

FOR IMMEDIATE RELEASE

## Kurita Water Industries Reports First Quarter Earnings

Tokyo, Japan July 28, 2005—Kurita Water Industries Ltd. (TSE Security Code 6370) announced revenue for the first quarter (April 1 – June 30, 2005) of the fiscal year ending March 31, 2006 of 27,922 million yen and net income of 624 million yen, or 4.86 yen per share.

### **Results of Operations**

Total consolidated orders for the Kurita Group increased 11.0% for the quarter over the previous year to 42,668 million yen, while net sales for the same period increased 6.3% year-on-year to 27,922 million yen. Operating income increased 29.7% to 852 million yen and ordinary income grew 42.2% to 1,152 million yen, resulting in a net income increase of 32.5% to 624 million yen. By segment, water treatment chemicals sales increased 5.7% year-on-year to 11,963 million yen, while water treatment facilities sales grew 6.7% to 15,959 million yen.

In the electronics industry, while large-scale capital expenditures in Taiwan and Korea had run their course during the quarter, capital expenditures remained strong in Japan. Other industries showed signs of improvement, reflecting the factory operating ratio and capital expenditures that remained largely on the recovery path. On the other hand, the business climate for public expenditures related businesses remained unfavorable due to shrinking budgets for public works projects and intensified competition.

Reflecting the seasonal nature of its water treatment facilities business, the Kurita Group's first quarter and third quarter sales tend to be lower than other quarters with the water treatment facilities sales skewed toward the end of the first half and the end of the fiscal year.

### **Segment Information**

#### **Water Treatment Chemicals**

Total Group orders for the segment increased 3.5% to 13,446 million yen, while sales increased 5.7% to 11,963 million yen. The relatively higher weight of the segment to total Group sales during the first quarter reflects the aforementioned seasonality of the water treatment facilities business.

During the quarter, the Group focused its efforts on securing stable order flow by emphasizing marketing of new products accommodating clients' needs, promoting packaged water treatment management contracts, and pursuing closer relationships with its clients.

Orders for the Group's mainstay boiler water treatment chemicals and cooling water treatment chemicals were largely flat, compared with the same period of the previous fiscal year, while wastewater treatment chemicals saw an order increase. In other products, orders for process chemicals used in the paper and pulp industry and orders for agents used to solidify heavy metals contained in waste incineration fly ash both decreased, while higher orders were seen for process chemicals used in the oil refining and petrochemical industry.

#### **Water Treatment Facilities**

Total Group orders for the segment increased 14.9% to 29,222 million yen, while sales grew 6.7% to 15,959 million yen.

During the quarter, in an effort to secure stable order flow, the Group emphasized its "Solutions Business" in offering clients solutions that address their needs to reduce cost and environmental burden, and the "Outsourcing Business" as represented by the ultra-pure water supply business.

In the private sector, orders for the Group's mainline ultra-pure water production systems for the electronics industry dropped in Taiwan and Korea, but surged in Japan, compared with the same period of the previous year. In addition, orders for the tool cleaning service for semiconductor and FPD

production equipment and related maintenance services increased. As a result of these, overall orders from the electronics industry increased. Besides, the segment saw a dramatic growth in orders for water treatment facilities as well as orders for related maintenance services from other industries (the food, pharmaceuticals, basic materials and automobile industries). Orders for soil remediation also surged.

In public works projects, orders for sewage treatment facilities and orders for human waste treatment facilities saw a slight increase compared with a year earlier.

### **Financial Condition**

At the end of the quarter, total assets on a consolidated basis declined 5,625 million yen from the end of the previous fiscal year to 186,803 million yen, mainly reflecting a decrease of 15,937 million yen in accounts receivable due to a progress in collection of accounts receivable that had accumulated at the end of the previous fiscal year, which offset an increase in inventories by 6,079 million yen mainly reflecting the increase in work in progress in the water treatment facilities segment. Total liabilities decreased 5,116 million yen to 49,835 million yen, mainly reflecting the decrease of 4,917 million yen in accounts payable that had accumulated at the end of the previous fiscal year. Total shareholders' equity decreased 629 million yen to 135,737 million yen, mainly reflecting the decrease in retained earnings by 690 million yen following the year-end dividend payment. As a result, the Company's shareholders' equity ratio increased from 70.9% at the end of the previous fiscal year to 72.7%.

### **Outlook for the Full Year**

The Company's business performance for the first quarter was largely in line with the initial forecast, and the Company is confident that it is on track to achieve interim and full-year earnings forecast for the fiscal year ending March 31, 2006 which was included in our earnings announcement dated April 28, 2005.

### **Business Risks**

Major risk factors that could affect the Group's future performance include, but are not limited to, capital expenditure trends on water treatment facilities and factory operating ratios at clients, public investment trends, price movements in oil and other materials, and competition with peers.

### **About the Kurita Group**

The Kurita Group provides a wide range of products, technologies, and maintenance services related to water treatment. The two core lines of the Group's business consist of: 1) water treatment chemicals used for boiler water, cooling water, waste water and in manufacturing processes, and 2) water treatment facilities such as ultra-pure water production systems, wastewater treatment facilities, and sewage water treatment facilities. The business scope of both lines includes production, sales, and maintenance services. For additional information about the Kurita Group, please visit the Company's website at [www.kurita.co.jp](http://www.kurita.co.jp).

### **Forward-Looking Statements**

This news release contains various forward-looking statements which are based on current expectations and assumptions of future events. Except for the historical information contained herein, all figures and statements with respect to future performance, projections and business plans of the Kurita Group constitute forward-looking statements. Although Kurita believes that its expectations and assumptions are reasonable, actual results and trends of the Group's performance could differ materially from those expressed or implied by such figures or statements because of risks and uncertainties, including but not limited to factory operating ratios at major clients in the steel, petroleum and paper/pulp industries; capital expenditure trends in the electronics, food, pharmaceuticals, basic material and automobile industries; and the financial condition and budgeting actions of national and local governments in Japan.

## Condensed Financial Statements - Consolidated

### Condensed Balance Sheets - Consolidated

(in million yen)

	As of June 30, 2005 (A)	As of June 30, 2004 (B)	(Reference) As of March 31, 2005 (C)	(A) – (B)	(A) – (C)
<b>[Assets]</b>					
<b>Current assets</b>	107,332	114,053	116,400	-6,721	-9,068
Cash and deposits	30,781	41,496	30,679	-10,715	102
Notes receivable - trade	11,344	10,547	9,958	797	1,386
Accounts receivable - trade	45,221	40,457	61,158	4,764	-15,937
Marketable securities	2,277	6,119	2,794	-3,842	-517
Inventories	14,154	12,192	8,075	1,962	6,079
Other	3,698	3,373	3,891	325	-193
Allowance for doubtful accounts	-144	-133	-156	-11	12
<b>Fixed assets</b>	79,471	64,344	76,028	15,127	3,443
Tangible fixed assets	44,759	41,750	43,855	3,009	904
Intangible fixed assets	3,073	3,409	3,180	-336	-107
Investments and other assets	31,638	19,184	28,993	12,454	2,645
Total assets	186,803	178,397	192,428	8,406	-5,625
<b>[Liabilities]</b>					
<b>Current liabilities</b>	39,731	38,273	44,465	1,458	-4,734
Notes payable - trade	1,729	1,746	1,521	-17	208
Accounts payable - trade	21,725	21,361	26,642	364	-4,917
Accounts payable - other/Accrued expenses	8,401	6,696	7,413	1,705	988
Income taxes payable	933	471	3,924	462	-2,991
Accrued employees' bonuses	1,351	1,301	2,060	50	-709
Other	5,590	6,696	2,904	-1,106	2,686
<b>Fixed liabilities</b>	10,104	10,951	10,485	-847	-381
Accrued employees' retirement benefits	8,655	9,093	8,689	-438	-34
Other	1,448	1,857	1,795	-409	-347
Total liabilities	49,835	49,224	54,951	611	-5,116
<b>[Minority interests]</b>					
Minority interests	1,230	1,000	1,110	230	120
<b>[Shareholders' equity]</b>					
<b>Common stock</b>	13,450	13,450	13,450	-	-
<b>Additional paid-in capital</b>	11,409	11,398	11,409	11	-
<b>Retained earnings</b>	114,628	107,481	115,318	7,147	-690
<b>Net unrealized gains on available-for-sale securities</b>	1,766	1,482	1,809	284	-43
<b>Foreign currency translation adjustments</b>	-685	-748	-790	63	105
<b>Treasury stock</b>	-4,832	-4,892	-4,830	60	-2
Total shareholders' equity	135,737	128,171	136,366	7,566	-629
Total liabilities, minority interests and shareholders' equity	186,803	178,397	192,428	8,406	-5,625

## Condensed Statements of Operations - Consolidated

(in million yen)

	Three months ended June 30, 2005 (A)		Three months ended June 30, 2004 (B)		(A) - (B)	(Reference) Year ended March 31, 2005	
	Amount	%	Amount	%	Amount	Amount	%
Net sales	27,922	100.0	26,277	100.0	1,645	160,896	100.0
Cost of sales	18,579	66.5	17,420	66.3	1,159	112,077	69.7
Gross profit	9,343	33.5	8,856	33.7	487	48,819	30.3
Selling, general and administrative expenses	8,490	30.4	8,199	31.2	291	32,867	20.4
Operating income	852	3.1	657	2.5	195	15,951	9.9
Non-operating income	369	1.3	240	0.9	129	1,068	0.7
Non-operating expense	70	0.3	87	0.3	-17	295	0.2
Ordinary income	1,152	4.1	810	3.1	342	16,725	10.4
Extraordinary gains	-	-	-	-	-	128	0.1
Extraordinary losses	-	-	-	-	-	477	0.3
Net income before income taxes	1,152	4.1	810	3.1	342	16,376	10.2
Income taxes	457	1.6	326	1.3	131	6,838	4.3
Minority interests in earnings of consolidated subsidiaries	70	0.3	12	0.0	58	154	0.1
Net income	624	2.2	471	1.8	153	9,383	5.8

## Order Intake

(in million yen)

Business Segment	Three months ended June 30, 2005 (A)		Three months ended June 30, 2004 (B)		(A) – (B)	(Reference) Year ended March 31, 2005	
	Amount	%	Amount	%	Amount	Amount	%
Water Treatment Chemicals	13,446	31.5	12,988	33.8	458	52,120	30.4
Water Treatment Facilities	29,222	68.5	25,442	66.2	3,780	119,213	69.6
Total	42,668	100.0	38,430	100.0	4,238	171,334	100.0

## Net Sales

(in million yen)

Business Segment	Three months ended June 30, 2005 (A)		Three months ended June 30, 2004 (B)		(A) – (B)	(Reference) Year ended March 31, 2005	
	Amount	%	Amount	%	Amount	Amount	%
Water Treatment Chemicals	11,963	42.8	11,319	43.1	644	50,637	31.5
Water Treatment Facilities	15,959	57.2	14,958	56.9	1,001	110,259	68.5
Total	27,922	100.0	26,277	100.0	1,645	160,896	100.0