales of the other chemicals category.

We pressed ahead with marketing of our boiler steam supply contract during the fiscal year under review. In this service, we handle the entire process of producing steam, from financing the construction of the facilities to maintaining them. Customers make no capital investment, merely purchase the steam from Kurita. Because of the many advantages of this outsourcing of steam production, including lower capital investment, smaller maintenance costs, and reduced assets, we anticipate growth in demand for this business.

The division's business climate is likely to remain difficult for the time being. Demand from the petroleum and steel markets is continuing its downward trend, and conditions also appear to be extremely harsh in other industries. Nevertheless, by proceeding with a host of countermeasures and working to thoroughly cut production costs, we plan to expand orders and strengthen our profitability. Specific sales measures include proposing resource and energy conservation solutions to customers, expanding sales of annual water treatment management, and increasing sales of product supply contracts. Among other measures, we will develop new markets and rationalize our chemical production.

## Water Treatment Facilities

Consolidated sales of the Water Treatment Facilities Division declined 10.5%, to ¥96,401 million. Orders were down 13.7%, to ¥93,538 million. Operating income amounted to ¥4,537 million, a drop of 50.7%.

### ◆ Water Treatment Facilities for the Electronics Industry

Consolidated sales of this product group decreased because of the slump in the IT industry in Japan.

During the fiscal year under review, we worked aggressively to expand business in China, Taiwan, and Southeast Asian countries—areas where potential



#### **KuriAqua**

*The ready-made ultrapure water production system KuriAqua can be assembled with standardized modular units to meet the specific requirements of customers.*

for new capital investment existed. Among orders, demand for the product group's core product, ultrapure water production systems for the electronics industry, dropped substantially overall. Overseas orders for these systems, however, were strong. Yet this growth was offset by the sharp drop in domestic demand related to business liquidations, plant closures, plant amalgamations, and other reorganization in the industry. The maintenance services category also was significantly affected by the lower operating rates in the electronics industry, and revenues from precision cleaning services decreased.

During the fiscal year, we expanded and improved our support services for ultrapure water production systems in the high-growth regions of China and Southeast Asia through the establishment of Kuritec (Shanghai) Co., Ltd. and Kuritec Singapore Pte. Ltd. Kuritec (Shanghai) is providing maintenance services for ultrapure water treatment systems to the fast-growing Chinese market and selling standard equipment. On the other hand, Kuritec Singapore operates facilities to supply ultrapure water to electronics manufacturers.

Kurita is pursuing two strategies in the market for ultrapure water production systems for the electronics industry. The first strategy is well represented by our ready-made ultrapure water production system KuriAqua. A modular system that can be assembled with standardized modular units in accordance with desired water quality and volume, KuriAqua is low-cost and has short delivery times. The other strategy is represented by the change in the focus of our business scope from the area around equipment to the utility. We are shifting our business emphasis to winning comprehensive outsourcing contracts to operate and maintain ultrapure water production systems as well as provide consulting services.



#### Ozone water production equipment

*Kurita has developed centralized-manufacture ozone water production equipment utilized for wet cleaning processes in electronic materials and device manufacturing.*

We have also begun a leasing service for pure and ultrapure water production systems in Japan. For this business, we developed the pure water production system DEMISHA, which is housed in a container and can be leased by customers for any required period. This service is particularly useful for plant start-ups or sudden but temporary pure water or ultrapure water requirements. We have positioned DEMISHA as one of our strategic products because of anticipated growth in demand. Another product for which we expect shipments to increase is the KHOW SYSTEM. This unit dissolves hydrogen or ozone gas in ultrapure water for cleaning wafers and is adaptable to the cost-efficient central production method as well as the one-by-one production method.

For the time being, we do not foresee a significant recovery in capital investment or operating rates by the domestic electronics industry. Accordingly, we will continue to concentrate on overseas markets and on increasing productivity through cost reductions and increased modularization of equipment.

#### ◆ Water Treatment Facilities for General Industry

Consolidated sales of this product group also declined during the fiscal year under review. Although sales of water treatment facilities for the electric power generation industry and water production systems for pharmaceutical production increased, sales of water treatment facilities for the food product industry decreased. Revenues from maintenance services expanded.

We have modularized our pure water production systems for pharmaceuticals purposes. By redesigning previous equipment, we have achieved shorter delivery times, better quality control, cost reductions, and a smaller footprint. We intend to convert our full line of products for the pharmaceutical industry to modular systems.



#### Water purification systems for the pharmaceuticals field

*In the pharmaceuticals field as well, Kurita has achieved low cost, compact size, short delivery times, and high quality for its product line by introducing modular systems.*

In the soil remediation field, we have begun developing a new field in the real estate industry and introduced new technology. For details of the company established to develop this field, please see pages 12 and 13. During the fiscal year, we acquired, jointly with Dowa Mining Co., Ltd., exclusive rights in Japan to the permeable reactive barriers method of EnvironMetal Technologies Inc., of Canada. This purification technology prevents groundwater contaminated with volatile organic compounds (VOC) from flowing out of the contaminated area. We also introduced new technologies in the form of the anaerobic bioremediation, in situ degradation with iron powder, and in situ immobilization methods. We have already received orders for these new technologies.

The overall outlook for demand from general industry for water treatment facilities remains bleak, but demand for facilities for the electric power generation and pharmaceuticals industries should expand. In addition, increased demand is also expected in the maintenance services and soil remediation fields.

### ◆ Public Sector Environmental Control Facilities

In the environmental facilities field, we approached existing customers with energy conservation and other schemes and sought to create demand for our products. It was a difficult market because demand for sludge recycle facilities from the public sector shrank due to the emphasis on garbage in the government's supplemental budget. However, overall orders increased thanks to expanded orders for renewal of human waste treatment facilities and for large-scale improvements of existing facilities. Orders for sewage water treatment facilities dropped substantially because of capital investment restraint by the public sector and because of intensified competition. Orders for maintenance and other services also declined, affected by the cuts in the budgets of regional government bodies.

During the fiscal year under review, we established an environmental renovation project group to make a full-fledged entry into the business of scrapping



**Scrapping of incinerators**  
Ensuring thorough implementation of safety measures by workers, Kurita's technologies are used in the decontamination and scrapping of dioxin-polluted incinerators.

incinerators operated by municipal bodies. We will be providing a comprehensive service covering the evaluation of dioxin and soil contamination, the management of industrial waste after scrapping, and the recycling of materials.

With capital investment constraints ongoing in the public sector market, we intend to strengthen our management of existing customers by providing functional analysis and other services and to focus on developing demand for our products.

#### Sales (Millions of Yen)

2002	96,401
2001	107,725
2000	85,511
1999	102,133
1998	104,759

#### Operating Income (Millions of Yen)

2002	4,537
2001	9,195
2000	4,873
1999	9,194
1998	8,406

As the leading specialist in water treatment and environmental equipment in Japan, Kurita is moving boldly into new fields with strong growth potential. In doing so, we are utilizing our accumulated technical expertise and management capabilities and creating new business models. In the following section, we describe our efforts to establish commercial businesses in two of the most promising new fields we are developing.

# SOIL AND GROUNDWATER REMEDICATION

There is a unique and complex background to Japan's soil and groundwater pollution problems. The population density is high as is the utilization of land. Ownership changes frequently. There is also a high degree of usage of groundwater. Manufacturing plants, hospitals, research centers, and incinerator facilities may have contaminated land with chemicals, heavy metals, and dioxin—and there may well be extensive areas of contaminated land that are as yet unidentified. Japan's soil and groundwater contamination evaluation and remediation market is currently estimated to be ¥70 billion annually, and is forecast to quadruple in 10 years.

Entering the market in 1993, Kurita was one of the first to offer soil and groundwater contamination evaluation surveys and remediation services. As a pioneer in the field, we have steadily achieved growth by selling these services to major corporations in the electronics and pharmaceuticals industries that were advanced in their environmental management activities. We boast the largest customer base in the field, totaling more than 1,000 projects.

In addition to the top-level technology and know-how in Japan developed through our wealth of experience, we have expanded the scope of our business to cover the full range of contamination profiles by acquiring the method of in situ degradation through the use of iron powder and the capability of off-site treatment through a business alliance with Dowa Mining. As a result, Kurita has captured the top share of this market in Japan.

Already the leader in this field, we are developing a new market related to the real estate business to complement the existing market for supporting the remediation programs of major corporations. The backdrop for this new market is the trend among many corporations to try and find uses for or sell their idle land as part of their restructuring efforts to cope with the poor economic conditions. In addition, public awareness of soil and groundwater contamination is rising, and these issues create major obstacles for commercial real estate transactions.

To facilitate such real estate transactions, we assess the latent soil contamination. After revealing the extent of contamination, we proceed to clean up

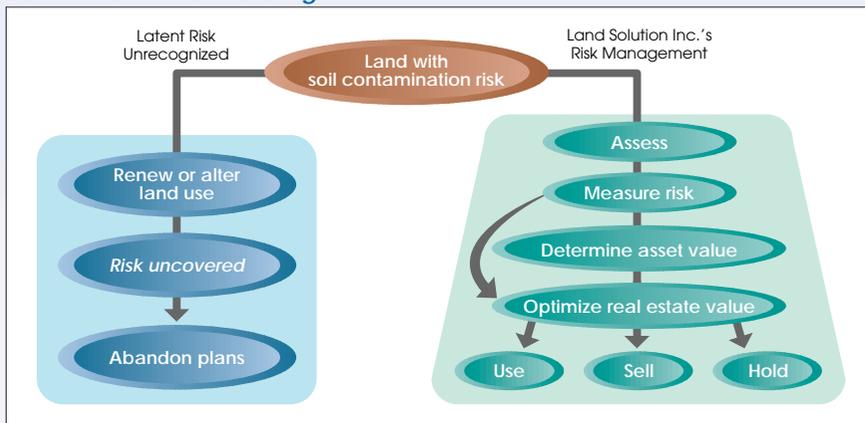


**Soil analysis vehicle**

Thanks to a wide range of technologies, Kurita can provide soil and groundwater remediation services for all types of contamination.

the site, permitting the sale or redevelopment of the land. Kurita is the first company to advocate this business concept in Japan. In July 2001, we formed a company to make companies aware of this risk and to provide a solution in the form of a comprehensive service. Land Solution Inc. is a partnership of banks and trust companies, soil contamination assessment and remediation companies, and real estate development consulting companies. Kurita, however, retains control of the company through a 51% stake.

**Land Solution's Risk Management**



Land Solution is the first commercial soil contamination risk hedge specialist in Japan, meeting customers' evaluation, remediation, and sales needs by providing necessary services to facilitate real estate transactions. These services utilize Kurita's top-class capabilities in the assessment of soil contamination and clean-up costs and time frames as well as its strong business execution capabilities. Land Solution also provides cost-cap and liability insurance products developed by its shareholder companies. The company is taking maximum advantage of the expertise and information networks of its founding, cooperative, and alliance partners to expand its business. In the six months following its launch, Land Solution won 100 orders from companies in Japan, including four remediation projects. The company has strong expectations for another leap in business volume in the current fiscal year.

**Profile of LAND SOLUTION INC.**

Established: July 27, 2001

Paid in capital: ¥450 million

**Main businesses:**

- ◆ Maintenance and operation of land evaluation systems (four stages available depending on needs)
- ◆ Agency and subcontracting services for land evaluation surveys (screening and selection of appropriate subcontractors)
- ◆ Support of real estate transactions (proposal of redevelopment plans for land with soil contamination risk, disposal by sale plans, and other plans)

**Shareholders:**

- 1) Kurita Water Industries Ltd.
- 2) Development Bank of Japan
- 3) Dowa Mining Co., Ltd.
- 4) UFJ Bank Limited
- 5) The Asahi Bank Ltd.
- 6) The Nomura Holding Co., Ltd.
- 7) The Yasuda Fire & Marine Insurance Co., Ltd.
- 8) The Chuo Mitsui Trust and Banking Co., Ltd.
- 9) XYMAX Corporation
- 10) Engineering & Risk Services Corporation
- 11) J&E Solutions Inc.

**Cooperative Partner:**

Japan Real Estate Institute  
(Evaluation systems management)

**Alliance Partners:**

Mitsui Fudosan Co., Ltd.  
(Use of evaluation systems, land use planning, land sales)

Recruit Cosmos Co., Ltd.  
(Same as above)

And eight other companies

# WATER TREATMENT SYSTEMS FOR CLEAN ENERGY FUEL CELLS

Kurita will supply water treatment system for fuels cells, which are touted as the trump card in the battle to reduce environmental impact as well as being the source of a new industry.

Entering another new environment-related business field, Kurita has made a full-fledged start in the water treatment systems for the fuel cells market. In March 2001, we formed a strategic technology partnership with H Power Corporation, of the United States, a leading manufacturer of proton exchange membrane (PEM) residential cogeneration fuel cells, and also took an equity stake in the company. Fuel cells are gathering a great deal of attention as a green energy source. We expect to be the exclusive supplier of a water treatment system for H Power's fuel cells that will be highly competitive in terms of cost and function. The system employs KCDI

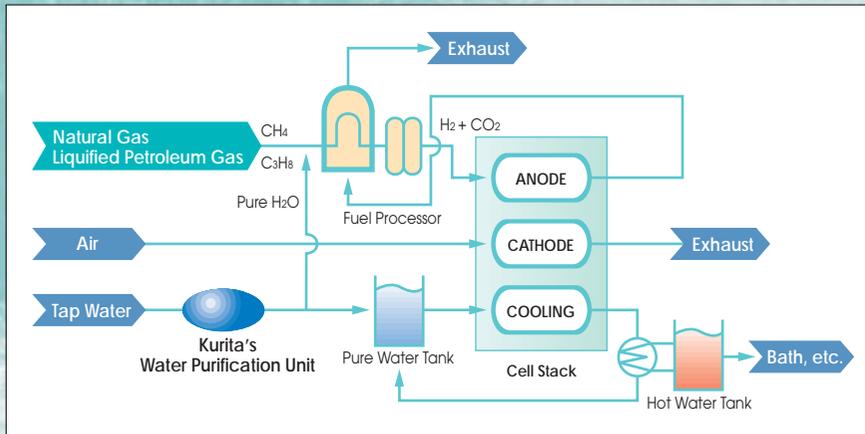
(Kurita Continuous Deionizer), which uses electricity to continuously regenerate the ion exchange resin while removing ionic impurities and producing pure water.

The chief advantage of Kurita's system is that it is practically maintenance-free. We are continuing to perfect the system as the market for residential cogeneration fuel cells, which is expected to expand rapidly, becomes established.

H Power is constructing a factory to mass-produce the fuel cells, and has received orders for approximately 12,000 units, totaling US\$81 million, in the United States. The U.S. market is forecast to grow to approximately 10,000 units per year by 2006.

Kurita is also participating in a National Project covering fuel cells in Japan. Leveraging our experience with H Power, we hope to become the de facto standard for water treatment systems for fuel cells among the battery manufacturers and energy companies in Japan that are developing and promoting fuel cells. Japan's fuel cell market is estimated to expand to more than two million units annually by 2010. We will continue to search for further strategic alliances with leading companies that would enable Kurita to develop new applications and businesses for its pure water supply systems in the energy-related field.

PEM Fuel Cell and Kurita's Water Purification Unit



## Selected Financial Data

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

Millions of Yen

	1997	1998	1999	2000	2001	2002
<b>For the year:</b>						
Net sales .....	¥171,592	¥148,322	¥146,754	¥130,998	¥153,435	<b>¥142,678</b>
Cost of sales .....	117,170	104,226	101,366	88,174	105,587	<b>99,039</b>
Selling, general and administrative expenses .....	28,426	29,070	30,179	31,619	32,030	<b>32,848</b>
Operating income .....	25,995	15,025	15,209	11,203	15,817	<b>10,790</b>
Income before income taxes .....	27,096	14,850	15,580	8,615	14,727	<b>9,121</b>
Net income .....	12,655	6,553	7,567	4,648	8,366	<b>5,670</b>
Capital expenditures .....	7,378	3,864	6,642	1,968	2,714	<b>3,268</b>
R&D expenses .....	4,340	4,996	5,178	5,164	4,743	<b>5,071</b>
Depreciation .....	2,749	2,807	3,055	3,167	2,946	<b>3,132</b>
<b>At year-end:</b>						
Current assets .....	121,600	114,426	112,576	111,017	115,263	<b>103,490</b>
Current liabilities .....	59,788	51,287	49,340	41,633	51,625	<b>36,585</b>
Total shareholders' equity .....	98,482	102,585	108,051	113,383	119,209	<b>122,590</b>
Total assets .....	166,170	161,922	165,775	165,297	183,175	<b>172,145</b>
<b>Amounts per share of common stock (Yen):</b>						
Net income per share .....	95.3	49.4	57.1	35.1	63.2	<b>42.9</b>
Shareholders' equity per share .....	741.6	772.5	816.5	856.8	900.8	<b>926.5</b>
Dividends per share (parent company) .....	16.0	16.0	16.0	17.0	16.0	<b>16.0</b>
<b>Others:</b>						
Return on assets (%) .....	7.8	4.0	4.6	2.8	4.8	<b>3.2</b>
Return on sales (%) .....	7.4	4.4	5.2	3.5	5.5	<b>4.0</b>
Total assets turnover (Times) .....	1.1	0.9	0.9	0.8	0.9	<b>0.8</b>
Shareholders' equity ratio (%) .....	59.3	63.4	65.2	68.6	65.1	<b>71.2</b>
Return on equity (%) .....	13.6	6.5	7.2	4.2	7.2	<b>4.7</b>

## OVERVIEW

Overall, the Kurita Group experienced a difficult business climate in the fiscal year ended March 31, 2002. Sales of water treatment facilities suffered under the continued restraint or postponement of capital investment and demand was low from all industries, particularly electronics industries. Sales of water treatment chemicals were also weak because of progressive rationalization at the factories of customers and heightened competition.

Despite these conditions, we pressed forward with various measures to strengthen our sales and profitability and to maintain order and earnings levels. With customer satisfaction as the basic policy of our business activities, we made further progress toward the goals of the EV-2 Plan, our 3-year medium-term management plan. Targeting efficient use of capital, we continued to give top priority to our fields of emphasis in allocating our corporate resources.

Looking at consolidated performance, orders declined 9.3%, to ¥140,492 million while net sales decreased 7.0%, to ¥142,678 million, because of the downturn in the water treatment facilities business. Operating income dropped 31.8%, to ¥10,790 million, because of the decline in net sales and an increase in selling, general and administrative expenses (SG&A), mainly comprising additional charges related to employees' retirement benefits and R&D expenses. Consolidated net income for the period under review fell 32.2%, to ¥5,670 million, primarily as a result of valuation losses recorded for investment in securities based on the application of depletion accounting. Despite the contraction in earnings, free cash flow expanded by ¥2,789 million, to ¥3,379 million, mainly thanks to an improvement in operating cash flows. In keeping with the dividend policy of the parent company, annual cash dividends applicable to the period were set at ¥16.00 per share.

Among subsequent events, a resolution was passed at the parent company's general shareholders' meeting held on June 27, 2002, approving a buyback of common stocks not to exceed 13,000 thousand shares and an acquisition cost of ¥20,000 million. The resolution remains valid until the end of the next general shareholders' meeting.

In a Board of Directors' Meeting held on March 26, 2002, the parent company decided to change its stock trading unit from 1,000 shares to 100 shares to promote more active stock trading, particularly among individual investors. The change went into effect on July 1, 2002.

## NET SALES AND ORDERS RECEIVED

Consolidated net sales for the fiscal year ended March 31, 2002, amounted to ¥142,678 million, falling ¥10,757 million, or 7.0% because of the deterioration in the water treatment facilities business.

A description of performance by segment follows.

### ◆ Water treatment chemicals

Sales of water treatment chemicals edged up ¥568 million, or 1.2%, to ¥46,277 million. Amid an overall downward trend in the market, we developed contract-type services, such as services aimed at reducing customer's wastewater treatment costs and services that offer a supply of steam to companies based on Build-Own-Operate (BOO) schemes. We also focused our sales efforts on the key points of each market. Revenues increased from contract-type services and other maintenance services and sales expanded for chemicals to solidify heavy metals contained in fly ash during waste incineration. Sales of processing chemicals to pulp and paper industries also rose slightly. On the other hand, sales of the division's core product line of chemicals for treating boilers, cooling water, and wastewater fell under the impact of the ongoing rationalization at customers' factories and intensifying competition. Total orders for water treatment chemicals during the fiscal year amounted to ¥46,953 million, rising ¥381 million, or 0.8%.

### ◆ Water treatment facilities

Sales of water treatment facilities dropped ¥11,324 million, or 10.5%, to ¥96,401 million, becoming the primary factor in the overall decline in net sales. During the fiscal year, the companies of the Kurita Group cooperated to strengthen sales efforts in response to the downward trend in the market. In addition, the Kurita Group took aggressive steps to increase its presence in the markets of China, Taiwan, and Southeast Asia, where new capital investment is anticipated in the electronics industry. Overseas sales of the core product for the electronics industry, ultrapure water production systems, grew. However, domestic sales of ultrapure water production systems dropped substantially because poor business conditions forced customers to abandon the business, stop operations, and amalgamate factories.

In the market for water treatment facilities for general industry, sales of water treatment facilities to the materials and electric power generation industries and of water production systems to the pharmaceutical industry increased. Conversely, sales of water treatment facilities to the food product industry declined. Soil

remediation revenues declined, although sales grew thanks to the development of a new market related to real estate transactions and to the introduction of new technology. Revenues from maintenance and other services dropped substantially because of the decline in operating rates among the core customer group of electronics companies. Revenues from chemical cleaning also decreased slightly.

In the environmental facilities field, Kurita faced a difficult market for sludge recycle facilities because of a contraction in the market size resulting from the increased emphasis on garbage in the government's supplemental budget and due to increased competition. Nevertheless, overall orders increased thanks to expanded orders for renewal of human waste treatment facilities and for large-scale improvements of existing facilities; sales, however, declined. Though orders of sewage treatment facilities decreased significantly because of capital investment restraint by the public sector and intensified competition, sales increased. Revenues from maintenance and other services also declined under the impact of budget cuts by regional government bodies. Total orders for water treatment facilities during the fiscal year amounted to ¥93,538 million, dropping ¥14,868 million, or 13.7%.

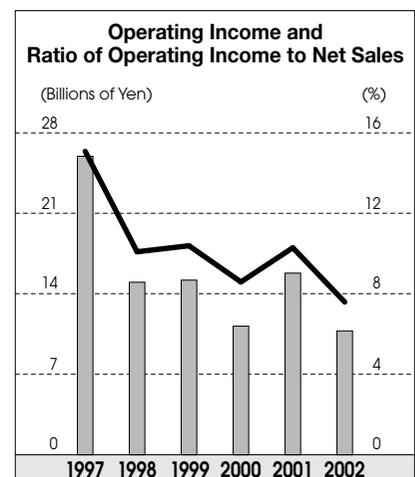
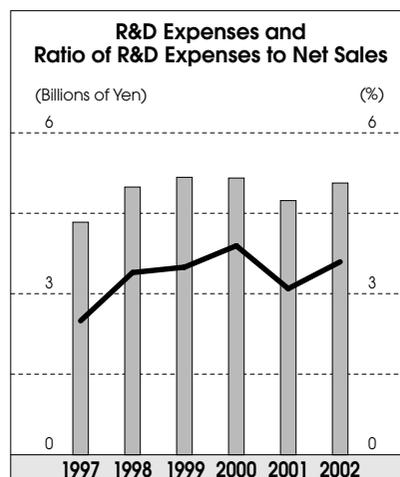
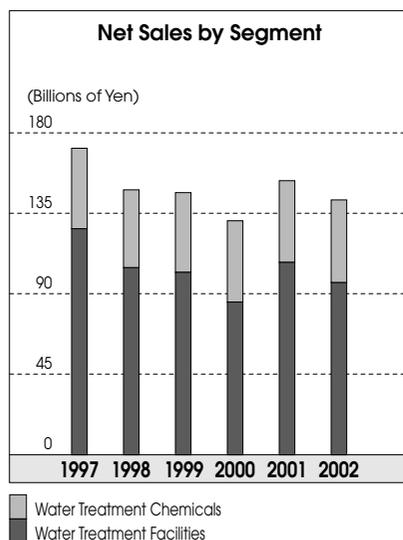
#### COSTS, EXPENSES, AND OPERATING INCOME

Cost of sales amounted to ¥99,039 billion, declining ¥6,548 million, or 6.2%, from the previous fiscal year, falling slightly less than the 7.0% contraction in net sales. The cost of sales ratio increased 0.6 percentage points, to 69.4%, from 68.8% in the preceding fiscal year. The increase in the cost of sales ratio despite the Group's efforts to reduce overall costs, including installment expenses, was

principally due to a relative rise resulting from declines in product prices and to the increased burden of fixed expenses produced by lower net sales. Consequently, gross profit decreased, ¥4,208 million, or 8.8%, to ¥43,639 million.

SG&A expenses advanced slightly, rising ¥818 million, or 2.6%, to ¥32,848 million. Although the Group did reduce SG&A expenses (excluding R&D expenses) by ¥494 million, a ¥984 million increase in additional expenses related to employees' retirement benefits and an increase of ¥328 million in R&D expenses, principally for the water treatment chemicals business, resulted in an overall rise. Subsequently, SG&A expenses increased ¥328 million, or 6.9%, to ¥5,071 million, and SG&A expenses as a percentage of net sales rose 2.1 percentage points, to 23.0%, from 20.9%. R&D expenses in SG&A expenses as a percentage of net sales rose 0.5 percentage points, to 3.6%, from 3.1% a year earlier.

Consequently, operating income decreased ¥5,027 million, or 31.8%, to ¥10,790 million. Operating income as a percentage of net sales fell 2.7 percentage points, to 7.6%, from 10.3%. By segment, although water treatment chemicals sales increased 1.2%, operating income fell ¥379 million, or 5.7%, to ¥6,244 million, primarily because of price declines related to heightened competition. The operating income ratio declined 1.0 percentage point, to 13.5%, from 14.5%. In the core water treatment facilities business, the previously mentioned slump in sales and lower prices resulted in a ¥4,658 million, or 50.7%, drop in operating income to ¥4,537 million, accounting for 92.7% of the overall decline in operating income. The operating income ratio fell 3.8 percentage points, to 4.7%, from 8.5%.



**OTHER INCOME (EXPENSES) AND NET INCOME**

Other expenses, net, expanded ¥580 million, to ¥1,670 million. This increase can be attributed to a variety of negative factors, while positive factors, such as financial income, net, changed little. Among negative factors, loss on write-down of investment securities related to the application of depletion accounting increased ¥1,482 million, to ¥1,986 million. In addition, equity in earnings of unconsolidated subsidiaries and affiliates dropped ¥349 million, to ¥198 million. Among positive factors, there was a ¥932 million gain on sale of an affiliated company's stock and other, net, improved ¥323 million.

As a result of the preceding factors, income before income taxes amounted to ¥9,121 million, down ¥5,606 million, or 38.1% from the previous fiscal year. Net income was ¥5,670 million, declining ¥2,696 million, or 32.2%, year on year.

The effective tax rate after application of tax effect accounting fell 5.8 percentage points, to 37.3%, from 43.1%. Net income per share was ¥42.85, dropping ¥20.37 from ¥63.22 in the previous fiscal year. Cash dividends declared by the parent company were ¥16.00 per share.

**FINANCIAL POSITION**

**◆ Assets**

Total assets at fiscal year-end contracted ¥11,030 million, or 6.0%, to ¥172,145 million. The decline can mainly be attributed to a decrease in current assets because of the drop in sales.

By type of asset, total current assets fell ¥11,773 million, to ¥103,490 million. The main factor contributing to this decline was a ¥11,924 million decrease in notes and accounts receivable,

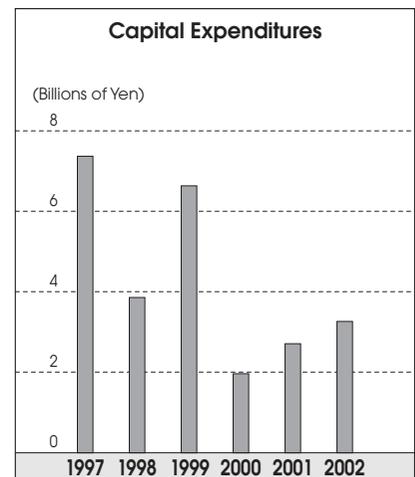
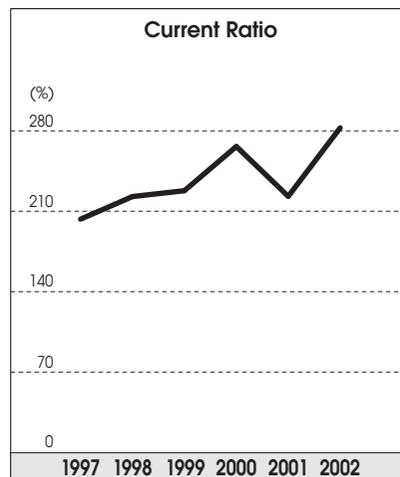
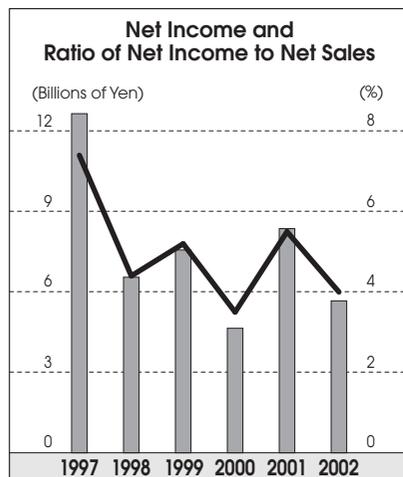
trade, because of increased recovery of receivables from the previous fiscal year. In addition, inventories dropped ¥2,483 million because of the completion of construction and reduced orders, and marketable securities fell ¥2,128 million because of sales. On the other hand, cash on hand and in banks increased ¥4,974 million because of increased net cash provided by operating activities and reflecting the contraction in assets.

Investments and long-term receivables amounted to ¥29,947 million, as the decline in this category was held to ¥725 million. Looking at individual items, as mentioned previously, investment in securities decreased ¥4,402 million because of valuation losses, sales, and redemptions. Long-term loans to unconsolidated subsidiaries rose ¥2,365 million based on long-term loans to a new subsidiary. Deferred tax assets—non-current expanded ¥1,690 million.

Property, plant and equipment, net, edged up ¥308 million, to ¥36,353 million. During the fiscal year, capital expenditures totaling ¥3,268 million were made primarily in the water treatment facilities business. However, because capital expenditures were kept within the scope of depreciation and amortization, property, plant and equipment, net, remained approximately the same.

**◆ Liabilities and Stockholders' Equity**

Total liabilities contracted ¥14,447 million, or 22.8%, to ¥48,997 million. Of this amount, current liabilities were mainly responsible for the overall decrease, declining ¥15,040 million, to ¥36,585 million. This drop can mainly be attributed to the ¥9,705 million decline in payment of notes and accounts payable, trade, because of payments to reduce the high level from the previous fiscal year



and because of lower inventories. Income taxes payable sunk ¥5,321 million because of a decline in earnings after the payment of interim income taxes based on a higher expected level. Long-term liabilities edged up ¥593 million, to ¥12,411 million. This increase principally resulted from an increase in accrued employees' retirement benefits because of the addition to reserves. Kurita's total short- and long-term interest-bearing debt was an extremely low ¥217 million. Return on total assets dropped 1.5 percentage points, to 3.2%, from 4.8%, due to a deterioration in return on sales (ROS) and asset turnover for the reasons previously noted. ROS fell to 4.0%, from 5.5%; and asset turnover declined to 0.803 times, from 0.881 times.

Total shareholders' equity increased ¥3,381 million, or 2.8%, to ¥122,590 million. Although net income declined, the shareholders' equity ratio rose 6.1 percentage points, to 71.2%, from 65.1%, improving further in tandem with the contraction in total assets and liabilities. The ¥3,360 million increase in retained earnings was mainly responsible for the improvement in the equity ratio.

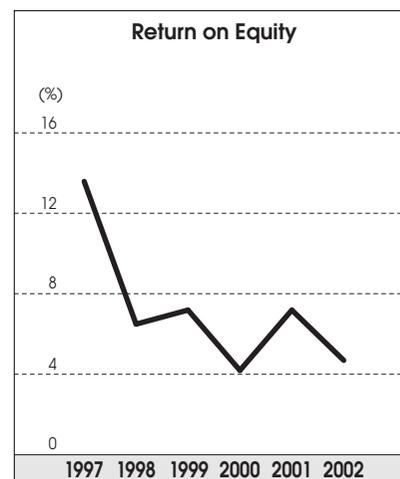
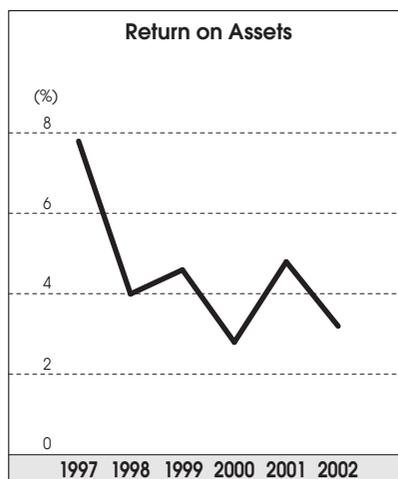
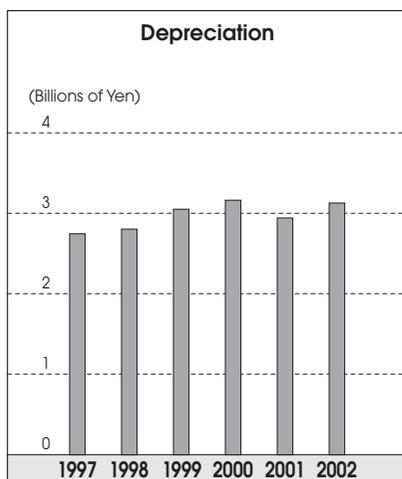
#### CASH FLOWS

Cash and cash equivalents (hereafter referred to as cash) at the end of the fiscal period amounted to ¥32,980 million, increasing ¥1,411 million from the previous fiscal year-end. This increase can mainly be attributed to an improvement in the balance of trade receivables and payables despite the decline in sales. The amount of cash represented approximately 2.8 months of average monthly sales of ¥11,890 million, representing adequate liquidity for normal business operations.

Net cash provided by operating activities increased ¥3,373 million from the previous fiscal year, to ¥8,713 million. Cash inflow, consisting mainly of income before income taxes adjusted for depreciation and amortization and other noncash items and income taxes paid, decreased. On the other hand, cash outflow, mainly from operating receivables, liabilities, and other changes in assets and liabilities, produced a cash inflow from an increase in the recovery of receivables and a decrease in inventories that exceeded the increase in cash outflows from the decrease in payables.

Net cash used in investing activities amounted to ¥5,334 million, up ¥584 million from the previous fiscal year. Although payments for the purchase of and proceeds from the sale of marketable securities and investment securities resulted in a ¥3,666 million increase in cash inflows, to ¥1,430 million, long-term loans to a new subsidiary, other payments, an increase in time deposits, and others, net contributed to a ¥4,250 million increase in cash outflows, to ¥6,764 million.

Net cash used in financing activities amounted to ¥2,169 million, declining by ¥202 million from the previous fiscal year. This result can be attributed to a ¥198 million decline in short-term debt, net. Cash dividends paid amounted to ¥2,117 million, the same as in the previous fiscal year.



# Consolidated Balance Sheets

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
At March 31, 2001 and 2002

Thousands of  
U.S. Dollars  
(Note 1)

Assets	Millions of Yen		2002
	2001	2002	
<b>Current assets:</b>			
Cash on hand and in banks (Note 13) .....	¥ 28,434	¥ 33,408	\$ 251,188
Notes and accounts receivable, trade (Note 10) .....	67,397	55,473	417,090
Allowance for doubtful accounts .....	(199)	(185)	(1,391)
Marketable securities (Note 5-(1)) .....	6,768	4,640	34,887
Inventories (Note 14) .....	10,185	7,702	57,910
Deferred tax assets—current (Note 16) .....	1,729	1,503	11,301
Other current assets .....	946	945	7,105
Total current assets .....	115,263	103,490	778,120
<b>Investments and long-term receivables:</b>			
Investments in securities (Note 5-(1)) .....	22,721	18,319	137,737
Investments in unconsolidated subsidiaries and affiliates .....	3,137	2,547	19,150
Deferred tax assets—non-current (Note 16) .....	2,167	3,857	29,000
Long-term loans to unconsolidated subsidiaries .....	70	2,435	18,308
Other investments .....	2,663	2,867	21,556
Allowance for doubtful accounts .....	(89)	(80)	(602)
Total investments and long-term receivables .....	30,672	29,947	225,165
<b>Property, plant and equipment, at cost (Note 5-(2)):</b>			
Land .....	14,808	15,044	113,113
Buildings and structures .....	26,983	28,168	211,789
Machinery and equipment .....	11,393	11,806	88,767
Construction in progress .....	341	198	1,489
Other facilities .....	9,831	10,986	82,602
Total .....	63,356	66,203	497,767
Accumulated depreciation .....	(27,310)	(29,850)	(224,436)
Property, plant and equipment, net .....	36,045	36,353	273,331
<b>Other assets</b> .....	1,194	2,354	17,699
Total assets .....	¥183,175	¥172,145	\$1,294,323

The accompanying notes are an integral part of these statements.

Liabilities and shareholders' equity	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
<b>Current liabilities:</b>			
Short-term borrowings (Note 15) .....	¥ 66	¥ 132	\$ 992
Current portion of long-term borrowings (Note 15) .....	31	7	53
Notes and accounts payable, trade (Note 10) .....	32,616	22,911	172,263
Income taxes payable .....	5,763	442	3,323
Advances received .....	2,941	1,621	12,188
Accrued employees' bonuses (Note 5-(3)) .....	2,913	2,927	22,008
Allowance for product warranty .....	956	923	6,940
Other current liabilities .....	6,337	7,617	57,271
Total current liabilities .....	51,625	36,585	275,075
<b>Long-term liabilities:</b>			
Long-term borrowings (Note 15) .....	97	78	586
Accrued employees' retirement benefits (Notes 5-(3), 17) .....	10,031	10,873	81,752
Accrued retirement benefits for directors and corporate auditors .....	961	667	5,015
Other long-term liabilities .....	727	792	5,955
Total long-term liabilities .....	11,818	12,411	93,316
Total liabilities .....	63,444	48,997	368,398
<b>Minority interests in consolidated subsidiaries</b> .....	522	558	4,195
Contingent liabilities (Note 20)			
<b>Shareholders' equity:</b>			
Common stock, 2002—no par value, 2001—¥50 par value			
Authorized: 235,840,000 shares			
Issued: 2002—132,800,256 shares .....	13,450	13,450	101,128
2001—132,800,256 shares			
Capital surplus .....	11,398	11,398	85,699
Unrealized gain on revaluation of land (Note 11) .....	—	19	143
Retained earnings .....	95,444	98,804	742,887
Unrealized holding gains on securities .....	493	162	1,218
Foreign currency translation adjustment .....	(775)	(418)	(3,143)
	120,010	123,417	927,947
Treasury stock, at cost:			
2002—477,000 shares, 2001—460,000 shares .....	(801)	(827)	(6,218)
Total shareholders' equity .....	119,209	122,590	721,729
Total liabilities, minority interests and shareholders' equity .....	¥183,175	¥172,145	\$1,294,323

# Consolidated Statements of Income

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
<b>Net sales</b> .....	¥153,435	¥142,678	\$1,072,767
<b>Cost of sales</b> .....	105,587	99,039	744,654
Gross profit.....	47,847	43,639	328,113
<b>Selling, general and administrative expenses</b> .....	32,030	32,848	246,977
Operating income .....	15,817	10,790	81,128
<b>Other income (expenses):</b>			
Interest and dividend income .....	501	453	3,406
Interest expenses .....	(38)	(35)	(263)
Gain on sale of an affiliated company's stock .....	—	932	7,008
Gain on (sales of) investment securities .....	449	—	—
Equity in earnings of unconsolidated subsidiaries and affiliates .....	547	198	1,489
Loss on disposal of property, plant and equipment .....	(223)	(141)	(1,060)
Loss on sales of investment securities .....	(407)	—	—
Loss on write-down of investment securities.....	(504)	(1,986)	(14,932)
Amortization of unrecognized effect of change in accounting for employees' retirement benefits .....	(1,162)	(1,162)	(8,737)
Other, net.....	(253)	70	526
	(1,090)	(1,670)	(12,556)
<b>Income before income taxes</b> .....	14,727	9,121	68,579
<b>Income taxes</b> (Note 16):			
Current taxes.....	8,058	4,630	34,812
Deferred taxes .....	(1,716)	(1,229)	(9,241)
	6,342	3,401	25,571
<b>Minority interests in earnings of consolidated subsidiaries</b> .....	19	49	368
<b>Net income</b> .....	¥ 8,366	¥ 5,670	\$ 42,632

	Yen		U.S. dollars (Note 1)
	2001	2002	2002
<b>Per share of common stock:</b>			
Net income.....	¥ 63.22	¥ 42.85	\$ 0.32
Cash dividends .....	16.00	16.00	0.12

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

Kurita Water Industries Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2001 and 2002

	In thousands Number of shares issued	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2001	2002	2002
<b>Common stock:</b>				
Beginning of the year.....	132,800	¥13,450	¥13,450	\$101,128
End of the year.....	132,800	13,450	13,450	101,128
<b>Capital surplus:</b>				
Beginning of the year.....		11,398	11,398	85,699
End of the year.....		11,398	11,398	85,699
<b>Retained earnings:</b>				
Beginning of the year.....		89,340	95,444	717,624
Net income for the year.....		8,366	5,670	42,632
Cash dividends paid.....		(2,117)	(2,117)	(15,917)
Bonuses to directors and corporate auditors .....		(145)	(164)	(1,233)
Other items.....		—	(27)	(203)
End of the year.....		¥95,444	¥98,804	\$742,887

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, 2001 and 2002

Thousands of  
U.S. Dollars  
(Note 1)

	Millions of Yen		2002
	2001	2002	
<b>I. Cash flows from operating activities:</b>			
Income before income taxes.....	¥14,727	¥ 9,121	\$ 68,579
Depreciation and amortization.....	3,196	3,409	26,632
Increase (decrease) in allowance for employees' retirement benefits .....	3,596	828	6,226
Increase (decrease) in other allowances and accruals, net.....	653	(365)	(2,744)
Interest and dividends income.....	(502)	(454)	(3,414)
Interest expenses .....	38	35	263
Decrease (increase) in trade receivables .....	(16,742)	10,880	81,805
Decrease (increase) in inventories.....	(3)	2,537	19,075
Increase (decrease) in trade payables.....	5,619	(8,854)	(66,571)
Payments of bonuses to directors and corporate auditors.....	(146)	(165)	(1,241)
Other, net.....	(634)	698	5,248
	9,805	17,669	132,850
Interest and dividends received .....	453	506	3,805
Interest paid.....	(38)	(35)	(263)
Income taxes paid .....	(5,085)	(9,490)	(71,353)
Other, net.....	206	64	481
Net cash provided by operating activities .....	5,340	8,713	65,511
<b>II. Cash flows from investing activities:</b>			
Decrease (increase) in time deposits, net.....	208	(507)	(3,812)
Payments for purchase of property, plant and equipment.....	(2,596)	(2,747)	(20,654)
Proceeds from sales of property, plant and equipment .....	116	93	699
Payments for purchase of marketable securities and investment securities .....	(7,276)	(6,218)	(46,752)
Proceeds from sales of marketable securities and investment securities.....	5,040	7,648	57,504
Long-term loans to unconsolidated subsidiaries .....	(51)	(2,461)	(18,504)
Other payments .....	(878)	(1,826)	(13,729)
Other revenues .....	686	684	5,143
Net cash used in investing activities.....	(4,750)	(5,334)	(40,105)
<b>III. Cash flows from financing activities:</b>			
Decrease in short-term debt, net.....	(140)	58	436
Proceeds from long-term debt.....	319	1	8
Repayments of long-term debt .....	(407)	(45)	(338)
Cash dividends paid .....	(2,117)	(2,117)	(15,917)
Other.....	(26)	(66)	(496)
Net cash used in financing activities .....	(2,371)	(2,169)	(16,308)
<b>IV. Effect of exchange rate changes on cash and cash equivalents .....</b>	58	145	1,090
<b>V. Net increase (decrease) in cash and cash equivalents.....</b>	(1,723)	1,354	10,180
<b>VI. Cash and cash equivalents at beginning of year .....</b>	33,240	31,569	237,361
<b>VII. Cash and cash equivalents of newly consolidated subsidiaries.....</b>	52	56	421
<b>VIII. Cash and cash equivalents at end of year .....</b>	¥31,569	¥32,980	\$247,970

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 subsidiaries in Japan maintain their books of account and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, while its foreign subsidiaries maintain their books of account and prepare their financial statements in conformity with those of the countries of their domicile.

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

Certain reclassifications of accounts and modifications have been made in the accompanying financial statements to facilitate understanding by readers outside Japan. These reclassifications and modifications have no effect on net income or shareholders' equity.

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

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made for 2002, as a matter of arithmetical computation only, at the rate of ¥133 to US\$1, the prevailing rate on the Tokyo foreign exchange market on March 30, 2002. 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. 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.

### (1) Number of consolidated subsidiaries: 27

Name of principal consolidated subsidiaries: Kurita Chemicals Ltd., Kurita Kasei Co., Ltd., Kurita Engineering Co., Ltd., and Kuritaz Co., Ltd.

### (2) Name of principal non-consolidated subsidiary: Kurita Sogo Service Co., Ltd.

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

## 3. Application of equity method

### (1) Number of companies to which the equity method is applied: 5

(2) Affiliates to which no equity method has been applied had no material effect on consolidated net income and consolidated retained earnings in the aggregate. Hence, they have not been included in the application scope of the equity method.

## 4. Business terms of consolidated subsidiaries

The fiscal year of Kurita (Singapore) Pte. Ltd. and eleven other overseas consolidated subsidiaries ended December 31, 2001. The accompanying consolidated financial statements include the accounts of these subsidiaries as of December 31, 2001 and for the year then ended.

## 5. Significant accounting policies

### (1) Valuation basis and method

#### Marketable securities

Held-to-maturity debt securities: Amortized cost (straight-line amortization)

#### Other securities

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

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

#### Inventories

Principally cost basis by the moving average method (except for work in process whose costs are determined by the specific identification method)

### (2) Depreciation method of property, plant and equipment

Declining-balance method for the Company and domestic consolidated subsidiaries (except for buildings, not including auxiliary facilities, acquired on and after April 1, 1999, for which the straight-line method is applied) and straight-line method for overseas consolidated subsidiaries

### (3) Allowances and accruals

#### Accrued employees' bonus:

The Company and its domestic consolidated subsidiaries provide for an amount equivalent to the anticipated bonus payments to employees.

Accrued employees' retirement benefits:

Accrued employees' retirement benefits are recorded based on the estimated projected benefit obligation and fair value of the pension assets at the balance sheet date. Unrecognized net obligation at transition in the amount of ¥3,480 million is recognized over three years. Actuarial gains and losses are amortized over one to two years.

#### (4) Leases

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

#### (5) Consumption tax

Consumption taxes are accounted for separately from transaction prices.

### 6. Revaluation of assets and liabilities of the consolidated subsidiaries in consolidation process

Full fair value method

### 7. Amortization of consolidated differences

Differences between acquisition cost and the underlying net equity at the time of acquisition are amortized over three years, or charged or credited to income at the date of acquisition, if minor.

### 8. Appropriation of retained earnings

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

### 9. Scope of cash and cash equivalents

Cash and cash equivalents in the consolidated statement 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.

### 10. Notes payable and receivable

Trade notes receivable of ¥1,027 million and ¥1,788 million and trade notes payable of ¥302 million and ¥4,905 million, whose maturity dates fell on March 31, 2001 and 2002, respectively, a non-working day for financial institutions in Japan, have been treated as if they had been settled on that date.

### 11. Unrealized gain 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 gain on revaluation of land" in the shareholders' equity account, after deduction of tax equivalent from the net amount of revaluation gain and loss. The tax equivalent is stated as deferred tax liabilities in long-term liabilities.

#### Revaluation method:

The revaluation of land was computed in accordance with Article Two, Item One of the Land Revaluation Law Enforcement Order (Cabinet Order No. 119, issued on March 31, 1998). The computation is included in appropriate adjustment for land price of public notice.

Revaluation date: March 31, 2002

Carrying value before revaluation: ¥13,540 million

Carrying value after revaluation: ¥13,574 million

### 12. Research and development expenses

Research and development expenses included in selling, general and administrative expenses:

	Millions of yen	
	2001	2002
	¥4,743	¥5,071

### 13. Reconciliation between cash and cash equivalents

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

	Millions of yen	
	2001	2002
Cash and bank deposits .....	¥28,434	¥33,408
Time deposits having original maturity of more than three months .....	(368)	(428)
Cash equivalents included in marketable securities .....	3,503	—
Cash and cash equivalents .....	¥31,569	¥32,980

### 14. Inventories

Inventories at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Finished products .....	¥ 1,265	¥1,276	\$ 9,594
Raw materials .....	1,575	1,606	12,075
Work in process .....	7,345	4,820	36,241
	¥10,185	¥7,702	\$57,910

### 15. Short-term borrowings and long-term debt

Short-term borrowings are unsecured and represented by short-term notes. The weighted average interest rates for the years ended March 31, 2001 and 2002 were approximately 7.36% and 5.15%, respectively.

Long-term debt at March 2001 and 2002 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Loan from banks at interest rates from 5.31% to 5.78%.....	¥128	¥85	\$639
Less current portion .....	(31)	(7)	(53)
	¥ 97	¥78	\$586

### 16. Income taxes

After application of tax effect accounting for financial statement purposes for the year ended March 31, 2002, the breakdown of the principal items causing a difference between the Japanese statutory tax rate and the company's effective tax rate was as follows:

Statutory tax rate .....	42.0%
(adjustments)	
Entertainment expenses and other expenses not deductible .....	2.1
Dividends received not taxable.....	(9.0)
Per capita equalization and inhabitants' taxes .....	1.0
Amortization of consolidated differences.....	0.4
Other .....	0.8
Effective tax rate after application of tax effect accounting.....	37.3

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
<b>Deferred tax assets:</b>			
Excess provision for accrued employees' retirement benefits .....	¥2,219	¥2,924	\$21,985
Excess provision for accrued bonuses to employees.....	633	798	6,000
Accrued enterprise taxes not deductible.....	499	—	—
Accrued retirement benefits for directors and corporate auditors .....	390	274	2,060
Loss from write-down of other securities.....	296	362	2,722
Excess provision of allowance for product warranty .....	200	258	1,940
Loss from write-down of marketable securities.....	193	855	6,429
Loss from planned designing expenses.....	—	219	1,647
Unrealized gain on sales of property, plant and equipment .....	185	185	1,391
Excess provision for allowance for doubtful accounts .....	—	179	1,346
Other.....	1,025	932	7,008
Total deferred tax assets .....	5,644	6,993	52,579
<b>Deferred tax liabilities:</b>			
Reserve for reduction entry of cost of fixed assets.....	(940)	(928)	(6,977)
Gain on valuation of other securities.....	(654)	(486)	(3,654)
Projected income taxes pertaining to retained earnings of overseas consolidated subsidiaries .....	(152)	(216)	(1,624)
Total deferred tax liabilities .....	(1,747)	(1,631)	(12,263)
Deferred tax assets, net .....	¥3,896	¥5,361	\$40,308

**17. Retirement benefits and pension plans**

1. The company and fourteen domestic consolidated subsidiaries provide lump-sum retirement benefits and qualified pension plans as defined benefit pension plans; moreover, the company and five domestic consolidated subsidiaries have fully introduced qualified pension plans.

## 2. Benefit obligation:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Retirement benefit obligation .....	¥(21,015)	¥(22,160)	\$(166,617)
Fair value of pension plan assets.....	8,609	10,081	75,797
Unfunded retirement benefit obligation.....	(12,406)	(12,079)	(90,820)
Unrecognized net obligation at transition arising from new accounting standards.....	2,318	1,153	8,669
Unrecognized actuarial gain.....	56	53	398
Unrecognized prior service cost .....	—	—	—
Net retirement benefit obligation .....	(10,031)	(10,873)	(81,752)
Advance payment for pension cost .....	—	—	—
Accrued employees' retirement benefits.....	¥(10,031)	¥(10,873)	\$181,752

## 3. Benefit cost:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Service cost.....	¥1,049	¥1,175	\$ 8,835
Interest cost .....	564	577	4,338
Expected return on plan assets .....	(191)	(65)	(489)
Amortization of obligation at transition arising from new accounting standards.....	1,162	1,162	8,737
Actuarial loss .....	457	1,331	10,008
Prior service cost.....	—	137	1,030
Extra additional retirement payments .....	35	31	233
Net periodic benefit cost.....	¥3,077	¥4,349	\$32,699

## 4. Assumptions to determine above obligation and cost:

	2001	2002
Periodic allocation of projected benefit obligation.....	Equal amount over each period	<b>Equal amount over each period</b>
Discount rate .....	3.0%	<b>2.5~3.0%</b>
Expected return rate on plan assets.....	2.5~4.0%	<b>0.0~1.0%</b>
Amortization period of net obligation at transition.....	three years	<b>three years</b>
Recognition period of actuarial loss.....	one~two years	<b>one~two years</b>

## 18. Leases

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

### 1) Lease assets (lessee)

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Acquisition costs .....	¥2,752	¥2,615	\$19,661
Accumulated depreciation .....	1,749	1,525	11,466
Net book value .....	¥1,003	¥1,089	\$ 8,187

### 2) Lease obligations (net book value)

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Due within one year or less .....	¥ 406	¥ 402	\$3,023
Due within more than one year .....	597	686	5,158
Total .....	¥1,003	¥1,089	\$8,188

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Lease payments .....	¥694	¥592	\$4,451
(Depreciation expenses) .....	(694)	(592)	(4,451)

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

### 2. Accrued lease payments relating to operating lease transactions

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Due within one year or less .....	¥ 49	¥ 61	\$ 459
Due within more than one year .....	66	75	564
	¥116	¥136	\$1,023

## 19. Segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2002 is outlined as follows:

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

Year ended March 31, 2001	Millions of yen				
	Chemicals division	Facilities division	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers.....	¥45,709	¥107,725	¥153,435	¥ —	¥153,435
2) Intersegment sales.....	312	131	444	(444)	—
Total.....	46,022	107,856	153,879	(444)	153,435
Operating costs and expenses.....	39,399	98,661	138,060	(442)	137,617
Operating income.....	¥6,623	¥9,195	¥15,819	¥(2)	¥15,817
II. Assets, depreciation and capital expenditures					
Assets.....	¥34,080	¥94,317	¥128,397	¥54,777	¥183,175
Depreciation and amortization.....	1,108	2,160	3,268	—	3,268
Capital expenditures.....	1,339	1,740	3,079	—	3,079

## 20. Contingent liabilities

Guarantees for employees' indebtedness from bank housing loans at March 31, 2001 and 2002 were as follows:

Millions of Yen		Thousands of U.S. Dollars
2001	2002	2002
¥197	¥126	\$947

## 21. Subsequent events

### (1) Appropriation of unappropriated retained earnings

The following appropriations of unappropriated retained earnings for the year ended March 31, 2002, were approved at the general meeting of shareholders of the Company held on June 27, 2002:

Millions of Yen	
Cash dividends.....	¥1,058
Bonuses to directors and corporate auditors.....	71

### (2) Setting of the upper limit for buyback of the Company's common stock

A resolution was passed at the parent company's general shareholders' meeting held on June 27, 2002, approving a buyback of the Company's common stock not to exceed 13,000 thousand shares and an acquisition cost of ¥20,000 million. The resolution remains valid until the end of the next general shareholders' meeting.

### (3) Change in the stock trading unit

In a Board of Directors' Meeting held on March 26, 2002, the parent company decided to change its stock trading unit from 1,000 to 100 shares to promote more active stock trading, particularly with a view to increasing the number of individual shareholders. The change will go into effect on July 1, 2002.

T A I Y O

TAIYO AUDIT CORPORATION

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To the Board of Directors of  
Kurita Water Industries Ltd.

We have examined the consolidated balance sheets of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2002 and 2001, the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen.

Our examinations were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2002 and 2001, and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Our examination also comprehended the translation of Japanese yen amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Taiyo Audit Corporation*

June 27, 2002

## Non-Consolidated Summary

### Non-Consolidated Balance Sheets, at March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
<b>Assets</b>			
Current assets.....	¥107,312	¥ 93,892	\$ 705,955
Property, plant and equipment .....	29,485	29,198	219,534
Intangible assets.....	838	2,025	15,226
Investments and other assets.....	31,750	32,030	240,827
	¥169,385	¥157,145	\$1,181,541
<b>Liabilities</b>			
Current liabilities .....	50,082	35,693	268,368
Long-term liabilities .....	10,059	10,412	78,286
	60,141	46,105	346,654
<b>Shareholders' equity</b>			
Common stock .....	13,451	13,451	101,135
Capital surplus and legal reserve.....	14,144	14,278	107,353
Retained earnings .....	81,950	83,969	631,346
Unrealized holding gains on other securities .....	500	169	1,271
Treasury stock, at cost.....	(801)	(827)	(6,218)
	109,244	111,039	834,880
Total liabilities and shareholders' equity .....	¥169,385	¥157,145	\$1,181,541

### Non-Consolidated Statements of Income, for the Years Ended March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
<b>Net sales</b> .....	¥129,698	¥117,518	\$883,594
<b>Cost of sales</b> .....	92,986	84,731	637,075
Gross profit.....	36,712	32,787	246,519
Selling, general and administrative expenses .....	24,699	25,532	191,970
<b>Operating income</b> .....	12,013	7,255	54,549
Non-operating income .....	2,259	3,181	23,917
Non-operating expenses.....	2,644	4,005	30,113
<b>Income before income taxes</b> .....	11,628	6,431	48,353
Corporate, inhabitants' and enterprise taxes.....	4,858	2,090	15,714
<b>Net income</b> .....	¥ 6,770	¥ 4,341	\$ 32,639

## Major Consolidated Subsidiaries and Affiliates

Company Name	Paid-in Capital (Millions)	Equity Ownership (%)	Business
<b>OVERSEAS SUBSIDIARIES</b>			
<b>North America • South America</b>			
<b>Kurita do Brasil Ltda.</b> Av. Eng. Eusebio Stevaux 1469, CEP 04696, Santo Amaro, São Paulo, Brazil Telephone: 55 (11) 5686-8388 Facsimile: 55 (11) 5686-6365	R\$1.6	100.0	Manufacture and Sales of Water Treatment Chemicals
<b>Kurita America Inc.</b> Suite 877, Prestonwood Tower, 5151 Belt Line Road, Dallas, TX 75240, U.S.A. Telephone: 1 (972) 889-8921 Facsimile: 1 (972) 889-8924	US\$3.0	100.0	Facility Operation
<b>Kurita de Mexico S.A. de C.V.</b> Calle #1 No. 191, Parque Industrial Jurica, Querétaro, C.P. 76100, Mexico Telephone: 52 (4422) 185911 Facsimile: 52 (4422) 181177	M.N. PES08.1	45.0	Manufacture and Sales of Water Treatment Chemicals
<b>Europe</b>			
<b>Kurita Europe GmbH</b> Industriepark Mackenstein, Industriering 43, D-41751 Viersen, Germany Telephone: 49 (2162) 95800 Facsimile: 49 (2162) 40159	DM4.5	80.0	Manufacture and Sales of Water Treatment Chemicals
<b>Kuritec Europe GmbH</b> Rebenring 11, D-84032 Altdorf, Germany Telephone: 49 (871) 684277 Facsimile: 49 (871) 35827	DM1.8	100.0	Facility Operation
<b>Asia</b>			
<b>Kurita (Singapore) Pte. Ltd.</b> 30 Joo Koon Rd., Singapore 628984 Telephone: 65 (6861) 2622 Facsimile: 65 (6861) 4768	S\$4.0	100.0	Manufacture and Sales of Water Treatment Chemicals and Water Treatment Facilities
<b>Kurita Water (Malaysia) Sdn. Bhd.</b> 21 Jalan Brp 1/3, Bukit Rahman Putra, 47000 Sungei Buloh, Selangor, Darul Ehsan, Malaysia Telephone: 60 (3) 6157-3166 Facsimile: 60 (3) 6157-2892	M\$0.3	100.0	Sales of Water Treatment Chemicals and Water Treatment Facilities
<b>Peremba-Kurita Sdn. Bhd.</b> 15A Jalan Brp 1/3, Bukit Rahman Putra, 47000 Sungei Buloh, Selangor, Darul Ehsan, Malaysia Telephone: 60 (3) 6157-0551 Facsimile: 60 (3) 6157-0562	M\$1.3	30.0	Sales of Water Treatment Chemicals
<b>Kurita Water Industries (Dalian) Co., Ltd.</b> 33-27, Dalian Industrial Park, Dalian Economic & Technical Development Zone, Liaoning, People's Republic of China Telephone: 86 (411) 761-3520 Facsimile: 86 (411) 761-3435	¥550	80.0	Manufacture and Sales of Water Treatment Chemicals
<b>Kurita (Taiwan) Co., Ltd.</b> 10th Fl.-6, No. 150, Fu Hsing North Rd., Taipei, Taiwan Telephone: 886 (2) 2717-4464 Facsimile: 886 (2) 2719-0292	NT\$20	95.0	Manufacture and Sales of Water Treatment Chemicals
<b>P.T. Kurita Indonesia</b> Jl. Jababeka XIII Kav. V-6, Kawasan Industri Jababeka, Cikarang-Bekasi 17530, Jawa Barat, Indonesia Telephone: 62 (21) 893-6245 Facsimile: 62 (21) 893-5158	US\$2.0	90.0	Manufacture and Sales of Water Treatment Chemicals
<b>Kurita-GK Chemical Co., Ltd.</b> 460 Moo 17, Bangphli Industrial Estate, Bangsaothong, Bangsaothong Subdistrict, Samutprakarn 10540, Thailand Telephone: 66 (2) 315-2300 Facsimile: 66 (2) 315-2301	BAHT56	60.0	Manufacture and Sales of Water Treatment Chemicals
<b>HANSU Ltd.</b> 741-5 Wonsi-dong, Ausan, Kyonggi Province, Republic of Korea Telephone: 82 (31) 492-7800 Facsimile: 82 (31) 491-7643	W2,500	33.2	Manufacture and Sales of Water Treatment Chemicals
<b>HANSU Technical Service Ltd.</b> C-802 Techno-park, Yatap-dong Bundang-ku, Sungnam-city, Kyunggi-do, Republic of Korea Telephone: 82 (2) 421-3301 Facsimile: 82 (2) 421-3304	W568	59.4	Sales of Water Treatment Facilities
<b>Kuritec (Shanghai) Co., Ltd.</b> Room 2203, No. 1289 Pudong South Road, Pudong New District, Shanghai, People's Republic of China Telephone: 86 (21) 5887-4337 Facsimile: 86 (21) 5887-4339	¥30	100.0	Maintenance Services and Sales of Small-sized Water Treatment Facilities
<b>Kuritec Singapore Pte. Ltd.</b> 10 Tampines Industrial Avenue 3, Singapore 528798 c/o AFPD Pte., Ltd. Telephone: 65 (6787) 6186 Facsimile: 65 (6424) 9100	S\$1.49	100.0	Sales of Ultrapure Water for Specified Customers
<b>DOMESTIC CONSOLIDATED SUBSIDIARIES</b>			
<b>Kurita Kasei Co., Ltd.</b>	¥450	100.0	Manufacture of Water Treatment Chemicals
<b>Kurita Engineering Co., Ltd.</b>	¥160	100.0	Chemical Cleaning and Precision Cleaning
<b>Kuritz Co., Ltd.</b>	¥220	100.0	Facility Operation
<b>Kurita Creation Co., Ltd.</b>	¥160	100.0	Manufacture and Sales of Purifiers
<b>Kurita Kako Corp.</b>	¥ 80	100.0	Manufacture and Sales of Water Treatment Facilities
<b>Land Solution Inc.</b>	¥450	51.0	Real Estate Transaction and Soil Remediation Consulting

(As of June 30, 2002)

## Board of Directors and Corporate Auditors

(As of June 30, 2002)

### President

Takahide Santo

### Executive Senior Managing Director

Hiroshi Fujino

### Managing Directors

Tohru Kawamura

Tohru Ishizaka

Toyoaki Inoue

Sumio Miyake

Takuo Ishida

### Directors

Eiki Uno

Hiroshi Nakamura

Katsuhiko Inoue

Hiroshi Saito

Toshiyuki Hisamatsu

Kazuyoshi Yoshitomi

Tohru Kawachi

Yoshio Akamatsu

### Corporate Auditors

Mitsunobu Hattori

Masahiko Kurita

Hisashi Nemoto

Takeo Yanagihara

## Corporate Data

(As of March 31, 2002)

### COMPANY NAME

Kurita Water Industries Ltd.

### ADDRESS

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

### DATE OF ESTABLISHMENT

July 13, 1949

### PAID-IN CAPITAL

¥13,450,751,434

### NUMBER OF EMPLOYEES

3,404 (Consolidated)

### DOMESTIC OFFICES

---

#### Head Office:

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

#### Osaka Office:

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

#### Corporate Research & Development Center:

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

#### Business & Technology

#### Development Center:

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

#### Branches:

Sapporo, Sendai, Nagoya, Hiroshima,  
Takamatsu, Fukuoka

### OVERSEAS OFFICES

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#### Singapore Branch:

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

#### Taiwan Representative Office:

4th Fl., 350, Section 2, Kuang-Fu Rd.,  
Hsinchu, Taiwan  
Telephone: 886 (3) 573-6251

## Investor Information

(As of March 31, 2002)

### STOCK EXCHANGE LISTINGS

Tokyo, Osaka

### COMMON STOCK

Authorized: 235,840,000 shares

Issued: 132,800,256 shares

(Stock Trading Unit changed from 1,000 shares to 100 shares, effective July 1, 2002)

### NUMBER OF SHAREHOLDERS

8,363

### INDEPENDENT AUDITOR

#### Taiyo Audit Corporation

8F, Akasaka Oji Bldg., 1-22, Akasaka 8-chome, Minato-ku, Tokyo, Japan 107-0052

### TRANSFER AGENT

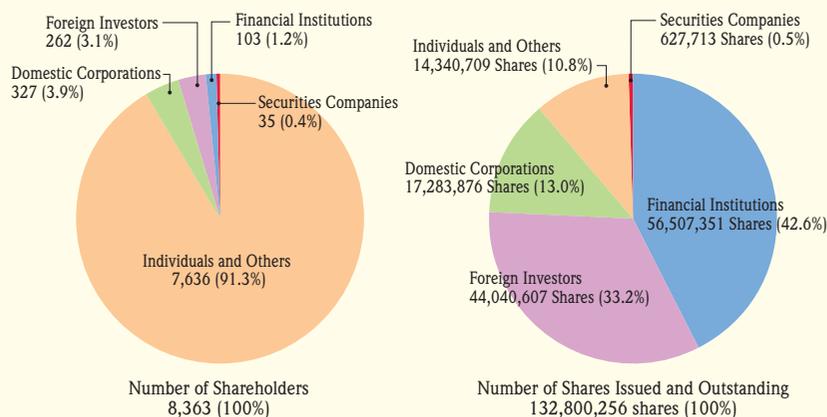
#### The Chuo Mitsui Trust and Banking Co., Ltd.

33-1, Shiba 3-chome, Minato-ku, Tokyo, Japan 105-8574

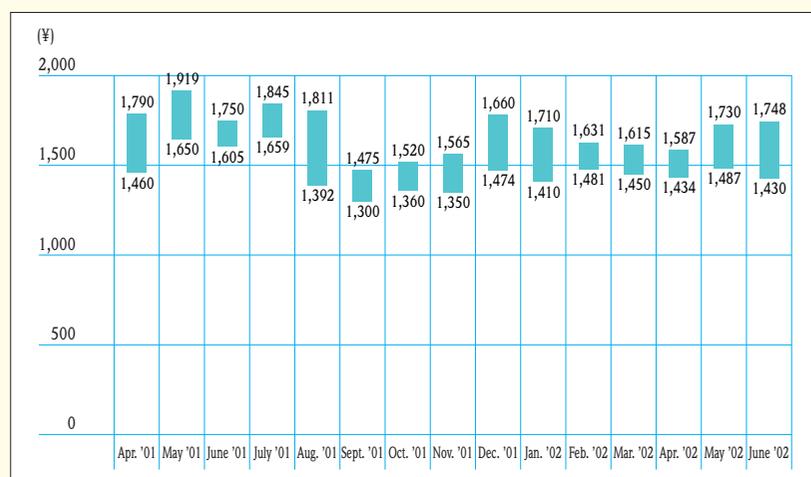
### MAIN SHAREHOLDERS

	Shareholdings	Percentage of total shares issued
Itochu Corporation	10,268,000	7.7%
Nippon Life Insurance Company	7,518,883	5.7%
The Chase Manhattan Bank N.A. London	7,370,264	5.5%
UFJ Bank Limited	5,872,131	4.4%
The Asahi Bank, Ltd.	5,668,623	4.3%
The Tokyo Marine and Fire Insurance Co., Ltd.	4,685,526	3.5%
The Chuo Mitsui Trust and Banking Co., Ltd.	4,677,000	3.5%
Sumitomo Mitsui Banking Corporation	4,672,701	3.5%
The Mitsubishi Trust and Banking Corporation (Trust account)	3,557,000	2.7%
Japan Trustee Services Bank, Ltd. (Trust account)	3,373,000	2.5%

### DISTRIBUTION OF SHAREHOLDERS AND SHARES



### STOCK PRICE RANGE





**KURITA WATER INDUSTRIES LTD.**

ADDRESS: 4-7, Nishi-Shinjuku 3-chome,  
Shinjuku-ku, Tokyo 160-8383, Japan  
TELEPHONE: (03) 3347-3111  
HOME PAGE: <http://www.kurita.co.jp>



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