

FOR IMMEDIATE RELEASE

## **Kurita Water Industries Reports Third Quarter Earnings**

Tokyo, Japan February 3, 2006—Kurita Water Industries Ltd. (TSE Security Code 6370) announced net sales of 103,675 million yen for the first nine months (April 1 – December 31, 2005) of the fiscal year ending March 31, 2006 and net income of 3,855 million yen, or 29.97 yen per share.

### **Results of Operations**

Total consolidated orders for the Kurita Group increased 9.6% from the same period a year earlier to 133,294 million yen, while net sales grew 2.4% year-on-year to 103,675 million yen. Operating income shrank 23.2% to 6,033 million yen and ordinary income declined 14.4% to 7,031 million yen, resulting in net income of 3,855 million yen or down 15.4% year-on-year. By segment, water treatment chemicals sales grew 8.7% year-on-year to 39,788 million yen, while water treatment facilities sales fell 1.2% to 63,886 million yen.

During the period, capital expenditures in the electronics industry varied widely in scale across companies in Taiwan and South Korea but remained strong in Japan. In other industrial sectors for water treatment, factory operating ratio improved and capital expenditures were robust mainly in the basic materials sector. On the other hand, the business climate for public expenditures related businesses remained difficult due to shrinking budgets for public works projects.

### **Segment Information**

#### **Water Treatment Chemicals**

Total Group orders for the segment increased 5.9% to 40,358 million yen, while sales grew 8.7% to 39,788 million yen.

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

Orders for the Group's mainstay boiler water treatment chemicals and cooling water treatment chemicals were largely flat compared with the previous year, while wastewater treatment chemicals saw an order increase. In other products, orders for agents used to solidify heavy metals contained in waste incineration fly ash decreased, while orders for process chemicals used in the paper and pulp industry and orders for packaged water treatment management contracts both increased.

#### **Water Treatment Facilities**

Total Group orders for the segment increased 11.3% to 92,936 million yen, while sales declined 1.2% to 63,886 million yen.

During the period, to secure stable order flow, the Group continued to focus its efforts on expanding its Ultrapure Water Supply Business and strengthening marketing efforts to strategic clients.

In the private sector, orders for the Group's mainline ultra-pure water production systems for the electronics industry grew in overseas markets, and orders for Ultrapure Water Supply Business grew in Japan. In electronics industry related business, new orders increased for maintenance service as well as for tool cleaning service for semiconductor and FPD production equipment. In other water treatment areas, orders for water treatment facilities mainly for the basic materials sector surged and so did orders for related maintenance services. Orders for soil remediation also increased sharply on the back of a demand increase.

In public works projects, orders for sewage treatment facilities and orders for human waste treatment facilities both decreased compared with the previous year.

### **Financial Condition**

At the end of the period, total assets on a consolidated basis increased 6,347 million yen from the end of the previous fiscal year to 198,775 million yen. This mainly reflects a decrease of 16,519 million yen in accounts receivable (-trade) due to the progress in collection, which was offset by an increase in inventories by 11,156 million yen, largely reflecting progress in construction work in the water treatment facilities segment, and an increase in tangible fixed assets by 8,433 million yen as the Group acquired additional operating fixed assets. Total liabilities increased 3,205 million yen to 58,156 million yen, mainly reflecting an increase of 2,995 million yen in accounts payable (-trade). Total shareholders' equity increased 3,008 million yen to 139,374 million yen, mainly reflecting an increase in net unrealized gains on available-for-sale securities of 2,185 million yen. As a result, the Company's shareholders' equity ratio decreased from 70.9% at the end of the previous fiscal year to 70.1%.

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

The Group believes that it is on track to achieving its full-year earnings forecast for the fiscal year ending March 31, 2006 which was included in its consolidated first-half earnings report released October 31, 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, and price movements in oil and other materials.

Reflecting the seasonal nature of its water treatment facilities business, the 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.

### **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 ultrapure 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/english](http://www.kurita.co.jp/english)

### **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 Statements of Operations - Consolidated

(In million yen)

|   | Nine months ended<br>December 31, 2005 (A) |       | Nine months ended<br>December 31, 2004 (B) |       | (A) – (B) | (Reference)<br>Year ended<br>March 31, 2005 |       |
|---|--|-------|--|-------|-----------|---|-------|
|   | Amount                                     | %     | Amount                                     | %     | Amount    | Amount                                      | %     |
| Net sales   | 103,675                                    | 100.0 | 101,240                                    | 100.0 | 2,435     | 160,896                                     | 100.0 |
| Cost of sales   | 72,197                                     | 69.6  | 68,695                                     | 67.8  | 3,502     | 112,077                                     | 69.7  |
| Gross profit  | 31,477                                     | 30.4  | 32,544                                     | 32.2  | -1,067    | 48,819                                      | 30.3  |
| Selling, general and<br>administrative expenses                   | 25,443                                     | 24.6  | 24,684                                     | 24.4  | 759       | 32,867                                      | 20.4  |
| Operating income  | 6,033                                      | 5.8   | 7,860                                      | 7.8   | -1,827    | 15,951                                      | 9.9   |
| Non-operating income  | 1,167                                      | 1.1   | 679  | 0.6   | 488       | 1,068                                       | 0.7   |
| Non-operating expense   | 169  | 0.2   | 326  | 0.3   | -157      | 295   | 0.2   |
| Ordinary income   | 7,031                                      | 6.7   | 8,212                                      | 8.1   | -1,181    | 16,725                                      | 10.4  |
| Extraordinary gains   | -  | -     | -  | -     | -         | 128   | 0.1   |
| Extraordinary losses  | 247  | 0.2   | -  | -     | 247       | 477   | 0.3   |
| Net income before income<br>taxes                                 | 6,783                                      | 6.5   | 8,212                                      | 8.1   | -1,429    | 16,376                                      | 10.2  |
| Income taxes  | 2,810                                      | 2.7   | 3,542                                      | 3.5   | -732      | 6,838                                       | 4.3   |
| Minority interests in<br>earnings of consolidated<br>subsidiaries | 117  | 0.1   | 114  | 0.1   | 3         | 154   | 0.1   |
| Net income  | 3,855                                      | 3.7   | 4,555                                      | 4.5   | -700      | 9,383                                       | 5.8   |

## Condensed Financial Statements - Consolidated

### Condensed Balance Sheets - Consolidated

(In million yen)

|   | As of<br>December 31,<br>2005<br>(A) | As of<br>December 31,<br>2004<br>(B) | (Reference)<br>As of<br>March 31, 2005<br>(C) | (A) – (B)     | (A) – (C)    |
|---|--------------------------------------|--------------------------------------|---|---------------|--------------|
| <b>[Assets]</b>   |                                      |                                      |   |               |              |
| <b>Current assets</b>   | 112,309                              | 112,781                              | 116,400                                       | -472          | -4,091       |
| Cash and deposits   | 29,331                               | 36,052                               | 30,679  | -6,721        | -1,348       |
| Notes receivable - trade  | 10,461                               | 10,592                               | 9,958   | -131          | 503          |
| Accounts receivable - trade   | 44,639                               | 41,563                               | 61,158  | 3,076         | -16,519      |
| Marketable securities   | 4,402                                | 4,100                                | 2,794   | 302           | 1,608        |
| Inventories   | 19,231                               | 16,898                               | 8,075   | 2,333         | 11,156       |
| Other   | 4,365                                | 3,705                                | 3,891   | 660           | 474          |
| Allowance for doubtful accounts                                       | -122                                 | -131                                 | -156  | 9             | 34           |
| <b>Fixed assets</b>   | 86,466                               | 68,965                               | 76,028  | 17,501        | 10,438       |
| Tangible fixed assets   | 52,288                               | 43,469                               | 43,855  | 8,819         | 8,433        |
| Intangible fixed assets   | 2,965                                | 3,265                                | 3,180   | -300          | -215         |
| Investments and other assets  | 31,211                               | 22,230                               | 28,993  | 8,981         | 2,218        |
| <b>Total assets</b>   | <b>198,775</b>                       | <b>181,746</b>                       | <b>192,428</b>                                | <b>17,029</b> | <b>6,347</b> |
| <b>[Liabilities]</b>  |                                      |                                      |   |               |              |
| <b>Current liabilities</b>  | 48,022                               | 38,071                               | 44,465  | 9,951         | 3,557        |
| Notes payable - trade   | 1,761                                | 1,908                                | 1,521   | -147          | 240          |
| Accounts payable - trade  | 29,637                               | 23,978                               | 26,642  | 5,659         | 2,995        |
| Accounts payable - other/Accrued expenses                             | 6,494                                | 5,124                                | 7,413   | 1,370         | -919         |
| Accrued employees' bonuses  | 1,294                                | 1,058                                | 2,060   | 236           | -766         |
| Other   | 8,834                                | 6,000                                | 6,828   | 2,834         | 2,006        |
| <b>Fixed liabilities</b>  | 10,134                               | 11,035                               | 10,485  | -901          | -351         |
| Accrued employees' retirement benefits                                | 8,717                                | 9,099                                | 8,689   | -382          | 28           |
| Other   | 1,416                                | 1,935                                | 1,795   | -519          | -379         |
| <b>Total liabilities</b>  | <b>58,156</b>                        | <b>49,107</b>                        | <b>54,951</b>                                 | <b>9,049</b>  | <b>3,205</b> |
| <b>[Minority interests]</b>   |                                      |                                      |   |               |              |
| Minority interests  | 1,245                                | 1,115                                | 1,110   | 130           | 135          |
| <b>[Shareholders' equity]</b>   |                                      |                                      |   |               |              |
| <b>Common stock</b>   | 13,450                               | 13,450                               | 13,450  | -             | -            |
| <b>Additional paid-in capital</b>                                     | 11,426                               | 11,409                               | 11,409  | 17            | 17           |
| <b>Retained earnings</b>  | 115,784                              | 110,496                              | 115,318                                       | 5,288         | 466          |
| <b>Net unrealized gains on available-for-sale securities</b>          | 3,994                                | 1,695                                | 1,809   | 2,299         | 2,185        |
| <b>Foreign currency translation adjustments</b>                       | -492                                 | -701                                 | -790  | 209           | 298          |
| <b>Treasury stock</b>   | -4,789                               | -4,827                               | -4,830  | 38            | 41           |
| <b>Total shareholders' equity</b>                                     | <b>139,374</b>                       | <b>131,523</b>                       | <b>136,366</b>                                | <b>7,851</b>  | <b>3,008</b> |
| <b>Total liabilities, minority interests and shareholders' equity</b> | <b>198,775</b>                       | <b>181,746</b>                       | <b>192,428</b>                                | <b>17,029</b> | <b>6,347</b> |

**Order Intake**

(In million yen)

| Business Segment           | Nine months ended<br>December 31, 2005<br>(A) |       | Nine months ended<br>December 31, 2004<br>(B) |       | (A) – (B) | (Reference)<br>Year ended<br>March 31, 2005 |       |
|----------------------------|---|-------|---|-------|-----------|---|-------|
|                            | Amount  | %     | Amount  | %     | Amount    | Amount                                      | %     |
| Water Treatment Chemicals  | 40,358  | 30.3  | 38,101  | 31.3  | 2,257     | 52,120                                      | 30.4  |
| Water Treatment Facilities | 92,936  | 69.7  | 83,494  | 68.7  | 9,442     | 119,213                                     | 69.6  |
| Total                      | 133,294                                       | 100.0 | 121,595                                       | 100.0 | 11,699    | 171,334                                     | 100.0 |

**Sales**

(In million yen)

| Business Segment           | Nine months ended<br>December 31, 2005<br>(A) |       | Nine months ended<br>December 31, 2004<br>(B) |       | (A) – (B) | (Reference)<br>Year ended<br>March 31, 2005 |       |
|----------------------------|---|-------|---|-------|-----------|---|-------|
|                            | Amount  | %     | Amount  | %     | Amount    | Amount                                      | %     |
| Water Treatment Chemicals  | 39,788  | 38.4  | 36,603  | 36.2  | 3,185     | 50,637                                      | 31.5  |
| Water Treatment Facilities | 63,886  | 61.6  | 64,636  | 63.8  | -750      | 110,259                                     | 68.5  |
| Total                      | 103,675                                       | 100.0 | 101,240                                       | 100.0 | 2,435     | 160,896                                     | 100.0 |