

ANNUAL REPORT 2003

Year Ended March 31, 2003



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

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



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

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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.

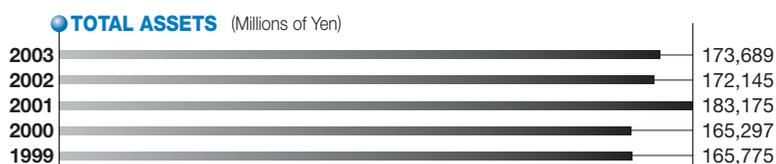
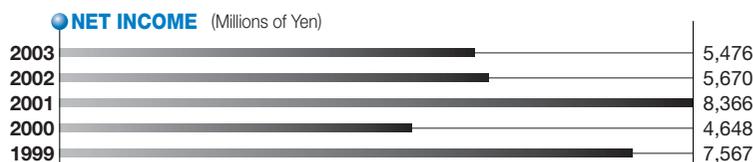
Moreover, many factors affecting business results are subject to uncertainty and are therefore a source of risk. These factors include, but are not limited to, the following: macroeconomic changes, such as changes in capital markets and large-scale shifts in demand, especially insofar as these influence 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
	2003	2002	2003
For the year:			
Net sales	¥141,628	¥142,678	\$1,180,233
Operating income	12,307	10,790	102,558
Income before income taxes.....	10,263	9,121	85,525
Net income	5,476	5,670	45,633
At year-end:			
Total assets	¥173,689	¥172,145	\$1,447,408
Total shareholders' equity	120,969	122,590	1,008,075
Per share of common stock (Yen and U.S. dollars):			
Net income.....	¥40.7	¥42.9	\$0.34
Cash dividends applicable to the year (parent company)	16.0	16.0	0.13

Note: The U.S. dollar amounts are given solely for convenience at the rate of ¥120 to US\$1.00, the approximate exchange rate prevailing on March 31, 2003.



TO OUR SHAREHOLDERS

Hiroshi Fujino brings a wealth of experience to his new position of president, in the operations and the management of the Company. Since joining the Company in 1964, he has worked in Kurita's core business areas, water treatment chemicals and water treatment facilities. He became a director in 1993 and was promoted to managing director in 1997. In June 1999, he was made an executive senior managing director.



● Hiroshi Fujino, President

NEW PRESIDENT

On June 27, 2003, it was approved by the board of directors after the annual general shareholders' meeting that President Takahide Santo would become the Company's chairman and that I, Hiroshi Fujino, would succeed him as the president.

As Company president, I am committed to carrying on Kurita's water and environmental management operations and the business principles established by past presidents of the Company. I pledge my energies to living up to the trust placed in Kurita by our shareholders, by our customers, and by society as a whole.

So that we can continue to ensure the value and the reliability with which we have impressed our customers and society to date, our most urgent order of business is to realize our vision of the Company as an advanced water and environmental management company. In April 2003, we quickened our pace toward that goal when we implemented the three-year medium-term management plan Powerful Advance 2005 (PA-5). My job, as I see it, is to stand in the forefront of our charge toward the goals of that plan and to lead the Company to the plan's realization.

FISCAL PERFORMANCE AND FINANCIAL POSITION

We continued to face a harsh business climate in Japan throughout the fiscal year under review. Diminished performances by corporate Japan resulted in low levels of private-sector capital investment. Similarly, the smaller budgets of Japan's financially troubled national and regional governments resulted in low public works expenditures. Overseas markets, meanwhile, staggered amid concern about a global economic slowdown due to political unrest. At home and abroad, it was a year that made it extremely difficult to predict when economic recovery might occur.

Consequently, customers redoubled their rationalization efforts, and intensified competition placed downward pressure on our prices. On a consolidated basis, our orders declined 8.6% year on year, to ¥128,431 million. Our net sales nonetheless edged down only slightly, 0.7%, to ¥141,628 million. Cost reductions supported a 14.1% increase in operating income, to ¥12,307 million, yet net income slipped 3.4%, to ¥5,476 million. Net income per share declined to ¥40.67, compared with ¥42.85 in the prior fiscal year.

To maintain a stable dividend payout record, we declared a year-end cash dividend of ¥8.00 per share. Total cash dividends for the fiscal year in question therefore amounted to ¥16.00 per share. The figures matched those of the previous fiscal year.

Fiscal year-end consolidated cash and cash equivalents fell ¥1,473 million, to ¥31,507 million. Our purchase of fixed assets for our ultrapure water supply business and of treasury stock were the main reasons behind the decline in cash flow.

To systematically manage capital in response to the changes in our operating environment, we acquired our own shares on the open market during the fiscal year. This involved purchasing 3,709,100 shares at a cost of ¥4,019 million.

Segment Performance

The results for our Water Treatment Chemicals Division reflect the protracted economic recession in Japan. The division again faced an adverse environment of stepped-up rationalization by customers and intensified competition. It responded by pressing forward with efforts to form comprehensive contracts with customers to optimize the water treatment operations in their factories and to thereby contribute to helping them to conserve energy and resources and to reduce costs.

The division, moreover, worked aggressively to win orders for and to expand sales of its new products. Despite these efforts, the division's orders declined 1.1%, to ¥46,450 million. Sales, however, rose 1.8%, to ¥47,116 million, thanks to the contribution of contract-based services and treatment chemicals for incinerators. Operating income also advanced, rising 4.0%, to ¥6,493 million.

Despite some signs of recovery in the second half of the fiscal year among liquid crystal display (LCD) related manufacturers, demand for water treatment facilities remained weak in Japan's electronics industry. Amid ongoing rationalization, manufacturers reduced, postponed, and even canceled capital investments. The public sector, too, was a difficult market, with intensifying competition

aggravating the problem of shrinking public works budgets and cuts in regional government spending. All of which posed problems for our Water Treatment Facilities Division.

To cope with its difficult operating conditions, the division vigorously targeted customers in the People's Republic of China, Taiwan, and other Southeast Asian countries. It also sought to further its ultrapure water supply business and to expand its soil remediation business. The division spared nothing to strengthen the selling power of its products and to reduce its costs. Specifically, it made progress in developing its line of ready-made products for its ultrapure water production system and for generating water for pharmaceutical purposes.

Progress notwithstanding, orders for water treatment facilities dropped 12.4%, to ¥81,981 million. The Water Treatment Facilities Division's sales also declined, edging down 2.0%, to ¥94,512 million. However, by managing the profitability of each of its projects and by reducing its expenses and production costs the division posted operating income of ¥5,730 million, up 26.3% from the previous fiscal year.

NEW MEDIUM-TERM MANAGEMENT PLAN

Through Evolution 2002 (EV-2), the medium-term management plan that we launched in the fiscal year ended March 31, 2001, we strove to create a solid profit structure that would not be significantly affected by fluctuations in our business environment. The aim was to shift to a service-oriented business structure, improving the forward momentum of our business by strengthening our sales and product development capabilities. Our theme was the creation of a new Kurita, and our business slogan was "Changing how to sell and what to sell."

As always, we devoted our energies to providing the high-value-added products and services Kurita is known for, inspired further by the plan to give top priority to measures that increase customer satisfaction. Market conditions, unfortunately, have

further deteriorated, leaving us short of the plan's performance goals. We were, however, successful in achieving many of the plan's objectives for the reform of our business structure.

Our successes under the old plan form the basis for the powerful advances embodied in our new three-year medium-term business plan: Powerful Advance 2005. PA-5 covers the period ending March 2006. It continues, of course, our goal of creating a solid profit structure. But PA-5 adopts a much more offensive approach, introducing strategies to develop our customer base, enter new business fields, and expand our international business.

Outline of Powerful Advance 2005

Kurita's business perfectly matches the needs and desires of its customers and of society. We seek to reduce environmental impact and risk, to improve productivity, and to reduce costs—almost universal issues for companies, which face pressure from society to resolve them. Our business on our customers' behalf is to clarify these issues and to analyze conditions, propose solutions, and devise and implement practical programs to attain those solutions. Only by meeting the requirements of society and the needs of our customers can we remain a trusted corporate entity whose activities leave an impression on all.

PA-5's theme, therefore, is Win Trust and Make a Strong Impression. This expresses our determination to continue to be a company that ensures value, reliability, and excitement for its customers and for society in general. To indicate our intent of meeting customers' needs by demonstrating our business strengths to the maximum, we convey our fundamental business policy by the following slogan: "Develop extremely aggressive and success-oriented businesses, winning the unshakable trust of customers and deeply impressing them with our capabilities and solutions."

Guided by this policy, we hope to have realized the following vision of Kurita by the time PA-5 concludes in March 2006:

- ◆ We will have fully established our advanced water and environmental management business.

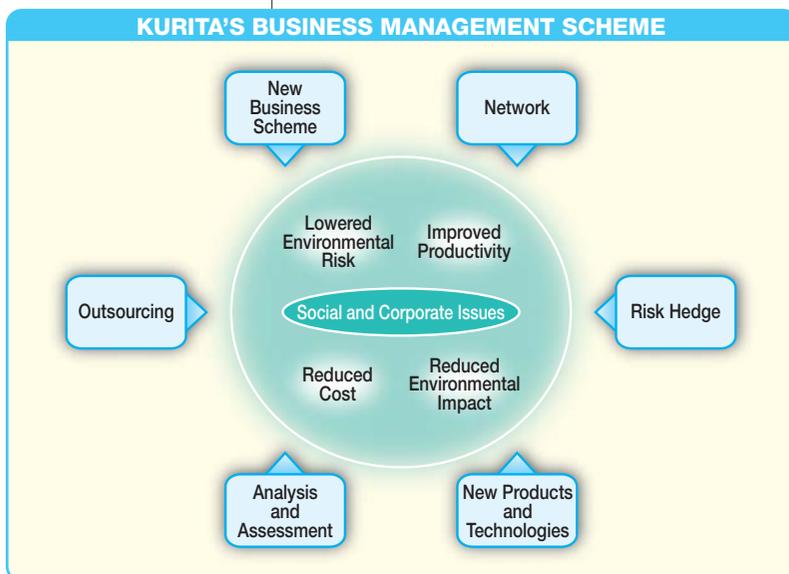
Trial efforts in total solutions services during the past medium-term business plan brought good results, so we will make total solutions services the core of our advanced water and environmental business.

- ◆ We will dominate the water treatment industry in Japan and will have an expanded market position overseas.

In Japan, we intend to take advantage of synergies between our water treatment chemicals and water treatment facilities businesses and our nationwide network to increase our market share. Overseas, we plan to transplant our Japanese business model for our solutions business, developing it horizontally in other markets.

- ◆ We will have established new environmental businesses and will be involved in energy-related businesses.

As our next environmental business following the launch of our soil remediation business, we aim to establish a new business concept and scheme for energy-related businesses based on new and existing technologies. We will concentrate our efforts on achieving the successful start-up of those businesses.



◆ We will have developed technologies and products that impress our customers by their ability to contribute to solving customers' business problems.

We are trying to maximize customer satisfaction by developing and supplying customers with products and services that contribute to solving such business issues as reducing costs, decreasing environmental impact, and improving productivity.

◆ We will have a reputation as a highly trustworthy company, thanks largely to the activities of the Company and to the efforts of its employees.

We emphasize not just compliance but also the sharing of common values with society regarding our social responsibility.

Consolidated Performance Targets

Our three-year consolidated performance targets are as follows:

Net sales	¥175.0 billion
Operating income	¥ 20.0 billion
Net income.....	¥ 11.5 billion

• Expand Scope of Business in the Japanese Market

Companies that develop global businesses must compete internationally and meet global standards for reducing costs and for diminishing the environmental impact of their products. When these companies move into leading-edge technology fields, they face new cost and environmental issues for which they need new solutions. Kurita is the only Japanese company that can reliably provide the required responses.

Our Eco-Solution Group, newly established in April 2003, presents customers with a comprehensive approach to solving their problems based on the integration of our technology and know-how in the chemical, plant, and maintenance fields. This combination provides them with optimal services regarding such issues as treating water, reducing environmental impact, lowering costs, and improving productivity. By offering a range of outsourcing services to customers, including facility operation management and the supply of ultrapure water, we

are expanding the scope of our business and assisting in solving problems for new customers.

We are also strengthening our solutions business for the customers of our domestic water treatment chemicals business who face the need to cut costs and to lower their impact on the environment. To expand the scope of this business, we are offering solutions ranging from the simple supply of water treatment chemicals to the comprehensive management of a factory's water.

Our Geo-Environment Group soil and groundwater remediation business makes use of industry-leading on-site soil remediation technology to limit the risk of soil contamination by manufacturers. Our subsidiary Land Solution Inc. provides soil contamination risk hedges to landowners through a proprietary scheme that includes liability insurance. In this way, it facilitates smooth conclusions to real estate transactions. Approaches like these are helping to expand our business in soil remediation.

• Pursue International Business Development

Overseas, particularly in Asia, we expect for the time being to see high economic growth rates and robust capital investment. As companies throughout Asia enhance their international competitiveness, their need to improve production efficiency and reduce costs will heighten. Economic development in Asia on the whole will steadily give rise to such issues as the need to reduce the environmental impact of businesses and to decrease environmental risk. Companies will be forced to pursue business development and environmental management simultaneously.

Kurita has traditionally responded to its customers' needs for stable plant operations and improved production efficiency with internationally competitive products. In future, we intend to accompany those products with outsourcing and solutions services that include water treatment chemicals and maintenance services. We are progressing toward this goal by localizing our businesses and through human resources and capital investments.

• **Increase Customer Support**

Our support structure for customers is unrivaled in Japan. Because we have sales offices in each of Japan's prefectures, a Kurita representative can be on-site within an hour of receiving a customer call about a problem.

And beginning April 2003, we strengthened our customer support capabilities by integrating our Chemicals and Maintenance Services Division. We also organized our domestic group, including our chemical and maintenance services divisions, sales and maintenance subsidiaries, and sales agency outlets, into a network to develop regional- and customer-specific services.

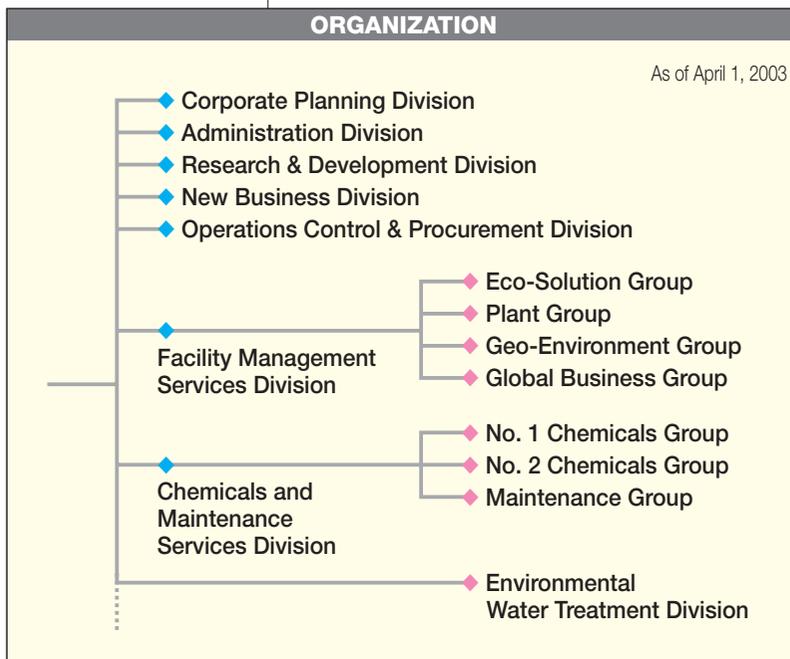
Establishing an organization that can respond quickly to and provide for customer needs with services that integrate treatment chemicals supply, maintenance, and operations management has won us the confidence of our customers. At the same time, this business organization will contribute consistent earnings to Kurita.

• **Ensure Internationally Competitive Products**

To provide for the needs of customers pursuing business globally, it is essential for Kurita to possess technologies and products that are internationally competitive. Functional capabilities and high reliability are important, but we also must meet cost requirements.

By leveraging our comprehensive organizational structure, which spans product development to installation, we are working to increase our cost and quality competitiveness. We are in particular expanding the applications for modularized equipment and devices and for the use of ready-made products. We also are pursuing further cost reductions in our logistics and procurement operations. In addition, we are redoubling our quality, environment protection, and safety efforts to further increase our reputation among our customers.

International competitiveness is a priority in our research and development (R&D) efforts. We are rapidly developing conceptually new technologies and products that offer customers immediate solutions to diverse issues, such as the need to reduce the environmental impact of their businesses or products. Over and above our efforts to develop new technologies and products, we continue to make strategic use of our original and acquired technologies and intellectual assets.



CORPORATE GOVERNANCE

We are emphasizing corporate governance as a means by which to fulfill our social obligations and the proper conduct of our business. For some time, the auditor system has been the core of our corporate governance. It has facilitated our reform of our board of directors and strengthens our system of checks and balances.

We reformed our board of directors with an eye to speeding up its decision-making process and revitalizing it. At the 2001 general shareholders' meeting, we pared 6 directors from our board, dropping from 21 directors to 15, one of whom is an outside director. And we have been beefing up

our auditor system since our 1994 general shareholders' meeting, when we began electing four corporate auditors. Of the four, two are outside auditors and one of those two, moreover, is a lawyer.

Our subsequent strengthening of our corporate governance will maintain past priorities. It also, however, will embrace various additional options made available as a result of a series of revisions to Japan's Commercial Code. We are deliberating which of those systems is most appropriate to Kurita's needs.

FISCAL PLAN AND OUTLOOK

A mountain of accumulated problems will continue to weigh heavily on Japan's economy in the fiscal year ahead. National consumption remains low, and the bad debt cleanup in the financial sector has fallen behind schedule. The global economy, too, will remain weak.

Amid these difficulties, Kurita anticipates the following performance for the fiscal year ending March 31, 2004. We expect consolidated orders of ¥149.8 billion, net sales of ¥147.5 billion, operating income of ¥13.0 billion, and net income of ¥7.7 billion.

In the first year of our new medium-term business plan, we will quickly implement our major business strategies. We will initially target the expansion of our business scope and market share in our solutions and outsourcing businesses in and outside Japan. We also will strive to increase our earnings by strengthening our customer support services through the use of the Kurita Group's well-established network. In addition, we will develop products, technologies, and services whose strong appeal domestically and internationally will underpin these efforts.

We will continue, moreover, to revise our Group structure, heightening our efficiency and momentum. In the fiscal year under review, Kurita absorbed Kurita Chemicals Co., Ltd.; took over the manufacturing facilities of Kurita Kasei Co., Ltd., to

raise the efficiency of its water treatment chemicals production; and divested itself of Kuritec (Taiwan) Co., Ltd. In April 2003, following the fiscal year under review, Kurita and its subsidiary Kuritaz Co., Ltd., spun off their analytic operations to establish Kurita Analysis Service Co. Ltd. In June 2003, Kurita and its subsidiary Kurita Engineering Co., Ltd., spun off their precision cleaning operations to found new subsidiary Kuritec Service Co. Ltd. Also in June, we started to liquidate Kurita Kako Co., Ltd., a dewatering equipment manufacturing subsidiary outside our business development strategies.

We also, of course, will continue to stress our auditor system to provide checks and balances and a smaller board of directors to speed up our decision making. All the while, we will be considering how to add strength to our corporate governance structure and its functions to meet our needs in changing times.

In this my first year in office, I wish to reconfirm my commitment to all the stakeholders of the Company. I also ask for the continued support of stakeholders.

July 2003



Hiroshi Fujino
President

WATER TREATMENT CHEMICALS

PRINCIPAL PRODUCTS

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

Consolidated sales by the Water Treatment Chemicals Division amounted to ¥47,116 million, increasing 1.8% from the previous fiscal year despite a 1.1% decline in orders, to ¥46,450 million. Operating income rose 4.0%, to ¥6,493 million, and the operating income to sales ratio advanced 0.3 percentage points, to 13.8%.

Sales rose in many of the division's product and service areas. Process treatment chemicals for petroleum refineries and for the pulp and paper industry, chemicals to solidify heavy metals that are contained in the fly ash produced when incinerating waste, maintenance and services, ion-exchange resins, and activated charcoal all experienced sales growth.

BUSINESS SUMMARY

Business Activities by Market

Declining prices and the integration of factories by customers shrunk the size of the domestic market during the fiscal year under review. The division's

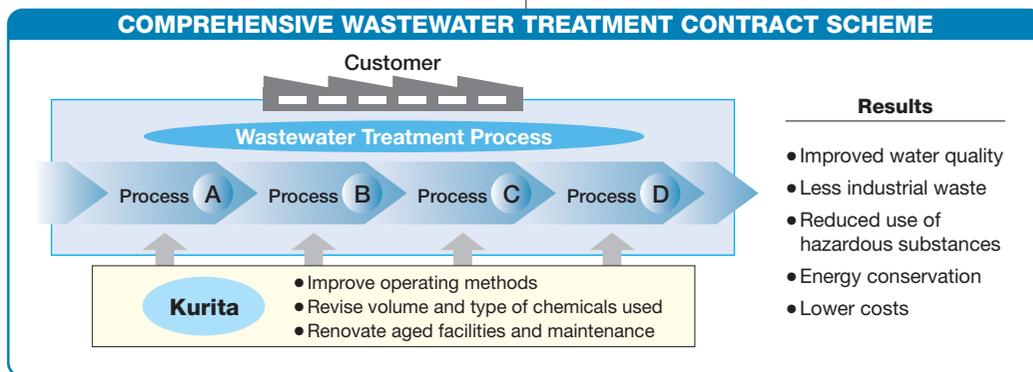
implementation of specific strategies for individual markets, however, contributed to its sales growth.

In the food products, pharmaceuticals, automobile, and electronics markets, we targeted the approximately 10,000 designated heat management plants throughout Japan. We tapped in particular the emphasis on energy conservation and cost reduction proposals to expand our sales of contract-based services. In such markets as petroleum production complexes and steel, where competition for one-year contracts has intensified, we endeavored to supply analysis and chemical injection systems and to earn revenues through water treatment consulting contracts.

The division's efforts to take advantage of companies' heightened efforts to cut industrial waste with proposals for wastewater treatment also contributed to divisional sales growth. In the pulp and paper market, we were successful in winning multi-year contracts for the supply of process treatment chemicals. And our sales to the public sector of treatment chemicals for waste incineration processes grew in line with stricter regulations on dioxin emissions.

Focus on Contract-Based Services

The division is emphasizing the expansion of orders for contract-based services that contribute to companies' cost reduction efforts. Increasingly, companies seek to conserve energy and to lower costs and to limit the impact of their operations on the environment, particularly by cutting industrial waste. Utilizing our chemical supply system and our knowledge of equipment and devices and of



operations management, we design significantly advantageous solutions programs for our customers' utilities and production processes. These programs provide Kurita with stable revenues and with opportunities to expand its business and to acquire new customers.

Build, own, and operate (BOO) programs for boilers are examples of contract-based services. Ownership of the boiler remains with Kurita. With it we provide quality and low-cost supplies of steam to customers based on multiyear contracts.

Our comprehensive wastewater treatment contracts likewise are of benefit to customers. They enable us to lower customers' wastewater treatment costs and industrial waste on the whole, thereby achieving customers' aims of limiting the impact of their operations on the environment through our overall oversight of water usage at customers' plants. Our wastewater contract services include the operations management of equipment, the organization of equipment, and the optimization of the amount of treatment chemicals used.

During the fiscal year under review, we introduced a lease contract that includes the operation and maintenance of cooling water recycling processing equipment for district heating and cooling centers. This new type of lease contract is a result of the fusion of Kurita's know-how in several areas.

Water Treatment Chemicals Manufacturing Subsidiary Rationalization and Cost Reductions

We have implemented a variety of cost reduction measures to compensate for the downward pressure on prices due to intensified competition. To begin with, we absorbed our chemicals manufacturing subsidiary Kurita Chemicals Co., Ltd., through a merger in April 2002. The merger is helping us to reduce our distribution costs by reallocating plant production volume and to lower our production costs by resulting in a quick conversion to other lower-cost materials.

We also took a number of other steps to increase the efficiency and to reduce the costs of our water treatment chemicals operations. Among them, we

decreased the number of the chemicals that we produce, to 3,500 types from 4,500 types; we reviewed our distribution contracts; and we brought outsourced production back in-house.



OUTLOOK

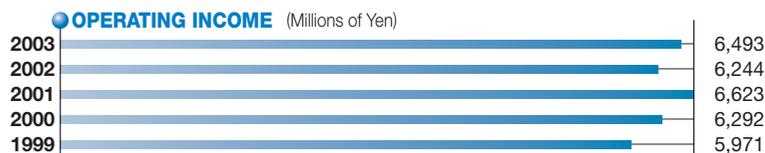
In the fiscal year ahead, we expect market conditions to remain difficult, chiefly because of redoubled rationalization efforts by our customers and intensified competition. We will continue to target growth through our proposal-based marketing of business solution services for customers; through the expansion of our business scope based on contract-based business; and through the enlargement of our business in the automobile, pharmaceuticals, food products, electronics, and pulp and paper markets.

Specifically in the public sector, we expect further growth in our sales of treatment chemicals for incinerators. And the new boiler and cooling water treatment chemicals recently introduced should likewise contribute to increased sales. We also continue to collaborate with the R&D and Sales Divisions to speedily develop high-margin products that are extremely competitive in performance and cost.

Organizationally, a new structure is being introduced in the fiscal year ahead that integrates our Chemicals and Maintenance Divisions. We are in addition working to increase our earnings by taking full advantage of the power of our customer- and regional-oriented network. Moreover, we continue to cut costs in procurement, manufacturing, and distribution.

The Kurita Group is aiming to achieve cost reductions through the optimization of its production, procurement, and distribution structures.

WATER TREATMENT CHEMICALS



WATER TREATMENT FACILITIES

Consolidated sales by the Water Treatment Facilities Division edged down 2.0%, to ¥94,512 million, during the fiscal year under review. Orders were down 12.4%, to ¥81,981 million. Nevertheless, thanks to an improvement in the cost of sales ratio and to cuts in expenses the division's operating income rose 26.3%, to ¥5,730 million.

Water Treatment Facilities for the Electronics Industry

PRINCIPAL PRODUCTS

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

Consolidated sales of water treatment facilities for the electronics industry declined ¥1.3 billion, to ¥36.7 billion. The decline can be attributed to the ongoing fall in orders from that industry. Orders dropped ¥5.0 billion, to ¥31.4 billion.

Domestic demand for water treatment facilities did pick up in the second half, with some plants increasing their operating rates and resuming active capital investment. This included a recovery in revenues from maintenance services and precision cleaning, which rallied to approximately the same level as in the previous fiscal year and saw improved profitability. For the year, however, sales and orders of water treatment facilities were down substantially.

Overseas, capital investment in the Asian market, particularly in China, Taiwan, and Korea, was relatively robust compared with other markets. Conditions, though, were not favorable for our core ultrapure water production systems for the LSI manufacturing industry, where we were affected by postponements and even cancellations of capital investments. Nevertheless, overseas sales of the division's systems and facilities grew markedly because of profitable sales growth to the LCD industry.

ULTRAPURE WATER SUPPLY BUSINESS

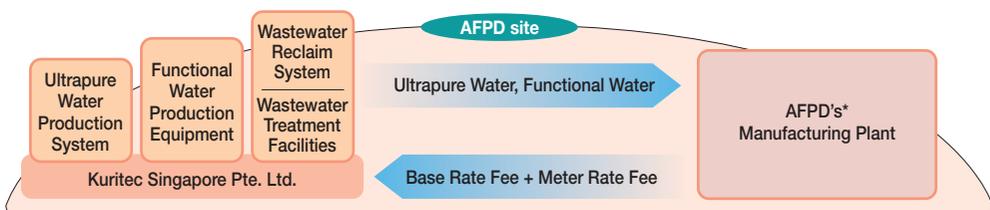
Our ultrapure water supply business is steadily growing. Established in the previous fiscal year, Kuritec Singapore Pte. Ltd. owns the ultrapure water production system and functional water production equipment, wastewater reclaim systems, and wastewater treatment facilities that it offers customers. It also provides customers with contract-based outsourcing services for operations management and maintenance.

Kuritec Singapore has begun an ultrapure water supply business in which it bills customers for the volume of ultrapure water used. Outsourcing ultrapure water supply provides customers with several advantages. It lowers their required capital investment and their operating costs, allowing them to concentrate their resources on their main business. By expanding the services that we offer to contribute to improving our customers' funding power, we are increasing our competitive advantage by leveraging our strong financial position.

READY-MADE PRODUCTS

Kurita is pursuing two strategies in the market for water treatment facilities for the electronics industry.

Ultrapure Water Supply Business (Kuritec Singapore Pte. Ltd.)



- April 2002 Commenced ultrapure water supply
- August 2002 Commenced LCD production at AFPD

*AFPD Pte. Ltd. AFPD, which stands for advanced flat panel display, is an overseas production subsidiary of Toshiba Matsushita Display Technology Co., Ltd., a joint venture of Toshiba Corporation and Matsushita Electric Industrial Co., Ltd., based on the integration of their LCD businesses. AFPD was established in March 2001 and is situated in Singapore.

Under the business slogan "Changing our focus from equipment to the entire utility," we are shifting our emphasis to providing a comprehensive outsourcing service that combines hardware, maintenance, operations management, and consulting. The other strategy is to change over to ready-made and modularized products, as represented by our ready-made KuriAqua ultrapure water production equipment.

These modular systems can be assembled with standardized modular units in accordance with the customer's desired water quality and volume. Standardization contributes to shorter delivery time and lower costs, while modularization contributes to space conservation. Moreover, manufacturing these products and doing test runs in our own plants contribute to improving the quality of the equipment and to rapid start-up after installation on-site.

Ready-made products for an ultrapure water production system for the domestic electronics industry accounted for approximately 60% of our lineup in this market during the fiscal year under review. We plan to raise this figure to 75% in the fiscal year ahead. Our ready-made products contribute significantly to lower costs. They cut outsourcing labor costs through shortened delivery times, reduce design costs through standardization, and diminish production costs through the standardization of parts.

FUNCTIONAL WATER PRODUCTION EQUIPMENT SALES

Orders are steadily growing for our KHOW System functional water production equipment. These units dissolve either hydrogen or ozone gas in ultrapure water for use in cleaning in the manufacture of semiconductors and LCDs. Manufacturers prefer this system for its minimal environmental impact. It



Ultrapure water with dissolved hydrogen or ozone demonstrates strong cleaning power at semiconductor and LCD plants as an effective substitute for chemicals and detergents.

lowers the volumes of chemicals and of ultrapure water used for rinsing and produces less wastewater, while ensuring full functional power.

Another of Kurita's strengths in this market is its ability to meet the advanced cleaning needs of customers by knowing how to make the best use of its KHOW System. This has contributed significantly to the competitiveness of our ultrapure water production systems.

OUTLOOK

In the fiscal year ahead, we expect to see large-scale capital investments overseas, particularly in Asia and concentrated on the LCD industry. In Japan, we anticipate that capital investments in manufacturing related to semiconductors, which have been restricted, will steadily rise. Companies in Japan are expected to start making large-scale capital investments in system LSI and DRAM production. This will result in substantial growth in orders for ultrapure water production systems.

Overseas, we plan to expand our maintenance business in ultrapure water production systems. We foresee increased sales to large-scale LCD and system LSI plants in Japan, meanwhile, for our water supply business. Overall, we will progress further with our conversion to ready-made products, pursuing greater product power and cost reductions.

In June 2003, we spun off the precision cleaning operations of our parent company and subsidiary Kurita Engineering Co., Ltd., merging them into a new subsidiary, Kuritec Service Co. Ltd. The new subsidiary is targeting more efficient operations and winning new orders.

Water Treatment Facilities for General Industry

PRINCIPAL PRODUCTS

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

Consolidated sales of water treatment facilities for general industry advanced ¥2.7 billion, to ¥33.1



Ready-made types of ultrapure water production systems achieve high quality at low cost while also reducing delivery time and saving factory space.



Kurita's latest wastewater treatment technology and systems contribute to the reduction of the environmental impact of food product processing plants.

billion. Orders, however, declined ¥4.0 billion, to ¥28.9 billion.

Despite an increase in orders for equipment for the automobile industry, overall orders decreased because of a slump in orders from such markets as food products and electric power utilities. Sales, on the other hand, expanded because of the booking of revenues from a large-scale electric power project and the inclusion of the sales of Land Solution Inc., a newly consolidated subsidiary. Although maintenance and other services sales grew for electric power facilities, including chemical cleaning work, sales of water treatment systems for other general industries edged down slightly.

Our soil and groundwater remediation business was affected by intensified competition from general contractors. In addition, the market entrance of small and medium-sized businesses also contributed to lower prices and profitability. Nevertheless, Land Solution stuck to its business strategy and expanded its business and became profitable after only a year and a half of operations.

SOIL REMEDIATION MARKET STRATEGIES

Kurita is focusing its development in the increasingly competitive soil remediation market in Japan on becoming the top runner in two areas. The Company will use its technological know-how to provide detailed contamination evaluations and remediation services to plants. And Land Solution will support the transaction needs of land proprietors in the real estate market by providing risk hedges.

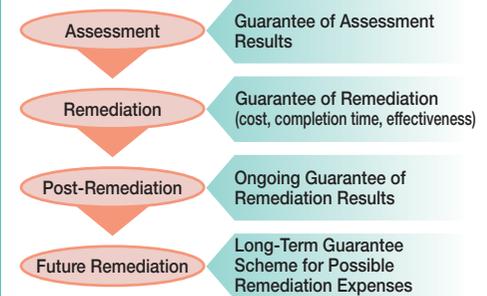
Kurita entered the soil remediation market early on, getting started 10 years ago. We have developed special capabilities for the on-site cleaning of pollution from organic compounds and possess overwhelming capabilities in groundwater remediation. Our business alliance with Dowa Mining affords us advantages in the heavy metal contamination field. We have completed approximately 1,200 contamination evaluations and about 400 remediation projects, for a significant share of the market.

The size of the soil remediation market is estimated to be about ¥100 billion and expanding. Competition, however, is placing increasingly strong downward pressure on prices. On the other

hand, the enforcement in February 2003 of a soil contamination countermeasures law in Japan is raising public awareness of the issue. We are developing technologies for the latent soil remediation needs of plants centered on the anaerobic bioremediation and permeable reactive barriers methods. We also are accelerating the improvement of our technologies and the development of additional new technologies.

Land Solution, meanwhile, which was formed by an investment group of Kurita and nine other companies, broadened its business scope during the fiscal year under review. It expanded its business tie-ups, particularly with financial institutions and real estate companies. Since its launch in August 2001, Land Solution has provided clients with schemes for avoiding soil contamination risk in real estate transactions. By the end of March 2003, Land Solution had received more than 350 orders for contamination evaluations and remediation measures on a cumulative basis.

Land Solution's Guarantee Scheme



Land Solution draws on the cooperation of four banks, including three of its founding partners, to assist companies that hold premium properties but that do not have the capital for a soil contamination evaluation. Working with the banks, Land Solution initiated a soil contamination evaluation fund in October 2002 within its subsidiary Land Management Ltd.

Commencing December 2003, Land Solution teamed with another founding partner, Sampo Japan Insurance, Inc., to further its insurance services. Its latest insurance offering guarantees the results of its soil contamination evaluation report and that no soil contamination will remain at the

site after soil remediation work has been completed. An earlier, cost cap insurance plan developed in cooperation with Sompo Japan places an upper limit on the cost of soil remediation. Land Solution has therefore become the sole provider in Japan of comprehensive soil contamination risk hedge services, from evaluation through cleanup.

OUTLOOK

The fiscal year ahead suggests little hope that capital investment will pick up in the water treatment facilities for general industry market or that there will be any major improvement in operating rates. Consequently, we aim to strengthen the power of our products by expanding the range of technologies that can use ready-made products.

We are focusing on sales of wastewater treatment facilities to meet Japan's new restrictions on nitrogen concentrations. We expect, meanwhile, to further increase our soil remediation business based on a greater number of orders for our technologies and on the business expansion of Land Solution.

Public-Sector Environmental Control Facilities

PRINCIPAL PRODUCTS

- ◆ Sewage treatment facilities
- ◆ Sludge (human waste and other) recycling facilities
- ◆ Waterworks facilities
- ◆ Rubbish seepage water treatment facilities
- ◆ Leisure pools
- ◆ Operation and maintenance services

Consolidated sales in public-sector environmental control facilities totaled ¥24.7 billion, falling ¥3.3 billion from the prior fiscal year. Orders also declined, dropping ¥2.5 billion, to ¥21.7 billion.

Environmental projects waned amid the Japanese government's fiscal difficulties, which resulted in smaller budgets for public works, and amid reduced expenditures by municipal and other public bodies. Competition, moreover, intensified, resulting in a harsh business climate. In response, we redoubled our efforts to serve our customers. We also sought to turn customers' needs to reduce the sludge that they produce into additional business. Based on our analysis of customers' facilities,

we focused on making business proposals to customers and on winning orders.

Thanks to our proposal-based marketing activities, orders for maintenance and other services increased. However, the public sector's budget for sludge recycling centers, which has emphasized dioxin countermeasures in recent years, declined substantially. In addition, demand for sewage water treatment facilities were affected by revisions in the public works sector.

Accordingly, our sales of our core sludge recycling centers and sewage water treatment facilities declined. We worked in response to expand orders for sludge recycling centers, for rubbish seepage water treatment facilities, for sludge reduction equipment, and for tap water membrane filtration units. These efforts, however, proved insufficient to offset sales declines in our core markets.

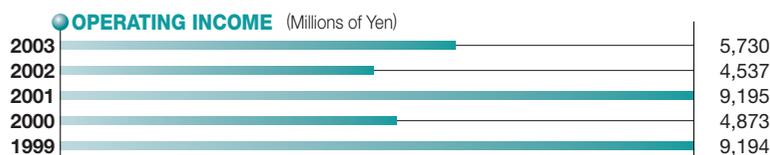
OUTLOOK

Capital investment constraints for public works are expected to continue in the fiscal year ahead. However, we anticipate an increase in the budgets allocated for sludge recycling facilities. We plan, therefore, to increase orders for the improvement and renewal of sludge recycling facilities and for rubbish seepage water treatment facilities. We will do so by leveraging such of our proprietary technologies as sludge treatment and high-speed processing technologies. In addition, we are striving to win contracts for sewage water treatment facilities that have been put on hold during the past few years because of the government's fiscal problems.



Membrane filtration units meet the requirements for a safe supply of water to the public.

WATER TREATMENT FACILITIES



THE YEAR'S TOPIC: SUPERCRITICAL WATER OXIDATION SYSTEM

KURITA JOINTLY DEVELOPS THE WORLD'S FIRST SCWO TO DEAL WITH HIGH SALT CONCENTRATIONS

In November 2002, Kurita announced the successful development of Aqua Flame, a supercritical water oxidation (SCWO) system, in collaboration with Komatsu Ltd. This ultimate processing technology destroys toxic and hazardous organic wastes to yield harmless materials. The two companies are collaborating in setting up SCWO manufacturing and sales operations.

SCWO technology uses water under conditions of extreme heat and pressure—374°C and 22 MPa and greater—to destroy hazardous organic matter by oxidation into water and carbon dioxide gas. The technology has received considerable attention as a means to detoxify such difficult to destroy hazardous wastes as dioxin and polychlorinated biphenyl (PCB). Developing practical applications of the technology, however, has been delayed because of technical problems, including plugging of the unit caused by the accumulation of the salt generated in the reaction and because of corrosion.

Partners Kurita and Komatsu acquired the basic technology for their SCWO system from General Atomics, of the United States, and began joint development in 1997. The resulting unit demonstrates outstanding performance in destroying hazardous organic matter. It is equipped with the means to remove accumulated salt and incorporates an anticorrosion feature.

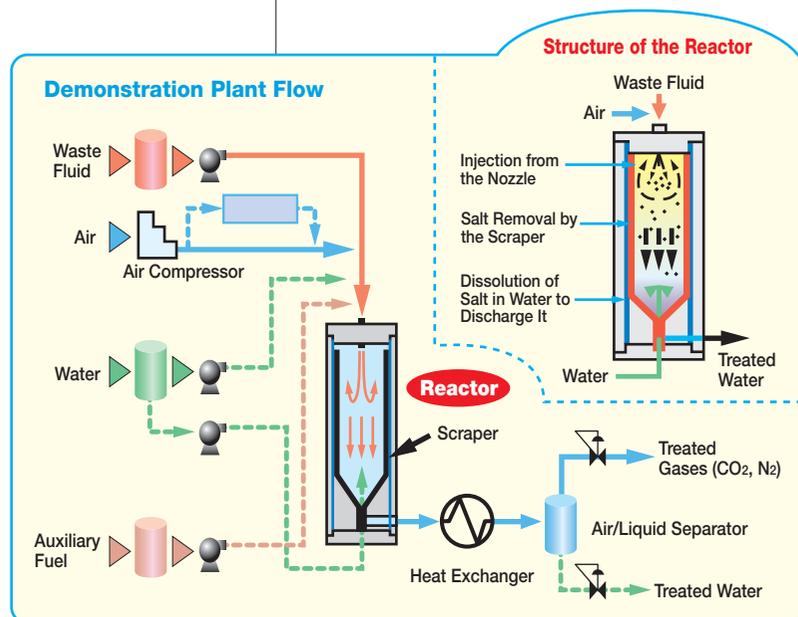
The new SCWO unit codeveloped by Kurita and Komatsu represents a world first in that it can deal with high salt concentrations. An operating test lasting more than 1,000 hours using a demonstration plant with a processing capacity of 10 cubic meters per day confirmed stable performance in destroying organic matter and in removing accumulated salt. The test also demonstrated strong anticorrosion properties and safety. By combining Kurita's strengths in advanced water treatment technology and Komatsu's outstanding development and manufacturing technologies for machinery and devices, the partners have achieved an SCWO unit with one of the highest levels of performance and quality in the world.

One of the most notable features of Aqua Flame is its superior ability to destroy organic matter—its reaction efficiency is 10 times greater than competitors' SCWO units. In addition, it has a salt removal mechanism that incorporates a proprietary scraper that removes precipitated salts from the wall of the reactor and a salt crusher to discharge the salts.

SCWO units can completely destroy and render harmless certain waste liquids or solids that trouble other treatment technologies. Unlike with incinerators, dioxin, nitrogen oxide, sulfur oxide, and other hazardous substances are not generated in the process. Moreover, the destruction process is extremely fast and the unit compact. As an added bonus, CO₂ left over after processing can be recycled as CO₂-rich gas for greenhouses. The product has also taken energy recycling into consideration by enabling the heat of the reaction to be recovered.

The main advantage of the Kurita-Komatsu SCWO unit is that it enables a company to completely destroy its own industrial wastes. In addition, the company does not need to dispose of any highly hazardous wastes. Demand for such environmental protection capabilities is escalating among companies. Moreover, compared with outsourcing, our SCWO technology is highly economical, even taking into account the necessary capital investment.

Aqua Flame is able to destroy all types of fluid and solid wastes. However, Kurita sees the greatest potential markets for the unit as the chemicals, pharmaceuticals, electronics, and sewage treatment industries.



SELECTED FINANCIAL DATA

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

Millions of Yen

	2003	2002	2001	2000	1999	1998
For the year:						
Net sales	¥141,628	¥142,678	¥153,435	¥130,998	¥146,754	¥148,322
Cost of sales	97,846	99,039	105,587	88,174	101,366	104,226
Selling, general and administrative expenses	31,474	32,848	32,030	31,619	30,179	29,070
Operating income.....	12,307	10,790	15,817	11,203	15,209	13,199
Income before income taxes	10,263	9,121	14,727	8,615	15,580	12,997
Net income.....	5,476	5,670	8,366	4,648	7,567	6,553
Capital expenditures*	5,593	3,268	2,714	1,968	6,642	3,864
R&D expenses	4,484	5,071	4,743	5,164	5,178	4,996
Depreciation.....	3,030	3,132	2,946	3,167	3,055	2,807
At year-end:						
Current assets.....	107,180	103,490	115,263	111,017	112,576	114,426
Current liabilities	38,643	36,585	51,625	41,633	49,340	51,287
Total shareholders' equity.....	120,969	122,590	119,209	113,383	108,051	102,585
Total assets	173,689	172,145	183,175	165,297	165,775	161,922
Amounts per share of common stock (Yen):						
Net income per share	40.7	42.9	63.2	35.1	57.1	49.4
Shareholders' equity per share.....	939.8	926.5	900.8	856.8	816.5	772.5
Dividends per share (parent company)	16.0	16.0	16.0	17.0	16.0	16.0
Ratios:						
Return on assets (%).....	3.2	3.2	4.8	2.8	4.6	4.0
Return on sales (%)	3.9	4.0	5.5	3.5	5.2	4.4
Total assets turnover (times)	0.8	0.8	0.9	0.8	0.9	0.9
Shareholders' equity ratio (%)	69.6	71.2	65.1	68.6	65.2	63.4
Return on equity (%).....	4.5	4.7	7.2	4.2	7.2	6.5

*Excluding intangibles.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NET SALES AND ORDERS RECEIVED

Consolidated net sales for the fiscal year ended March 31, 2003, amounted to ¥141,628 million, falling ¥1,050 million, or 0.7%, primarily because of the deterioration in the water treatment facilities business. Overseas sales, which in the previous fiscal year accounted for less than 10% of consolidated net sales, advanced to ¥18,427 million, or 13.0% of consolidated net sales, thanks mainly to ¥15,837 million in sales to Asia.

A description of performance by segment follows.

Water treatment chemicals

Sales of water treatment chemicals edged up ¥839 million, or 1.8%, to ¥47,116 million, supported by orders that came in during the prior fiscal year for chemical injection systems and other products. Amid a difficult market caused by the expanded rationalization measures of customers and intensified competition, we redoubled our efforts to win comprehensive contracts with customers by optimizing the water treatment management of whole factories to meet their needs. We also concentrated on winning orders by stepping up marketing by market sector and by increasing new product development.

Orders increased for process treatment chemicals for petroleum refineries and for the pulp and paper industry, for fixing agents for heavy metals contained in fly ash produced during waste incineration, for maintenance services, for ion-exchange resin, and for activated charcoal. On the other hand, orders for the division's core product line of chemicals for treating boilers were approximately the same as in the fiscal year before, while orders for cooling water chemicals and wastewater chemicals fell. Total orders for water treatment chemicals during the fiscal year amounted to ¥46,450 million, declining ¥503 million, or 1.1%.

Water treatment facilities

Sales of water treatment facilities slipped ¥1,889 million, or 2.0%, to ¥94,512 million. The drop in sales of water treatment facilities was the primary factor in the overall decline in net sales.

During the fiscal year, there were some signs of recovery in the domestic market, including additional capital investment in the LCD manufacturing and automobile industries. Overseas, capital investment was favorable, especially by the electronics industry in China and Taiwan. On the whole, however, harsh conditions prevailed because of smaller capital investment and the postponement or cancellation of investments related to the rationalization efforts of customers.

These conditions compelled us to work ever more aggressively to expand orders. We boosted our sales activities in key markets in Japan; expanded our sales of ready-made products for ultrapure water for the electronics industry and for water for pharmaceuticals production; further developed our ultrapure water supply business for the electronics industry; and conducted marketing activities in China, Taiwan, and Southeast Asia. Orders increased for precision cleaning services for semiconductor and LCD manufacturing in the electronics industry, but orders for our core ultrapure water production systems fell significantly in domestic and overseas markets.

In the market for water treatment facilities for general industry, orders increased for facilities for the automobile industry. But orders for facilities from the electric power generation plant, food product, and other industries declined.

Orders for maintenance and other services increased from the electric power generation industry and the electronics industry.

Kurita faced a difficult market for environmental control facilities because of contracted public works budgets, cost cutting among regional government bodies, and increased competition. Nevertheless, we worked to win orders by strengthening our responses to customer needs and by aggressively proposing sales.

Orders for maintenance and other services increased thanks to proposal-based sales efforts, but orders for our core sludge recycling centers and our sewage treatment facilities slumped substantially. In response, we stepped up our sales activities to garner orders for sludge recycling centers, for rubbish seepage water treatment facilities, for equipment for sludge reduction, and for membrane filtration units for tap water. These efforts, however, proved insufficient to offset sales declines in our core markets.

Total orders for water treatment facilities during the fiscal year amounted to ¥81,981 million, dropping ¥11,557 million, or 12.4%.

COSTS, EXPENSES, AND OPERATING INCOME

Our cost of sales amounted to ¥97,846 billion, declining ¥1,193 million, or 1.2%, from the previous fiscal year, and falling more than the 0.7% contraction in net sales. Accordingly, the cost of sales ratio decreased 0.3 percentage points, to 69.1%. The Kurita Group worked to absorb the rise in the cost of sales, which was due primarily to intensified price competition, through cost reductions in its manufacturing, distribution, and procurement systems. As a result, gross profit increased ¥142 million, or 0.3%, to ¥43,781 million, despite the slight decrease in sales.

SG&A expenses also fell, declining ¥1,374 million, or 4.2%, to ¥31,474 million. As a percentage of net sales, SG&A expenses edged down 0.8 percentage points, to 22.2%, from 23.0%. In addition to the curtailment of various expenses, this decrease can be attributed to lower R&D expenses, the result of our focus of R&D investment on strategic fields, and to the elimination of the accrued employees' bonuses for managers and above because of our change to an annual compensation scheme. R&D expenses accounted for ¥4,484 million of SG&A expenses and were down ¥587 million, or 11.6%. R&D expenses as a percentage of net sales slid 0.4 percentage points, to 3.2%, from 3.6% a year earlier.

The slight decline in net sales notwithstanding, operating income rose ¥1,517 million, or 14.1%, to ¥12,307 million. Operating income as a percentage of net sales improved 1.1 percentage points, to 8.7%, from 7.6%.

Water treatment chemicals operating income rose ¥249 million, or 4.0%, to ¥6,493 million. The operating income ratio rose 0.3 percentage points, to 13.8%, from 13.5%. In our core water treatment facilities business, declines in orders and sales could not restrain an operating income gain of ¥1,193 million, to ¥5,730 million, a notable 26.3% increase. In addition to sales growth, this surge in profitability resulted from our various cost reduction measures, such as bringing subcontracted work back in-house and improving our purchasing system. The segment's operating income ratio advanced 1.4 percentage points, to 6.1%, from 4.7%.

OTHER INCOME (EXPENSES) AND NET INCOME

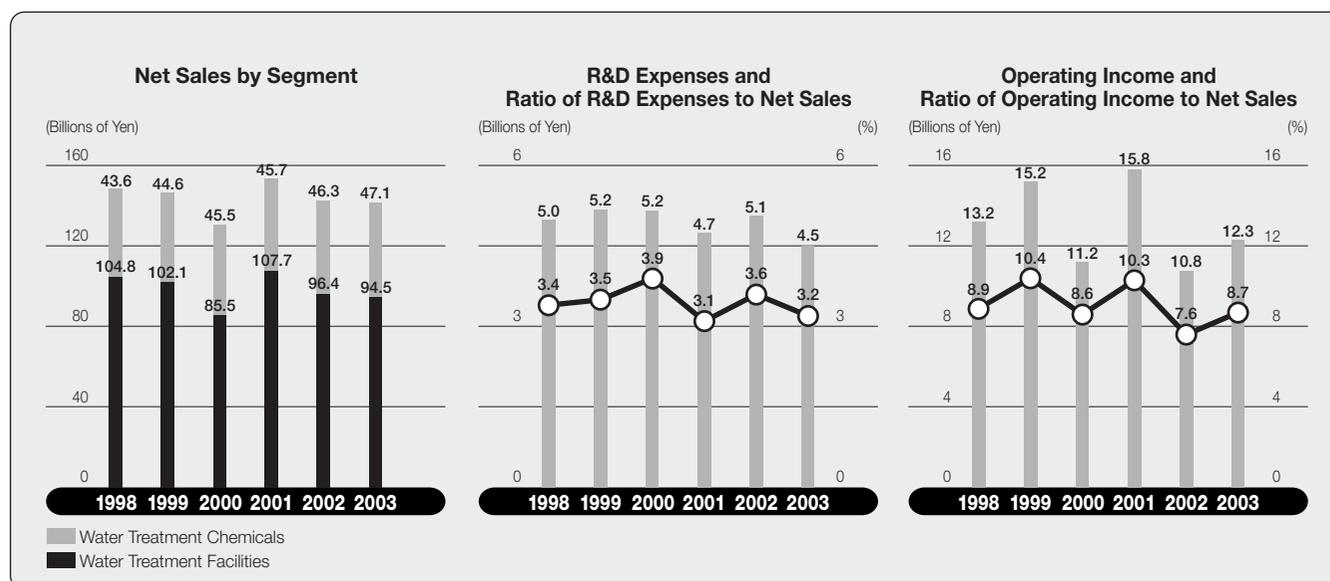
Other expenses, net, expanded ¥373 million, to ¥2,043 million. Of this amount, financial income, net, edged down ¥19 million, to ¥399 million. Among other favorable factors, the loss on write-down of investment securities amounted to ¥822 million, declining ¥1,164 million.

Among unfavorable factors, our gain on the sale of an affiliated company's stock decreased ¥932 million. In addition, the equity in the earnings of unconsolidated subsidiaries and affiliates dropped ¥55 million, to ¥143 million. The ¥1,162 million amortization of unrecognized effect of change in accounting for employees' retirement benefits was the final charge of an amount of ¥3,480 million that was amortized over a period of three years.

As a result of the preceding factors, income before income taxes amounted to ¥10,263 million, up ¥1,142 million, or 12.5%, from the previous fiscal year. Because the effective tax rate after application of tax effect accounting increased 8.2 percentage points, to 45.5%, from 37.3%, net income was down ¥194 million, or 3.4%, to ¥5,476 million. Net income per share was ¥40.67, dropping ¥2.18 from ¥42.85 in the previous fiscal year.

FINANCIAL POSITION

In consideration of the harsh business climate and as part of its continued efforts to be selective and focused in its businesses, the Kurita Group did its best to restrain its asset growth by strategically allocating



resources and by using capital more efficiently. The Group's short- and long-term interest-bearing debt remains at a low level, such that the Group is close to being debt free.

Assets

As a result of the above policy, total assets at fiscal year-end rose only ¥1,544 million, or 0.9%, to ¥173,689 million.

Total current assets increased ¥3,690 million, to ¥107,180 million, principally because the completion of construction and the delivery of projects near the end of the fiscal year drove up accounts receivable. Among current assets, notes and accounts receivable, trade, increased ¥4,224 million for the above-mentioned reason, while marketable securities increased ¥1,975 million because of purchases to manage excess cash. Inventories, however, declined ¥1,401 million because of the previously mentioned completion of projects and the decrease in orders. Cash on hand and in banks fell ¥1,570 million due mainly to our buyback of the Company's stock.

Investments and long-term receivables amounted to ¥25,538 million, dropping ¥4,409 million. This decline can be attributed to a ¥1,612 million fall in investments in securities because of valuation losses and sales. In addition, long-term loans declined ¥2,469 million because of the consolidation of Kurita (Singapore) Pte. Ltd. in the fiscal year under review owing to its increased significance in the Group's operations.

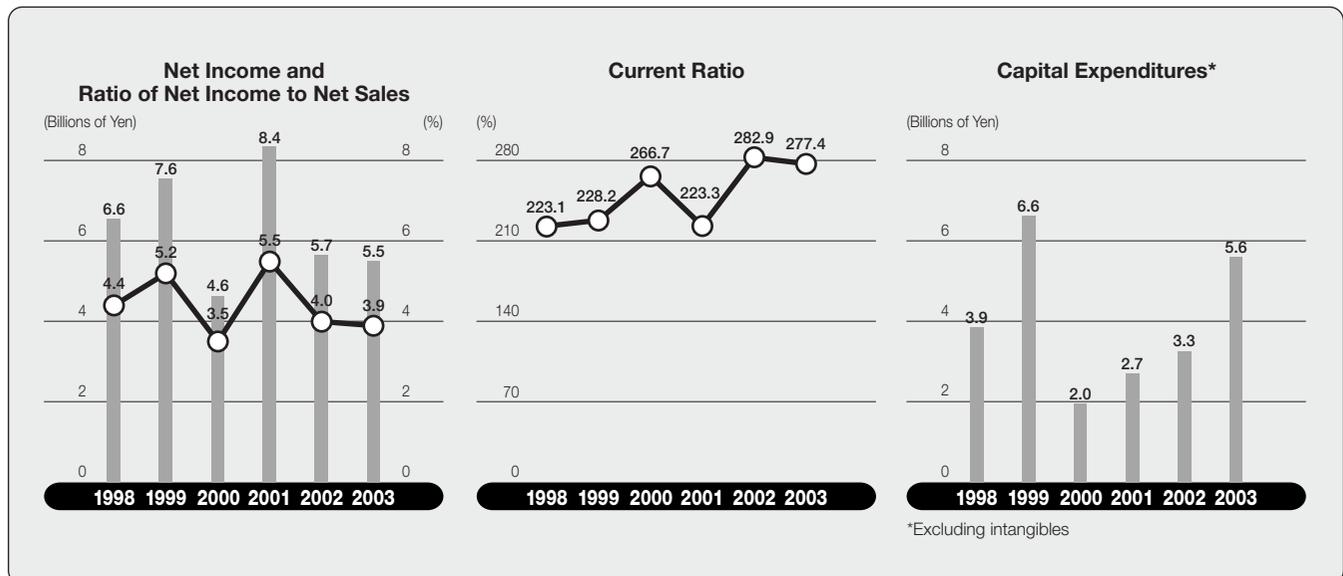
Property, plant and equipment, net, rose ¥1,957 million, to ¥38,310 million. During the fiscal year under review, capital expenditures totaling ¥5,593 million were made, including ¥4,653 million in the water treatment facilities business for the acquisition of property, plant and equipment for the ultrapure water supply business and R&D facilities. Kurita also sold its shares of its previously consolidated subsidiary Kuritec (Taiwan) Co., Ltd., resulting in the elimination of that company's assets from property, plant and equipment.

Liabilities and Shareholders' Equity

Total liabilities expanded ¥2,766 million, or 5.6%, to ¥51,763 million. Current liabilities were mainly responsible for the increase, rising ¥2,058 million, to ¥38,643 million. This increase can mainly be attributed to the ¥1,350 million increase in our payment of notes and accounts payable, trade.

Income taxes payable amounted to ¥3,335 million, increasing ¥2,893 million, to return to a normal level after a significant decline in the previous fiscal year. Factors that reduced current liabilities included a ¥655 million decrease in advances received, to ¥966 million.

Accrued employees' bonuses fell ¥773 million, to ¥2,154 million, because of the elimination of the provision for bonus payments for managers and above as a result of our change to an annual compensation scheme. Other current liabilities decreased ¥625 million, to ¥7,915 million. Long-term liabilities increased ¥709 million, to ¥13,120 million. This increase principally resulted from an increase



in accrued employees' retirement benefits, to ¥11,469 million, because of a ¥596 million increase in the net retirement benefit obligations based on the accounting method used.

Kurita's long-term borrowings declined ¥38 million, to ¥40 million, because of the repayment of loans. Our return on assets (ROA) was 3.2%, the same as in the previous fiscal year. Although return on sales (ROS) declined to 3.9%, from 4.0% in the prior fiscal year, asset turnover improved slightly, to 0.82 times, from 0.80 times.

Total shareholders' equity decreased ¥1,621 million, or 1.3%, to ¥120,969 million, and the shareholders' equity ratio edged down 1.6 percentage points, to 69.6%, from 71.2%. This high ratio is the result of our strong financial structure, which contains only an extremely small amount of short- and long-term interest-bearing debt. It is an extremely high equity ratio for our industry and any other industry in Japan. This decline in the ratio despite growth in retained earnings was primarily due to a buyback of ¥4,019 million of Kurita stock. Return on equity (ROE) declined 0.2 percentage points, to 4.5%, from 4.7% in the previous fiscal year.

CASH FLOWS

Cash and cash equivalents (hereafter referred to as cash) at the end of the fiscal period amounted to ¥31,507 million, decreasing ¥1,473 million from the previous fiscal year-end.

This decline resulted when the ¥1,689 million increase in net cash provided by operating activities and the ¥1,665 million increase in net cash used in investment activities offset one another. This left an

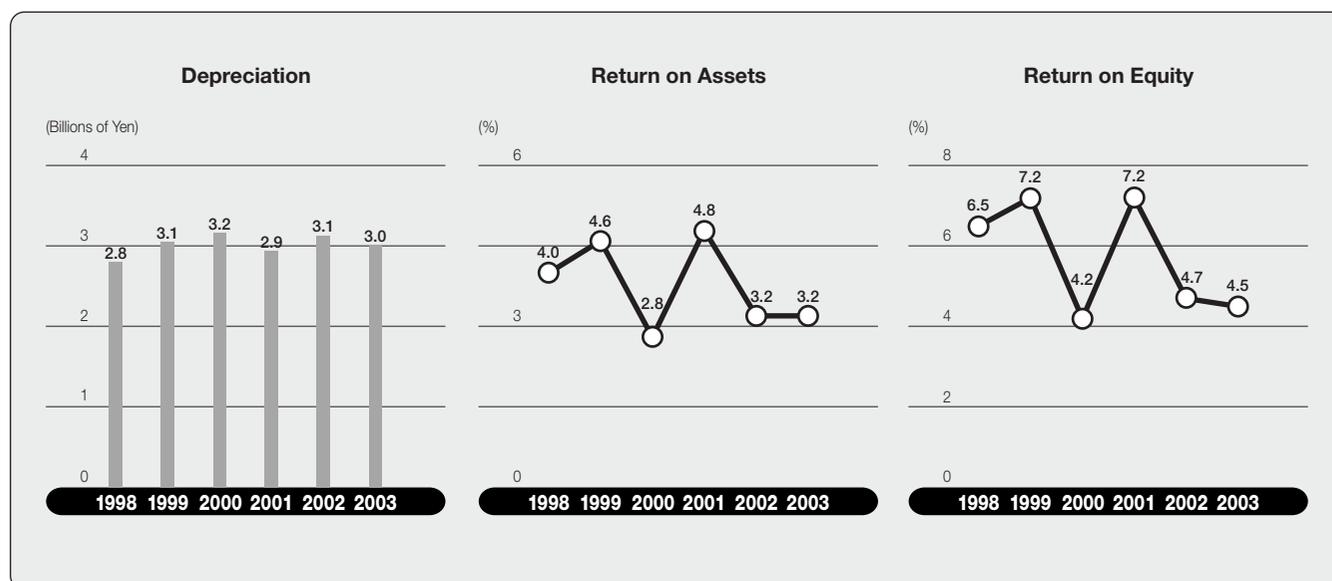
increase in net cash used in financing activities of ¥4,101 million, primarily a net of ¥4,058 million from the acquisition and sale of the Company's stock. The amount of cash and cash equivalents represented approximately 2.7 months of average monthly sales of ¥11,802 million, representing adequate liquidity for normal business operations.

Net cash provided by operating activities increased ¥1,689 million from the previous fiscal year, to ¥10,402 million. Although partially offset by increases in trade receivables, this growth was the result of a ¥1,142 million increase in net income before income taxes and a ¥10,625 million difference in change of trade payables from the previous fiscal year. In addition, income taxes paid fell ¥7,432 million.

Net cash used in investing activities amounted to ¥6,999 million, up ¥1,665 million from the previous fiscal year. This decline can be attributed to an increase in payments for the purchase of marketable securities and investment securities and to an increase in payments for the purchase of property, plant and equipment for our ultrapure water supply business.

Based on the results of cash flows for operating and investing activities, free cash flow expanded ¥24 million, to ¥3,403 million.

Net cash used in financing activities amounted to ¥6,270 million, increasing ¥4,101 million from the previous fiscal year. This result can mainly be attributed to the ¥4,019 million buyback of Company stock.



CONSOLIDATED BALANCE SHEETS

Kurita Water Industries Ltd. and Consolidated Subsidiaries
At March 31, 2003 and 2002

Thousands of
U.S. Dollars
(Note 1)

Assets	Millions of Yen		2003
	2003	2002	
Current assets:			
Cash on hand and in banks (Note 11).....	¥ 31,838	¥ 33,408	\$ 265,316
Notes and accounts receivable, trade	59,697	55,473	497,475
Allowance for doubtful accounts.....	(169)	(185)	(1,408)
Marketable securities (Note 5-(1)).....	6,615	4,640	55,125
Inventories (Note 13).....	6,301	7,702	52,508
Deferred tax assets (Note 15).....	1,806	1,503	15,050
Other current assets.....	1,090	945	9,083
Total current assets.....	107,180	103,490	893,167
Investments and long-term receivables:			
Investments in securities (Note 5-(1)).....	17,322	18,319	144,350
Investments in unconsolidated subsidiaries and affiliates.....	1,902	2,547	15,850
Deferred tax assets (Note 15).....	4,051	3,857	33,758
Long-term loans.....	116	2,585	967
Other investments	2,186	2,719	18,217
Allowance for doubtful accounts.....	(40)	(80)	(333)
Total investments and long-term receivables.....	25,538	29,947	212,817
Property, plant and equipment, at cost (Note 5-(2)):			
Land	15,024	15,044	125,200
Buildings and structures.....	28,772	28,168	239,767
Machinery and equipment	10,470	11,806	87,250
Construction in progress.....	1,604	198	13,367
Other facilities.....	11,124	10,986	92,700
Total	66,994	66,203	558,283
Accumulated depreciation	(28,684)	(29,850)	(239,033)
Property, plant and equipment, net	38,310	36,353	319,250
Other assets	2,659	2,354	22,158
Total assets	¥173,689	¥172,145	\$1,447,408

The accompanying notes are an integral part of these statements.

Liabilities and shareholders' equity	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Current liabilities:			
Short-term borrowings (Note 14)	¥ —	¥ 132	\$ —
Current portion of long-term borrowings (Note 14)	7	7	58
Notes and accounts payable, trade	24,261	22,911	202,175
Income taxes payable	3,335	442	27,792
Advances received	966	1,621	8,050
Accrued employees' bonuses (Note 5-(3))	2,154	2,927	17,950
Allowance for product warranty	848	923	7,067
Other current liabilities	7,067	7,617	58,892
Total current liabilities	38,643	36,585	322,025
Long-term liabilities:			
Long-term borrowings (Note 14)	40	78	333
Accrued employees' retirement benefits (Notes 5-(3), 16)	11,469	10,873	95,575
Accrued retirement benefits for directors and corporate auditors	813	667	6,775
Other long-term liabilities	796	792	6,633
Total long-term liabilities	13,120	12,411	109,333
Total liabilities	51,763	48,997	431,358
Minority interests in consolidated subsidiaries	956	558	7,967
Contingent liabilities (Note 19)			
Shareholders' equity:			
Common stock, 2003 and 2002			
Authorized: 235,840,000 shares			
Issued: 2003—132,800,256 shares			
2002—132,800,256 shares	13,450	13,450	112,083
Additional paid-in capital	11,398	11,398	94,983
Unrealized gain on revaluation of land (Note 9)	20	19	167
Retained earnings	101,637	98,804	846,975
Unrealized holding (losses) gains on other securities	(108)	162	(900)
Foreign currency translation adjustment	(543)	(418)	(4,525)
	125,854	123,417	1,048,783
Treasury stock, at cost:			
2003—4,213,867 shares, 2002—477,101 shares	(4,885)	(827)	(40,708)
Total shareholders' equity	120,969	122,590	1,008,075
Total liabilities and shareholders' equity	¥173,689	¥172,145	\$1,447,408

CONSOLIDATED STATEMENTS OF INCOME

Kurita Water Industries Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2003
Net sales	¥141,628	¥142,678	¥153,435	\$1,180,233
Cost of sales	97,846	99,039	105,587	815,383
Gross profit	43,781	43,639	47,847	364,842
Selling, general and administrative expenses	31,474	32,848	32,030	262,283
Operating income	12,307	10,790	15,817	102,558
Other income (expenses):				
Interest and dividend income	416	453	501	3,467
Interest expenses	(17)	(35)	(38)	(142)
Gain on sale of an affiliated company's stock	—	932	—	—
Equity in earnings of unconsolidated subsidiaries and affiliates....	143	198	547	1,192
Loss on write-down of investment in securities	(822)	(1,986)	(504)	(6,850)
Amortization of unrecognized effect of change in accounting for employees' retirement benefits	(1,162)	(1,162)	(1,162)	(9,683)
Foreign exchange (losses) gains	(214)	107	115	(1,783)
Other, net	(385)	(177)	(549)	(3,208)
	(2,043)	(1,670)	(1,090)	(17,025)
Income before income taxes	10,263	9,121	14,727	85,525
Income taxes (Note 15):				
Current	4,957	4,630	8,058	41,308
Deferred	(283)	(1,229)	(1,716)	(2,358)
	4,674	3,401	6,342	38,950
Minority interests in earnings of consolidated subsidiaries	112	49	19	933
Net income	¥ 5,476	¥ 5,670	¥ 8,366	\$ 45,633

	Yen			U.S. Dollars (Note 1)
	2003	2002	2001	2003
Per share of common stock:				
Net income	¥40.67	¥42.85	¥63.22	\$0.34
Cash dividends applicable to the year	16.00	16.00	16.00	0.13

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, 2003, 2002 and 2001

	In Thousands	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	Number of shares issued	2003	2002	2001	2003
Common stock:					
Beginning of the year	132,800	¥ 13,450	¥13,450	¥13,450	\$112,083
End of the year	132,800	13,450	13,450	13,450	112,083
Additional paid-in capital:					
Beginning of the year		11,398	11,398	11,398	94,983
End of the year		11,398	11,398	11,398	94,983
Retained earnings:					
Beginning of the year		98,804	95,444	89,340	823,367
Net income for the year		5,476	5,670	8,366	45,633
Cash dividends paid.....		(2,117)	(2,117)	(2,117)	(17,642)
Bonuses to directors and corporate auditors.....		(120)	(164)	(145)	(1,000)
Decrease in retained earnings due to change in scope of consolidation (net of inclusion and exclusion of consolidated subsidiaries)		(336)	—	—	(2,800)
Other		(69)	(27)	—	(575)
End of the year		¥101,637	¥98,804	¥95,444	\$846,975

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, 2003, 2002 and 2001

Thousands of
U.S. Dollars
(Note 1)

	Millions of Yen			2003
	2003	2002	2001	
I. Cash flows from operating activities:				
Income before income taxes	¥10,263	¥ 9,121	¥14,727	\$ 85,525
Depreciation and amortization	3,208	3,409	3,196	26,733
Increase in allowance for employees' retirement benefits	592	828	3,596	4,933
Loss on sales and write-down of investment in securities	824	1,053	463	6,867
Equity in earnings of unconsolidated subsidiaries and affiliates	(143)	(198)	(547)	(1,192)
Interest and dividends income	(417)	(454)	(502)	(3,475)
Interest expenses	17	35	38	142
Payments of bonuses to directors and corporate auditors	(120)	(165)	(146)	(1,000)
Decrease in other allowances, accrual and noncash items, net	(222)	(252)	1,310	(1,850)
Change in assets and liabilities:				
(Increase) decrease in trade receivables	(4,784)	10,880	(16,742)	(39,867)
Decrease (increase) in inventories	1,369	2,537	(3)	11,408
Increase (decrease) in trade payables	1,771	(8,854)	5,619	14,758
Decrease in others, net	(327)	(270)	(1,206)	(2,725)
	12,028	17,669	9,805	100,233
Interest and dividends received	609	506	453	5,075
Interest paid	(17)	(35)	(38)	(142)
Income taxes paid	(2,058)	(9,490)	(5,085)	(17,150)
Others, net	(160)	64	206	(1,333)
Net cash provided by operating activities	10,402	8,713	5,340	86,683
II. Cash flows from investing activities:				
Decrease (increase) in time deposits, net	78	(507)	208	650
Payments for purchase of property, plant and equipment	(4,895)	(2,747)	(2,596)	(40,792)
Proceeds from sales of property, plant and equipment	251	93	116	2,092
Payments for purchase of marketable securities and investment in securities	(9,360)	(6,218)	(7,276)	(78,000)
Proceeds from sales of marketable securities and investment in securities	7,073	7,648	5,040	58,942
Long-term loans to unconsolidated subsidiaries	(66)	(2,461)	(51)	(550)
Others, net	(81)	(1,142)	(192)	(675)
Net cash used in investing activities	(6,999)	(5,334)	(4,750)	(58,325)
III. Cash flows from financing activities:				
(Decrease) increase in short-term debt, net	(57)	58	(140)	(475)
Repayments of long-term debt, net	(11)	(44)	(88)	(92)
Cash dividends paid	(2,116)	(2,117)	(2,117)	(17,633)
Cash dividends paid to minority interests in consolidated subsidiaries	(28)	(40)	(30)	(233)
Payments for purchase of treasury stock, net	(4,058)	(25)	4	(33,817)
Net cash used in financing activities	(6,270)	(2,169)	(2,371)	(52,250)
IV. Effect of exchange rate changes on cash and cash equivalents	(59)	145	58	(492)
V. Net (decrease) increase in cash and cash equivalents	(2,927)	1,354	(1,723)	(24,392)
VI. Cash and cash equivalents at beginning of year	32,980	31,569	33,240	274,833
VII. Cash and cash equivalents of newly consolidated subsidiaries, net of excluded subsidiaries from consolidation	1,454	56	52	12,117
VIII. Cash and cash equivalents at end of year	¥31,507	¥32,980	¥31,569	\$262,558

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kurita Water Industries Ltd. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

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

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

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

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

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers and has been made for 2003, as a matter of arithmetical computation only, at the rate of ¥120 to US\$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2003. 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: 28

Name of principal consolidated subsidiaries: 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 equity method has not 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. Fiscal year of consolidated subsidiaries

The fiscal year of Kurita (Singapore) Pte. Ltd. and 11 other overseas consolidated subsidiaries ended December 31, 2002. The accompanying consolidated financial statements include the accounts of these subsidiaries as of December 31, 2002 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 is 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.

As of the fiscal year ended March 2003, the Company switched to an annual compensation scheme for managers and above in place of remuneration based on salaries and bonuses. Accordingly, the Company eliminated the provision for bonus payments. As a result, bonus provisions declined by ¥562 million compared with the previous accounting method, which led to a ¥555 million increase in operating income and income before income taxes.

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) Income per share

Basic and diluted earnings per share are computed using the weighted-average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares are additional common shares from outstanding stock options that are assumed to be exercised. No dilution has resulted from those shares, as the effect is antidilutive.

(6) Consumption tax

Consumption taxes are accounted for separately from transaction prices.

(7) Derivatives transactions

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

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

The full fair value method is used.

7. 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.

8. 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.

9. 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

Difference between fair market price of the land at the fiscal year-end and the carrying value after land revaluation: ¥(1,002) million

10. Research and development expenses

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

Millions of Yen		Thousands of U.S. Dollars
2003	2002	2003
¥4,484	¥5,071	\$37,367

11. Reconciliation between cash and cash equivalents

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash and bank deposits.....	¥31,838	¥33,408	\$265,317
Time deposits having original maturity of more than three months	(330)	(428)	(2,750)
Cash equivalents included in marketable securities.....	—	—	—
Cash and cash equivalents	¥31,507	¥32,980	\$262,558

12. Marketable securities and investment securities

(1) Bonds held to maturity with fair value at March 31, 2003 and 2002 are summarized as follows:

At March 31, 2003	Millions of Yen		
	Book value	Fair value	Difference
Fair value not exceeding book value:			
Corporate bonds	¥ —	¥ —	¥ —
Total.....	¥ —	¥ —	¥ —

At March 31, 2002	Millions of Yen		
	Book value	Fair value	Difference
Fair value not exceeding book value:			
Corporate bonds	¥1,000	¥839	¥(160)
Total.....	¥1,000	¥839	¥(160)

At March 31, 2003	Thousands of U.S. Dollars		
	Book value	Fair value	Difference
Fair value not exceeding book value:			
Corporate bonds	\$ —	\$ —	\$ —
Total.....	\$ —	\$ —	\$ —

(2) Other securities (available-for-sale securities) with fair value at March 31, 2003 and 2002 are summarized as follows:

At March 31, 2003	Millions of Yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock.....	¥ 1,308	¥ 1,968	¥ 659
Bonds:			
Corporate bonds	8,637	8,677	39
Other	—	—	—
Sub-total	9,946	10,646	699
Book value not exceeding acquisition cost:			
Stock.....	3,688	2,863	(824)
Bonds:			
Corporate bonds	6,895	6,839	(56)
Other	499	499	0
Sub-total	11,083	10,202	(881)
Total.....	¥21,030	¥20,848	¥(182)

At March 31, 2002	Millions of Yen		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock.....	¥ 1,641	¥ 2,745	¥1,104
Bonds:			
Corporate bonds.....	6,711	6,764	53
Other.....	—	—	—
Sub-total.....	8,352	9,510	1,158
Book value not exceeding acquisition cost:			
Stock.....	4,070	3,354	(715)
Bonds:			
Corporate bonds.....	7,840	7,695	(144)
Other.....	300	296	(3)
Sub-total.....	12,210	11,346	(863)
Total.....	¥20,562	¥20,857	¥ 294

At March 31, 2003	Thousands of U.S. Dollars		
	Acquisition cost	Book value	Difference
Book value exceeding acquisition cost:			
Stock.....	\$ 10,900	\$ 16,400	\$ 5,492
Bonds:			
Corporate bonds.....	71,975	72,308	325
Other.....	—	—	—
Sub-total.....	82,883	88,717	5,825
Book value not exceeding acquisition cost:			
Stock.....	30,733	23,858	(6,867)
Bonds:			
Corporate bonds.....	57,458	56,992	(467)
Other.....	4,158	4,158	(0)
Sub-total.....	92,358	85,017	(7,342)
Total.....	\$175,250	\$173,733	\$(1,517)

During the fiscal year ended March 2003, the Company wrote down ¥822 million in other (available-for-sale) securities at a market price. The Company wrote down ¥1,955 million in other (available-for-sale) securities at a market price in the fiscal year ended March 2002.

The Company writes down all securities whose market prices as of the end of the fiscal year have fallen more than 50% below their acquisition prices. Securities whose market prices have fallen between 30% and 50% below their acquisition prices are written down by an appropriate amount, if necessary, after considering their recoverable value.

(3) Other securities (available-for-sale securities) sold during the years ended March 31, 2003 and 2002 are summarized as follows:

For the year ended March 31, 2003	Sales amount	Total gains on sales	Total losses on sales
	¥2 million	—	¥1 million
	US\$17 thousand	—	US\$8 thousand
For the year ended March 31, 2002	Sales amount	Total gains on sales	Total losses on sales
	¥4 million	¥— million	¥— million

(4) The book value of major securities without available fair value at March 31, 2003 and 2002 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Other securities:			
Unlisted stocks (excluding those traded on the over-the-counter market).....	¥3,089	¥1,102	\$25,742
Unlisted foreign bonds.....	—	1	—

(5) The schedule of redemption for other securities with maturity (available-for-sale securities) and held-to-maturity debt securities at March 31, 2003 and 2002 is summarized as follows:

At March 31, 2003	Millions of Yen				Thousands of U.S. Dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Debt securities:								
Corporate bonds	¥6,015	¥9,500	¥ —	¥ —	\$50,125	\$79,167	\$ —	\$ —
Other	499	—	—	—	4,158	—	—	—
Total	¥6,515	¥9,500	¥ —	¥ —	\$54,292	\$79,167	\$ —	\$ —

At March 31, 2002	Millions of Yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Debt securities:				
Corporate bonds	¥4,344	¥11,116	¥ —	¥ —
Other	296	—	—	—
Total	¥4,640	¥11,116	¥ —	¥ —

13. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Finished products.....	¥1,119	¥1,276	\$ 9,325
Raw materials.....	1,296	1,606	10,800
Work in process	3,884	4,820	32,367
Total	¥6,301	¥7,702	\$52,508

14. 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, 2003 and 2002 were approximately 3.59% and 5.15%, respectively.

Long-term debt at March 2003 and 2002 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loan from banks at interest rates from 3.13% to 5.20%.....	¥47	¥85	\$392
Less current portion	(7)	(7)	(58)
Total	¥40	¥78	\$333

15. Income taxes

After application of tax effect accounting for financial statement purposes for the year ended March 31, 2003, 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:

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

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

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Excess provision for accrued employees' retirement benefits	¥3,428	¥2,924	\$28,567
Excess provision for accrued bonuses to employees	735	798	6,125
Accrued enterprise taxes not deductible	282	—	2,350
Accrued retirement benefits for directors and corporate auditors	343	274	2,858
Loss from write-down of other securities.....	—	362	—
Excess provision of allowance for product warranty	288	258	2,400
Loss from write-down of marketable securities	297	855	2,475
Loss from planned designing expenses	185	219	1,542
Unrealized gain on sales of property, plant and equipment	237	185	1,975
Excess provision for allowance for doubtful accounts.....	—	179	—
Excess provision of amortization for intangible assets	171	—	1,425
Unrealized gain on sales of an affiliated company's stock	150	—	1,250
Loss on write-down of golf club membership	146	—	1,217
Other	680	932	5,667
Total deferred tax assets.....	6,947	6,993	57,892
Deferred tax liabilities:			
Reserve for reduction entry of cost of fixed assets	(887)	(928)	(7,392)
Gain on valuation of other securities	—	(486)	—
Projected income taxes pertaining to retained earnings of overseas consolidated subsidiaries.....	(203)	(216)	(1,692)
Total deferred tax liabilities.....	(1,090)	(1,631)	(9,083)
Deferred tax assets, net	¥5,857	¥5,361	\$48,808

16. Retirement benefits and pension plans

1. The Company and 15 domestic consolidated subsidiaries provide lump-sum retirement benefits and qualified pension plans as defined benefit pension plans; moreover, the Company and 4 domestic consolidated subsidiaries have both plans, and another 5 domestic consolidated subsidiaries have fully introduced qualified pension plans.

2. Benefit obligation:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Retirement benefit obligation	¥(22,987)	¥(22,160)	\$191,558
Fair value of pension plan assets	11,337	10,081	94,475
Unfunded retirement benefit obligation	(11,650)	(12,079)	(97,083)
Unrecognized net obligation at transition arising from new accounting standards	—	1,153	—
Unrecognized actuarial gain	180	53	1,500
Unrecognized prior service cost.....	—	—	—
Net retirement benefit obligation	(11,469)	(10,873)	(95,575)
Advance payment for pension cost	—	—	—
Accrued employees' retirement benefits.....	¥(11,469)	¥(10,873)	\$ (95,575)

3. Benefit cost:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost.....	¥1,246	¥1,175	\$10,383
Interest cost.....	531	577	4,425
Expected return on plan assets	—	(65)	—
Amortization of obligation at transition arising from new accounting standards	1,162	1,162	9,683
Actuarial loss	984	1,331	8,200
Prior service cost.....	—	137	—
Extra additional retirement payments	164	31	1,367
Net periodic benefit cost.....	¥4,090	¥4,349	\$34,083

4. Assumptions to determine above obligation and cost:

	2003	2002
Periodic allocation of projected benefit obligation	Equal amount over each period	Equal amount over each period
Discount rate	2.5%	2.5–3.0%
Expected return rate on plan assets	0.0%	0.0–1.0%
Amortization period of net obligation at transition	three years	three years
Recognition period of actuarial loss	one–two years	one–two years

17. Leases

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

1) Leased assets (lessee)

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Acquisition costs.....	¥1,995	¥2,615	\$16,625
Accumulated depreciation.....	1,169	1,525	9,742
Net book value.....	¥ 826	¥1,089	\$ 6,883

2) Lease obligations (net book value)

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year or less.....	¥306	¥ 402	\$2,550
Due within more than one year.....	519	686	4,325
Total.....	¥826	¥1,089	\$6,883

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Lease payments.....	¥403	¥592	\$3,358
(Depreciation expenses).....	(403)	(592)	(3,358)

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

2. Accrued lease payments relating to operating lease transactions

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year or less.....	¥ 61	¥ 61	\$ 508
Due within more than one year.....	82	75	683
Total.....	¥144	¥136	\$1,200

18. Segment information

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

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

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, 2003	Thousands of U.S. Dollars				
	Chemicals division	Facilities division	Total	Elimination or corporate	Consolidated
I. Sales and operating income					
Sales					
1) Sales to outside customers	\$392,633	\$787,600	\$1,180,233	\$ —	\$1,180,233
2) Intersegment sales.....	3,150	1,700	4,858	(4,858)	—
Total	395,783	789,300	1,185,092	(4,858)	1,180,233
Operating costs and expenses.....	341,667	741,542	1,083,217	(5,542)	1,077,675
Operating income.....	\$ 54,108	\$ 47,750	\$ 101,867	\$ 683	\$ 102,558
II. Assets, depreciation and capital expenditures					
Assets.....	\$311,258	\$688,392	\$ 999,650	\$447,750	\$1,447,408
Depreciation and amortization	9,250	18,300	27,558	—	27,558
Capital expenditures	9,725	41,925	51,650	—	51,650

Overseas net sales:

	Millions of Yen					Thousands of U.S. Dollars
	Asia	North America	Europe	Other	Total	Total
For the year ended March 31, 2003						
Overseas net sales	¥15,837	¥731	¥620	¥1,237	¥ 18,427	\$ 153,558
Consolidated net sales	—	—	—	—	141,628	1,180,233
Percentage of overseas net sales to consolidated net sales	11.2%	0.5%	0.4%	0.9%	13.0%	13.0%

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

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

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

North America: United States

Europe: Germany

Other: Brazil

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

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

19. Contingent liabilities

Guarantees for employees' indebtedness from bank housing loans at March 31, 2003 and 2002 were as follows:

Millions of Yen		Thousands of U.S. Dollars
2003	2002	2003
¥78	¥126	\$650

20. Subsequent events

Appropriation of unappropriated retained earnings

The following appropriations of unappropriated retained earnings for the year ended March 31, 2003, were approved at the general meeting of shareholders of the Company held on June 27, 2003:

	Millions of Yen
Cash dividends	¥1,028
Bonuses to directors and corporate auditors	71

Authorized number of shares increased

Following the end of the fiscal year, after receiving approval at the general meeting of shareholders held on June 27, 2003, the Company increased the authorized number of shares to 531,000,000 shares in preparation for future issues to raise capital.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

T A I Y O

TAIYO AUDIT CORPORATION

AKASAKA OJI Bldg.8F

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

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

To the Board of Directors of
Kurita Water Industries Ltd.

We have audited the accompanying consolidated balance sheets of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kurita Water Industries Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Taiyo Audit Corporation

Tokyo, Japan
June 27, 2003

NON-CONSOLIDATED SUMMARY

Non-Consolidated Balance Sheets, at March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets			
Current assets	¥ 94,641	¥ 93,891	\$ 788,675
Property, plant and equipment	31,110	29,198	259,250
Intangible assets	2,413	2,025	20,108
Investments and other assets.....	29,722	32,029	247,683
	¥157,888	¥157,145	\$1,315,733
Liabilities			
Current liabilities	¥ 36,121	¥ 35,692	\$ 301,008
Long-term liabilities.....	11,131	10,412	92,758
	47,252	46,105	393,767
Shareholders' equity			
Common stock	13,450	13,450	112,083
Additional paid-in capital.....	11,398	11,398	94,983
Retained earnings.....	90,753	86,829	756,275
Unrealized gains on revaluation of land.....	20	19	167
Unrealized holding (losses) gains on other securities.....	(100)	169	(833)
Treasury stock, at cost	(4,885)	(827)	(40,708)
	110,636	111,039	921,967
Total liabilities and shareholders' equity	¥157,888	¥157,145	\$1,315,733

Non-Consolidated Statements of Income, for the Years Ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Net sales	¥114,115	¥117,518	¥129,698	\$950,958
Cost of sales	81,839	84,731	92,986	681,992
Gross profit.....	32,276	32,787	36,712	268,967
Selling, general and administrative expenses.....	23,741	25,532	24,699	197,842
Operating income	8,535	7,255	12,013	71,125
Non-operating income	2,630	3,181	2,259	21,917
Non-operating expenses.....	2,327	4,005	2,644	19,392
Income before income taxes	8,838	6,431	11,628	73,650
Corporate, inhabitants' and enterprise taxes.....	3,388	2,089	4,858	28,233
Net income	¥ 5,450	¥ 4,341	¥ 6,770	\$ 45,417

SUBSIDIARIES

Major Consolidated Subsidiaries and Affiliates

Company Name	Paid-in Capital (Millions)	Equity Ownership (%)	Main Business
OVERSEAS			
North America • South America			
Kurita do Brasil Ltda. Av. Eng. Eusebio Stevaux 1469, CEP 04696, Santo Amaro, São Paulo, Brazil Telephone: 55 (11) 5686-8388 Facsimile: 55 (11) 5686-6365	R\$8.9	100.0	Manufacture and Sales of Water Treatment Chemicals
Kurita America Inc. 1313 Valwood Parkway, Suite 370 Carrollton, TX 75006, U.S.A Telephone: 1 (972) 484-4438 Facsimile: 1 (972) 484-4445	US\$3.0	100.0	Facility Operation
Kurita de Mexico S.A. de C.V. Calle #1 No. 191, Parque Industrial Jurica, Querétaro, C.P. 76100, Mexico Telephone: 52 (42) 185911 Facsimile: 52 (42) 181177	M.N. PESO8.1	45.0	Manufacture and Sales of Water Treatment Chemicals
Europe			
Kurita Europe GmbH 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
Kuritec Europe GmbH Neiderlassurg Landshut Rebenring 11, D-84032 Altdorf, Germany Telephone: 49 (871) 684277 Facsimile: 49 (871) 35827	DM1.9	100.0	Facility Operation
Asia			
Kurita (Singapore) Pte. Ltd. 30 Joo Koon Road, Singapore 628984 Telephone: 65 (6861) 2622 Facsimile: 65 (6861) 3036	S\$4.0	100.0	Manufacture and Sales of Water Treatment Chemicals and Water Treatment Facilities
Kurita Water (Malaysia) Sdn. Bhd. 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\$0.6	83.3	Sales of Water Treatment Chemicals and Water Treatment Facilities
Peremba-Kurita Sdn. Bhd. 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
Kurita Water Industries (Dalian) Co., Ltd. 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
Kurita (Taiwan) Co., Ltd. 10F-6, No. 150, Fu Hsing North Road, Taipei, Taiwan Telephone: 886 (2) 2717-4464 Facsimile: 886 (2) 2719-0292	NT\$20	95.0	Manufacture and Sales of Water Treatment Chemicals
P.T. Kurita Indonesia Jl. Jababeka XIIA 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
Kurita-GK Chemical Co., Ltd. 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
HANSU Ltd. 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
HANSU Technical Service Ltd. C-802 Bundang Techno-park 145, Yatap-dong Bundang-gu, Sunghnam-city, Kyunggi-do, Republic of Korea Telephone: 82 (2) 421-3301 Facsimile: 82 (2) 421-3304	W400	59.4	Sales of Water Treatment Facilities
Kuritec (Shanghai) Co., Ltd. Room 2202, No. 1289 Pudong South Road, Pudong New District, Shanghai, People's Republic of China Telephone: 80 (21) 5887-4337 Facsimile: 86 (21) 5887-4339	¥30	100.0	Maintenance Services and Sales of Small Water Treatment Facilities
Kuritec Singapore Pte. Ltd. 10-Tampines Industrial Avenue 3, Singapore 528798 c/o AFPD Pte., Ltd. Telephone: 65 (6587) 6186 Facsimile: 65 (6424) 9100	S\$1.49	100.0	Sales of Ultrapure Water for Specified Customers
DOMESTIC CONSOLIDATED SUBSIDIARIES			
Kurita Kasei Co., Ltd.	¥ 70	100.0	Manufacture of Water Treatment Chemicals
Kurita Engineering Co., Ltd.	¥160	100.0	Chemical Cleaning and Precision Cleaning
Kuritz Co., Ltd.	¥220	100.0	Facility Operation
Kurita Creation Co., Ltd.	¥160	100.0	Manufacture and Sales of Purifiers
Kuritec Service Co. Ltd.	¥ 50	100.0	Precision Cleaning
Land Solution Inc.	¥450	51.0	Real Estate Transactions and Soil Remediation Consulting

(As of June 30, 2003)

BOARD OF DIRECTORS AND CORPORATE AUDITORS/CORPORATE DATA

Board of Directors and Corporate Auditors

(As of June 30, 2003)

Chairman

Takahide Santo

President

Hiroshi Fujino

Executive Senior Managing Director

Toyoaki Inoue

Managing Directors

Sumio Miyake

Takuo Ishida

Hiroshi Nakamura

Hiroshi Saitou

Directors

Toshiyuki Hisamatsu

Kazuyoshi Yoshitomi

Tohru Kawachi

Toshiaki Deguchi

Kazufumi Moriuchi

Yoshinobu Watanabe

Mitsuru Ogawa

Toru Matsushima

Corporate Auditors

Mitsunobu Hattori

Masahiko Kurita

Hisashi Nemoto

Kazuma Yura

Corporate Data

(As of March 31, 2003)

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

3,346 (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, Morinosato Wakamiya, Atsugi,
Kanagawa 243-0124
Telephone: 81 (46) 270-2111

Business & Technology Development Center:

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

Branches:

Sapporo, Sendai, Nagoya, Hiroshima,
Takamatsu, Fukuoka

OVERSEAS OFFICES

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

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

11,639

INDEPENDENT AUDITOR

Taiyo Audit Corporation

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

TRANSFER AGENT

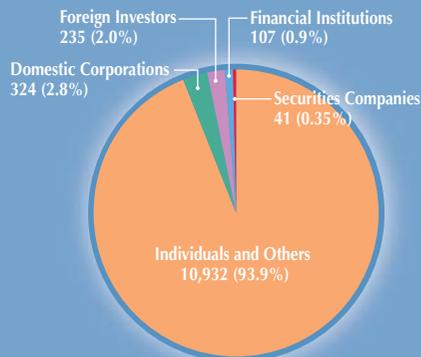
The Chuo Mitsui Trust and Banking Co., Ltd.

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

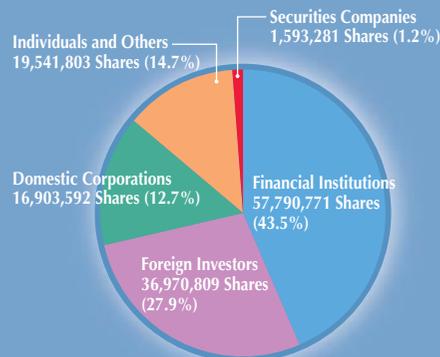
MAIN SHAREHOLDERS

	Shareholdings	Percentage of total shares issued
Itochu Corporation	10,268,000	7.7%
Nippon Life Insurance Company	7,365,083	5.5%
Northern Trust Company (AVFC) Sub Account American Client	6,136,800	4.6%
UFJ Bank Limited	5,872,131	4.4%
Resona Bank, Limited	5,668,623	4.3%
The Chase Manhattan Bank N.A. London	4,980,621	3.75%
Sumitomo Mitsui Banking Corporation	4,672,701	3.5%
The Tokyo Marine and Fire Insurance Co., Ltd.	4,461,526	3.4%
Kurita Water Industries Ltd.	4,213,867	3.2%
The Master Trust Bank of Japan, Ltd. (Trust account)	3,692,300	2.8%

DISTRIBUTION OF SHAREHOLDERS AND SHARES



Number of Shareholders
11,639 (100%)



Number of Shares Issued
132,800,256 shares (100%)

STOCK PRICE RANGE





ADDRESS: 4-7, Nishi-Shinjuku 3-chome,
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