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Kurita Water Announces Earnings for the Six-Month Period to September 30, 2002

- Consolidated orders fell 16 percent to 68.0 billion yen
- Operating income fell 28 percent to 4.3 billion yen
- Net income fell 23 percent to 2.2 billion yen
- Within the Water Treatment Chemicals Division the Group was able to expand long term contract orders to maintain order volume despite the depressed Japanese economy.
- Within the Water Treatment Facilities Division the overseas market overtook the domestic market in terms of sales of hardware (excluding maintenance operations) as a result of movement of electronics makers to Asia
- Domestic maintenance services were depressed due to low order volume at electronics plants

Tokyo, October 31, 2002 -- Kurita Water Industries Ltd., a global leader in the water treatment business, announced results for the six months ended Sept. 30, 2002.

Water Treatment Chemicals Division

Orders for Water Treatment chemicals fell 4 percent to 23.8 billion yen over the period under review. Operating income in this division fell 2 percent to 3.6 billion yen. Sales fell 0.5 billion yen to 23.2 billion yen. The main reason for the decline in orders was the weak Japanese economy, which led to a reduction in orders from customers in heavy industries such as the steel and paper-pulp industries.

This decline was partly offset by an increase in orders due to expansion of orders for water management on a long term contract basis, such as steam, and deoxidized water contracts. Kurita was successful in both of these areas because of presenting cost-saving solutions to maintain plant efficiency over the long term. Other areas that expanded orders well were chemical injection and dosing systems and chemicals for the oil refinement process.

Water Treatment Facilities Division

Orders for Water Treatment Facilities fell 22 percent to 44.2 billion yen. Operating income in the division fell 68 percent to 0.7 billion yen. Sales in the division fell 7.3 billion yen to 38.5 billion yen, The decline in orders was led by a decline of 6.5 billion yen in orders for ultra pure water systems and other facilities used in the production of semiconductors, and other electronics components to 15.2 billion yen. Orders fell as electronics makers slashed capital investment to reduce capacity in the wake of falls in demand for their products. The Company continued to face a difficult operating environment as a result of the continued low facilities spending, but put more effort into its main target businesses, seeing favorable growth in investment in facilities in Taiwan, Korea and China manufacturing.

Particularly Kurita showed its competitive advantage in providing ultra pure water for cleansing screens for Liquid Crystal Display (LCD) makers. The Company garnered more contracts as manufacturers upgraded existing facilities in response to demand for 1,100 to 1,250 millimeter LCDs for use in large flat-panel display screens.

Overseas sales (excluding maintenance operations) surpassed domestic sales in the Water Treatment Facilities Business for the first time.

Orders from the electronics industry in Japan fell due to continued consolidation of the Japanese semiconductor market. Japanese electronics makers are cutting capacity and even pulling out of some types of semiconductor markets in response to increased competition from overseas makers. Domestically, the Electronics market saw an increase in the ratio of small, rather than medium size and large fabs, with the ratio of small size investments growing. In response, Kurita pushed ahead with its plan to increase sales of ready-made rather than custom-made products. These products deliver the benefits of decreased order to delivery time, stable quality and decreased space requirements.

Kurita continued its expansion overseas, in Asia, with the establishment of Kuritec Singapore Pte. Ltd. and Kuritec (Shanghai) Co., Ltd., which are both presently non-consolidated subsidiaries. Capital investment within the area encompassing Taiwan, Korea, and China, reached a peak during the period, with many new plants coming on line. Kuritec Singapore provides ultra-pure water for LCD makers, while Kuritec Shanghai works on a maintenance service business. Kuritec Singapore is expected to rack up impressive orders which could affect consolidated sales as early as the second half of this fiscal year.

Orders for water treatment facilities for general industries such as electric power, food, pharmaceuticals, fell 2.3 billion yen to 14.7 billion yen, while sales fell 1.2 billion yen to 14.3 billion yen.

Environmental Control Facilities

Orders for public works in Japan for environmental facilities fell 3.5 billion yen to 14.3 billion yen and sales fell 2.8 billion yen to 7.7 billion yen. Kurita continued to offer innovative solutions, including energy saving solutions to customers in the public sector. Budgets for local entities for sewage treatment facilities and sludge recycling facilities were slashed. Within maintenance services for the division, orders were up as a result of solutions–led sales, despite severe cost cutting pressure by local governments.

Kurita provides facilities for sewage systems and human waste management systems to local governments in Japan, many of whom are faced with severe financial difficulties and are not in a position to increase the investments in local services.

Maintenance Business / Contract Business Increasing for Steady Profitability

Kurita pushed ahead with its strategy of signing maintenance contracts in Water Treatment Chemicals and in each of the three market segments that make up the Water Treatment Facilities Division: Electronics Industry, General Industry, and Environmental Control Facilities.

During the period orders and sales were lower than expected for maintenance service in the electronics industry as a result of high order volumes at the nation's electronic manufacturers despite being in line with expectations across the board. In Japan, maintenance periods tend to be centered around the three holiday periods of May (Golden Week), August (Obon), and December (the New Year's Holiday). The May season proved to be especially weak as plants remained open to keep up with high demand through the season. During the August season, orders rebounded to a normal level, but did not reach above, as could have been expected to make up for the missed May period.

While some saw this as a possible sign that electronics makers are trying to decrease maintenance as a cost cutting measure. Kurita expressed confidence that the business would continue strongly because maintenance increases efficiency and therefore is itself a cost cutting measure.

The maintenance business, is a pure water solution for maintaining efficiency in almost all types of plants. It is also beneficial to the company's cash-on-hand position, as it is the product with the shortest order to sales time lag, usually with the time period being less than a month.

Kurita was successful in switching over to long-term contracts for many of its larger customers, in some cases completely taking over the operations, another measure to boost long-term steady returns.

Soil and Groundwater Remediation Subsidiary Beats Growth Expectations

Kurita also took further steps to move into new markets by taking advantage of its experience in environmental technology and soil contamination removal. Sales at Land Solution Inc., a non-consolidated subsidiary which was established during the previous fiscal year, continued to show unexpectedly strong growth due to expansion of soil and groundwater remediation business market. This new business is expected to contribute to the business in the future.

The business works on the increasingly prevalent practice of including contamination in the value of land and the company offers services which decrease contamination risk. The company has been successful in the pursuit of its niche strategy in targeting real estate transaction market with realtors, banks, and trust banks.

Accounting Notes:

Kurita changed management pay scales from a monthly to a yearly pay basis. As a result of the change in practice accrued bonuses decreased and operating income of the first half of this fiscal year increased 0.3 billion compared to the situation had the normal monthly pay basis scale had been adopted.

Financials

A summary of relevant financials follows.

Consolidated Interim Balance Sheets

(Units: Millions of yen)

	As of Sept. 30, 2002	As of Sept. 30, 2001	As of March 31, 2002	Increase (decrease)	
				From Sept. 30, 2001	From March 31, 2002
Assets					
Current assets:					
Cash and deposits	35,448	30,929	33,408	4,519	2,040
Notes receivable-trade	10,750	13,559	10,534	(2,809)	216
Accounts receivable-trade	39,287	39,369	44,939	(82)	(5,652)
Marketable securities	4,946	8,637	4,640	(3,691)	306
Inventories	10,889	12,209	7,702	(1,320)	3,187
Deferred income taxes	1,505	1,724	1,503	(219)	2
Other	784	915	945	(131)	(161)
Allowance for doubtful accounts	(160)	(194)	(185)	34	25
Total current assets	103,452	107,151	103,490	(3,699)	(38)
Buildings and structures	13,921	14,328	14,419	(407)	(498)
Machinery and equipment	3,580	4,117	3,874	(537)	(294)
Land	15,038	15,002	15,044	36	(6)
Construction in progress	306	715	198	(409)	108
Other	2,629	2,753	2,816	(124)	(187)
Tangible fixed assets:	35,476	36,918	36,353	(1,442)	(877)
Intangible fixed assets:					
Software	2,000	1,268	1,812	732	188
Other	524	558	542	(34)	(18)
Total intangible fixed assets	2,525	1,827	2,354	698	171
Investments and other assets:					
Investment in securities	18,766	18,755	18,319	11	447
Investment in non-consolidated subsidiaries and affiliates	2,450	3,835	2,547	(1,385)	(97)
Long-term loans	2,639	143	2,585	2,496	54
Deferred income taxes	3,744	2,452	3,857	1,292	(113)
Other	2,696	2,851	2,717	(155)	(21)
Allowance for doubtful accounts	(102)	(35)	(80)	(67)	(22)
Total investments and other assets	30,195	28,001	29,947	2,194	248
Fixed assets	68,197	66,746	68,655	1,451	(458)
Total Assets	171,649	173,898	172,145	(2,249)	(496)

(Units: Millions of yen)

	As of Sept. 30, 2002	As of Sept. 30, 2001	As of March 31, 2002	Increase (decrease)	
				From Sept. 30, 2001	From March 31, 2002
Liabilities					
Current liabilities:					
Notes payable-trade	1,641	2,481	1,912	(840)	(271)
Account payable-trade	17,277	20,526	20,999	(3,249)	(3,722)
Short-term borrowings	27	130	139	(103)	(112)
Outstanding payments/expenses	5,242	5,854	6,835	(612)	(1,593)
Income taxes payable	2,331	2,185	442	146	1,889
Advances received	4,160	4,982	1,621	(822)	2,539
Accrued employees' bonuses	2,932	3,542	2,927	(610)	5
Allowance for product warranty	883	934	923	(51)	(40)
Other	593	850	782	(257)	(189)
Total current liabilities	35,088	41,488	36,585	(6,400)	(1,497)
Fixed liabilities:					
Long-term debt	48	83	78	(35)	(30)
Accrued employees' retirement benefits	11,053	9,946	10,873	1,107	180
Retirement benefits for directors and corporate auditors	722	567	667	155	55
Other	756	782	792	(26)	(36)
Total fixed liabilities	12,580	11,380	12,411	1,200	169
Total liabilities	47,669	52,869	48,997	(5,200)	(1,328)
Minority Interests	548	523	558	25	(10)
Shareholders' Equity:					
Common stock	13,450	13,450	13,450	—	—
Capital surplus	11,398	11,398	11,398	—	—
Retained earnings	99,718	97,025	98,804	2,693	914
Revaluation difference on land	19	—	19	19	—
Revaluation surplus of other securities	298	92	162	206	136
Foreign currency translation adjustment	(584)	(663)	(418)	79	(166)
Treasury stock	(870)	(799)	(827)	(71)	(43)
Total shareholders' equity	123,431	120,504	122,590	2,927	841
Total Liabilities, Minority Interests and Shareholders' Equity	171,649	173,898	172,145	(2,249)	(496)

Consolidated Interim Statements of Income

(Units: Millions of yen)

	Interim period		Interim period		Fiscal year		Increase (decrease)
	Apr. 1, 2002 – Sept. 30, 2002		Apr. 1, 2001 – Sept. 30, 2001		Apr 1, 2001 – March 31, 2002		Previous interim period
Net sales	61,734	100.0%	69,517	100.0%	142,678	100.0	(7,783)
Cost of sales	42,004	68.0	47,333	68.1	99,039	69.4	(5,329)
Gross profit	19,730	32.0	22,184	31.9	43,639	30.6	(2,454)
Selling, general and administrative expenses	15,390	25.0	16,194	23.3	32,848	23.0	(804)
Operating income	4,339	7.0	5,989	8.6	10,790	7.6	(1,650)
Non-operating income	561	0.9	681	1.0	1,104	0.7	(120)
Non-operating expense	340	0.5	125	0.2	279	0.2	215
Ordinary income	4,560	7.4	6,545	9.4	11,615	8.1	(1,985)
Special gains:							
Gain on sales of stock of affiliated companies	(—)		(—)		932		—
					932	0.7	
Special losses:							
Loss on sales of investment securities	92		1,063		1,986		(971)
Amortization of unrecognized effect of change in accounting for employees' retirement benefits	579		581		1,162		(2)
Other	—		—		278		—
	671	1.1	1,644	2.4	3,427	2.4	(973)
Income before income taxes	3,888	6.3	4,900	7.0	9,121	6.4	(1,012)
Income taxes	1,668	2.7	2,044	2.9	3,401	2.4	(376)
Minority interests in earnings of consolidated subsidiaries	46	0.1	24	0.0	49	0.0	22
Net income	2,173	3.5	2,832	4.1	5,670	4.0	(659)

Consolidated Interim Statements of Retained Earnings

(Units: Millions of yen)

	Interim period Apr. 1, 2002 – Sept. 30, 2002	Interim period Apr. 1, 2001 – Sept. 30, 2001	Fiscal year Apr 1, 2001 – March 31, 2002	Increase (decrease) Previous interim period
Capital surplus:				
Capital surplus at beginning of period	11,398	11,398	11,398	—
Capital surplus at end of period	11,398	11,398	11,398	—
Retained earnings:				
Retained earnings at beginning of period	98,804	95,444	95,444	3,360
Increase in retained earnings	2,173	2,832	5,670	(659)
Net income	2,173	2,832	5,670	659
Decrease in retained earnings:				
Dividends paid	1,058	1,058	2,117	0
Bonus for directors and corporate auditors	120	164	164	(44)
Decrease in retained earnings due to change in scope of consolidation	66	—	—	66
Other	14	27	27	(13)
Total decrease in retained earnings	1,259	1,250	2,309	9
Retained earnings at end of period	99,718	97,025	98,804	2,693

Consolidated Interim Statements of Cash Flows

(Units: Millions of yen)

	Interim period Apr. 1, 2002 – Sept. 30, 2002	Interim period Apr. 1, 2001 – Sept. 30, 2001	Fiscal year Apr 1, 2001 – March 31, 2002
I. Cash flows from operating activities:			
Income before income taxes	3,888	4,900	9,121
Depreciation and amortization	1,559	1,583	3,409
Amortization of consolidation goodwill	0	48	78
Equity in earnings of unconsolidated subsidiaries and affiliates	(72)	(228)	(198)
Increase (decrease) in accrued employees' retirement benefits	180	(97)	828
Decrease in allowance for doubtful accounts	(78)	(60)	(25)
Increase (decrease) in other allowances	21	188	(340)
Interest and dividend income	(251)	(259)	(454)
Other non-operating income	(195)	(193)	(326)
Interest expense	11	15	35
Other non-operating expenses and special losses	203	(19)	242
Loss on sales and revaluation of investment in securities	58	1,063	1,053
Loss on sales and disposal of tangible fixed assets	27	19	119
Increase in trade notes and accounts receivable	5,259	14,639	12,200
Decrease (increase) in inventories	(3,221)	(2,007)	2,537
Decrease (increase) in other current assets	174	(13)	(50)
Decrease in trade notes and accounts payable	(3,547)	(9,102)	(8,854)
Increase (decrease) in advances received	2,539	2,040	(1,320)
Decrease in other current liabilities	(1,344)	(1,008)	(226)
Bonuses paid to directors and corporate auditors	(67)	(79)	(165)
Other	(51)	35	6
Sub-total	5,094	11,464	17,669
Interest and dividends received	383	267	506
Other non-operating income received	195	173	280
Interest paid	(11)	(14)	(35)
Other non-operating expenses paid	(120)	(77)	(216)
Income taxes paid	232	(5,624)	(9,490)
Net cash provided by operating activities	5,772	6,188	8,713
II. Cash flows from investing activities:			
Payment for time deposits	(141)	(578)	(605)
Proceeds from refund of time deposits	272	169	98
Payments for purchases of marketable securities	(100)	–	(801)
Proceeds from sales of marketable securities	2,431	1,377	3,250
Payments for purchases of tangible fixed assets	(1,742)	(1,461)	(2,747)
Proceeds from sales of tangible fixed assets	86	41	93
Payments for purchases of investment securities	(3,808)	(2,828)	(5,417)
Proceeds from sales of investment securities	855	2,103	4,398
Cash disbursement on long-term loans	(66)	(9)	(2,461)
Other payments	(554)	(1,041)	(1,826)
Other proceeds	346	451	684
Net cash used in investing activities	(2,420)	(1,775)	(5,334)

Consolidated Interim Statements of Cash Flows -- continued

(Units: Millions of yen)

	Interim period Apr. 1, 2002 – Sept. 30, 2002	Interim period Apr. 1, 2001 – Sept. 30, 2001	Fiscal year Apr 1, 2001 – March 31, 2002
III. Cash flows from financing activities			
Proceeds from short-term debt	150	137	154
Repayment of short-term debt	(187)	(88)	(96)
Proceeds from long-term debt	1	1	1
Repayment of long-term debt	(4)	(30)	(45)
Proceeds from sales (payments for purchase) of treasury stock	(26)	2	(25)
Cash dividends paid	(1,059)	(1,058)	(2,158)
Net cash used in financing activities	(1,125)	(1,035)	(2,169)
IV. Effect of exchange rate changes on cash and cash equivalents	(39)	48	145
V. Net increase in cash and cash equivalents	2,186	3,426	1,354
VI. Cash and cash equivalents at beginning of period	32,980	31,569	31,569
VII. Cash and cash equivalents due to increase of consolidated subsidiaries	—	56	56
VIII. Cash and cash equivalents at end of period	35,167	35,052	32,980