

FOR IMMEDIATE RELEASE

## **Kurita Water Industries Reports Earnings for the First Half Ended September, 2004**

Tokyo Japan November 4, 2004—Kurita Water Industries Ltd. (TSE Security Code 6370) announced revenue for the first half ended September 2004 of 71,170 million yen and net income of 3,834 million yen, or 29.82 yen per share.

### **Summary of Operating Results**

Total consolidated orders for the Kurita Group increased 8.3% over the same period a year earlier to 84,651 million yen, while net sales increased 10.2% to 71,170 million yen. As a result, operating income increased 52.5% over the previous first half to 6,438 million, while ordinary income increased 52.7% to 6,759 million yen. Net income for the period grew 58.8% to 3,834 million yen.

The operating environment as a whole during the period was characterized by strong water treatment facilities demand from the electronics industry centering on Japan, Taiwan and South Korea. Outside the electronics industry, overall factory operating ratios and capital investment also improved, but the improvement was not sufficient enough to have a significant impact on Group financial performance. Thus the major external factors contributing to first-half results were the general economic recovery, water treatment-related customer demand, ongoing cost reduction efforts, and competition with other companies.

By segment, recovering production volumes and factory operating ratios among the Japanese corporations supported revenue growth and improved profitability in the water treatment chemicals business, while there was a noticeable recovery in revenues and particularly profitability for the water treatment facilities business, supported by strong demand from the electronics industry.

Reflecting business performance for the period, the outlook for the full fiscal year, and the Group's policy of maintaining a stable dividend payout, the Company has decided to reward its shareholders for their support by raising its dividend by ¥1 to ¥9 per share.

## **Segment Information**

### **Water Treatment Chemicals**

Total Group orders for the segment increased by 8.4% in the first half to 26,246 million yen. Sales grew 4.7% over the first half of the previous year to 24,760 million yen, resulting in a 20.7% increase in operating profits to 3,951 million yen.

Overall business conditions improved on a general recovery in industrial production and higher factory operating ratios, while an unusually hot summer boosted consumption of water treatment chemicals. However, there was little room for optimism as customers continued their efforts to achieve further cost reductions, and competition continued to intensify. Given the circumstances, the company worked to fully leverage its client relationships and to provide direct solutions to customer problems such as enhancing productivity, while actively working to develop Kurita's unique business model, which provides integrated water processing management.

Orders for the Group's mainstay boiler water treatment chemicals and waste water treatment chemicals were basically flat from the previous year, while orders for cooling water treatment chemical increased. On the other hand, growth was seen in orders for other products such as process chemicals used in the paper and pulp industry, agents for solidifying heavy metal contained in waste incineration fly ash, and related maintenance and services.

### **Water Treatment Facilities**

Total Group orders for the segment were 8.2% higher than the first half of the previous fiscal year at 58,404 million yen, while sales increased 13.4% to 46,409 million yen, and operating profits increased 195.7% to 2,493 million yen.

Private sector demand continued strong during the period, driven by ongoing large-scale capital expenditures in the electronics industries for the production of semiconductors, liquid crystal displays and related components in Japan, Taiwan and South Korea. In addition, a recovery was also seen outside the electronics industry as growth in corporate profits supported a recovery in capital expenditures. In order to fully leverage the improved operating environment, the Group worked to strengthen its solutions-based marketing and to concentrate on order growth through focused marketing to key customers. The Group also focused on sales of ready-made facilities to enhance Group productivity and further reduce costs in order to maximize profitability.

On the other hand, public sector demand remained depressed because of continued declines in public works expenditures. Given the severe business conditions, the Group switched from a product-differentiated marketing strategy to a regionally-based marketing strategy, and endeavored to further strengthen its regionally-focused customer relationships, while further strengthening internal collaboration between Group companies in order to ensure order flow.

Public sector orders as a whole were also negatively affected by the absence of large orders seen in the previous year for human waste treatment facilities, while orders for sewage treatment facilities were flat from the first half of last year.

## **Outlook for the Year Ending March 2005**

For the full fiscal year to March 2005, the Group has not changed its forecasts of 161,800 million yen in sales and 10,000 million yen in net income, which were released on July 29, 2004. The 17,400 million yen forecast for ordinary income however has been revised upward by 300 million yen to 17,700 million yen.

While the Group believes that Japan's economy will continue to grow supported by strong capital expenditures and factory operating ratios, the impact on corporate profits from sharp rises in crude oil and other basic material prices is a concern.

## **Outlook by Segment**

### **Water Treatment Chemicals**

In water treatment chemicals, the trend in factory operating ratios has a direct impact on orders and sales. While a major decline in factory operating ratios is unlikely for the foreseeable future, the Group's customers will pursue further cost cuts. In response, the Group aims to ensure order growth with; a) the development of new products that meet customer needs for reduced utility cost, a lower burden from environmental countermeasures, and increased productivity, and b) expansion of its contract businesses such as management services related to water treatment. At the same time, the Group will review and pursue further cost rationalization of its own in basic materials, distribution and production processes in order to ensure profitability.

### **Water Treatment Facilities**

In water treatment facilities, the strong private sector demand seen to date in electronics-related industries is expected to continue, while we do not expect to see a significant recovery in the food, pharmaceutical and basic material industries, or in the electric power segment. Consequently, the Group will focus on applying its proprietary technologies and products in further developing and strengthening its "solutions" and "outsourcing" business models to ensure order and profit growth.

Public sector-related demand continues to be plagued by shrinking national and prefectural budgets and public works investment, and we expect no improvement in the currently severe operating environment for the foreseeable future. In response, the Group will exert every effort to ensure order flow through focused sales efforts to gain orders for the upgrading and renewal of human waste treatment facilities and resource recycling, leveraging its proprietary technology and solutions-based marketing.

## **Medium- and Long-Term Management Strategies**

As the Group is now midway through its “PA-5” medium-term management plan, every employee in the Kurita Group is pulling together as the Company exerts every effort to achieve the goals outlined in this plan. Specifically, the Group is focusing on the following strategies.

- 1) The Group is accelerating its “offensive” business development both in Japan and overseas, including a solutions-based model for its water treatment business and an outsourcing model for businesses such as ultra pure water supply. During the first half of the current fiscal year, the Group’s offensive business development efforts included the conversion of sales agencies in Oita Prefecture and Hokkaido into fully-owned subsidiaries. In China, Kurita continues to expand its presence, following the establishment of Kurita Water Industries (Dalian) Co., Ltd. for the local manufacture of water treatment chemicals, and Kuritec (Shanghai) Co., Ltd. for sales and maintenance of water treatment facilities. In September 2004, Kurita Water Industries (Suzhou) Ltd. began operations to locally manufacture water treatment facilities. With the third company, the Group now has a fully integrated business in China, including the manufacture, sales and maintenance of both water treatment chemicals and facilities, meaning it can now more aggressively pursue business development, leveraging its collective strengths with a solutions-based focus.
- 2) The Group is also working to strengthen its ability to improve profitability, develop new products and establish new businesses under the “solutions” and “outsourcing” business models. The foundations for the Group’s unique business models continue to broaden and strengthen amidst tighter cost controls and ongoing efforts to improve profitability in the ultra pure water supply business, in annual maintenance and service contracts, and in solutions-based contract businesses. In addition, the Group is also focusing on developing new water treatment chemicals as well as water treatment facilities and systems that will drive future growth. For example, development of water treatment systems for fuel cell and hydrogen fueling station has reached the experimental stage. To accelerate product commercialization efforts, the “Corporate Research & Development Center” has been combined with another research group into the “Business & Technology Development Center” that will cover the whole R&D spectrum, from basic research to new product development and commercialization.
- 3) Finally, the Group will continue its pursuit of overall cost reductions and enhanced profitability. The Group continues to restructure and rationalize its water treatment chemical production processes and distribution network in response to changes in the marketplace by converting to lower cost basic materials and by consolidating production facilities to achieve greater economies of scale and reduce costs. In addition, the Group continues to pursue lower costs through standardized production of water treatment facilities that will also result in better product quality, as well as more efficient design, production and installation.

## **Cash Flow Trends**

For the first half ended September 2004, cash and cash equivalents were 41,437 million yen, and 6,300 million yen or 17.9% higher than the end of March 2004.

Operating cash inflows were 9,172 million yen, compared to a cash inflow of 1,794 million yen in the first half of the previous fiscal year, and 5,574 million yen for the previous fiscal year to March 2004. The cash inflow was largely attributable to pretax profits of 6,759 million yen, depreciation expenses of 2,019 million yen, and a 11,910 million yen decline in notes and accounts receivable. The major items representing cash outflows were a 3,872 million yen increase in inventories, a 4,763 million yen decline in notes and accounts payable, and a income tax payment of 3,591 million yen.

The cash outflow from investing activities was 1,820 million, compared to 573 million yen outflow the first half of the previous year, and an outflow of 146 million yen for the previous fiscal year. While the redemption of marketable securities represented a cash inflow of 3,320 million yen, this was offset by purchases of fixed assets of 2,984 million yen, additions to time deposits of 1,312 million yen and 999 million yen of new purchases of marketable securities.

Cash outflows from financing activities were 1,050 million yen, compared to a cash outflow of 1,039 million yen in the first half of the previous fiscal year, and an outflow of 1,720 million yen in the previous fiscal year. The main source of the cash outflow was dividend payments of 1,027 million yen.

## **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 systems, waste water 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 web page at [www.kurita.co.jp](http://www.kurita.co.jp).

Except for the historical information contained herein, matters discussed in this news release may contain forward-looking statements that involve risks and uncertainties, including but not limited to factory operating ratios in major client industries such as steel, petroleum and paper/pulp; capital expenditure trends in the electronics, food, pharmaceuticals, basic materials and automobile industries; and the financial condition and budgeting actions of national and local governments in Japan.

KURITA WATER INDUSTRIES, LTD.

CONSOLIDATED STATEMENTS OF INCOME

(in million yen)

	First half ended September 30, 2004		First half ended September 30, 2003		Fiscal year ended March 31, 2004		Increase/ Decrease over previous interim period
	Amount	% of Net sales	Amount	% of Net sales	Amount	% of Net sales	Amount
Net sales	71,170	100.0	64,581	100.0	146,819	100.0	6,589
Cost of sales	48,040	67.5	43,637	67.6	101,433	69.1	4,403
Gross profit	23,130	32.5	20,943	32.4	45,386	30.9	2,187
Selling, general and administrative expenses	16,692	23.5	16,720	25.9	31,895	21.7	(28)
Operating Income	6,438	9.0	4,223	6.5	13,490	9.2	2,215
Non-operating income	567	0.8	465	0.7	1,034	0.7	102
Non-operating expense	245	0.3	262	0.4	586	0.4	(17)
Ordinary income	6,759	9.5	4,426	6.8	13,938	9.5	2,333
Special gains	-	-	-	-	1,479	1.0	-
Gain on sale of fixed Assets	-	-	-	-	64	-	-
Gain on sale of investment securities	-	-	-	-	1,414	-	-
Special Losses	-	-	-	-	499	0.3	-
Loss on revaluation of fixed assets	-	-	-	-	499	-	-
Income before income taxes	6,759	9.5	4,426	6.8	14,918	10.2	2,333
Income taxes	2,849	4.0	1,932	3.0	6,347	4.3	917
Minority interests in earnings of consolidated subsidiaries	76	0.1	79	0.1	126	0.1	(3)
Net income	3,834	5.4	2,414	3.7	8,444	5.8	1,420

CONSOLIDATED STATEMENTS OF ADDITIONAL PAID-IN CAPITAL AND RETAINED EARNINGS

(unit: Millions of yen)

	First half ended September 30, 2004	First half ended September 30, 2003	Fiscal year ended March 31, 2004	Increase/ Decrease over previous interim period
<b>&lt;Additional Paid-in Capital&gt;</b>				
Balance, beginning of period	11,398	11,398	11,398	-
Increase in additional paid-in capital	11	-	-	11
Increase in additional paid-in capital due to stock exchange	11	-	-	11
Balance, end of period	11,409	11,398	11,398	11
<b>&lt;Retained Earnings&gt;</b>				
Balance, beginning of period	108,180	101,637	101,637	6,543
Increase in retained earnings	3,927	2,414	8,722	1,513
Net income	3,834	2,414	8,444	1,420
Effect of increase in affiliates to which equity method is applicable	93	-	-	93
Withdrawal of revaluation surplus of land	-	-	278	-
Decrease in Retained Earnings	1,174	1,149	2,179	25
Dividends	1,028	1,028	2,058	0
Bonus for directors and corporate auditors	141	118	118	23
Other	4	3	3	1
Balance, end of period	110,933	102,901	108,180	8,032

## CONSOLIDATED BALANCE SHEET

(in million yen)

	As of September 30, 2004	As of September 30, 2003	As of March 31, 2004	Increase/decrease over	
				Sept. 30, 2003	Mar. 31, 2004
<Assets >					
<u>Current assets</u>					
Cash and deposits	41,914	32,230	35,512	9,684	6,402
Notes receivable - trade	10,036	10,576	10,607	(540)	(571)
Accounts receivable - trade	44,907	41,768	56,074	3,139	(11,167)
Marketable securities	5,202	7,296	6,720	(2,094)	(1,518)
Inventories	10,571	7,978	6,713	2,593	3,858
Deferred tax assets	2,104	1,803	2,070	301	34
Other	1,220	1,065	1,365	155	(145)
Allowance for doubtful accounts	(129)	(134)	(140)	5	11
<b>Total current assets</b>	<b>115,827</b>	<b>102,585</b>	<b>118,923</b>	<b>13,242</b>	<b>(3,096)</b>
<u>Fixed assets</u>					
Tangible fixed assets	42,835	41,208	41,671	1,627	1,164
Buildings and structures	14,866	15,352	14,969	(486)	(103)
Machinery, equipment and vehicles	9,974	7,664	9,325	2,310	649
Land	14,376	15,039	14,346	(663)	30
Construction in progress	1,271	659	539	612	732
Other	2,346	2,491	2,490	(145)	(144)
Intangible fixed assets	3,298	2,872	3,347	426	(49)
Software	2,235	2,345	2,344	(110)	(109)
Other	1,063	526	1,002	537	61
Investments and other assets	19,691	22,357	19,678	(2,666)	13
Investment securities	11,878	15,367	13,253	(3,489)	(1,375)
Shares of unconsolidated, subsidiaries and affiliates and investment in partnership	2,428	1,901	2,025	527	403
Deferred tax assets	2,273	2,957	2,121	(684)	152
Deferred tax assets by revaluation	176	-	176	176	-
Other	3,084	2,272	2,242	812	842
Allowance for doubtful accounts	(149)	(141)	(141)	(8)	(8)
<b>Total fixed assets</b>	<b>65,826</b>	<b>66,437</b>	<b>64,697</b>	<b>(611)</b>	<b>1,129</b>
<b>Total assets</b>	<b>181,653</b>	<b>169,023</b>	<b>183,620</b>	<b>12,630</b>	<b>(1,967)</b>

	As of September 30, 2004	As of September 30, 2003	As of March 31, 2004	Increase/decrease over	
				Sept. 30, 2003	Mar. 31, 2004
< Liabilities >					
<u>Current liabilities</u>					
Notes payable - trade	2,494	1,913	1,371	581	1,123
Accounts payable - trade	20,522	17,182	25,517	3,340	(4,995)
Short-term borrowings	79	3	48	76	31
Outstanding payments/ expenses	5,290	5,059	7,128	231	(1,838)
Income taxes payable	2,853	1,807	3,593	1,046	(740)
Advances received	2,904	1,836	1,373	1,068	1,531
Accrued employees' bonuses	2,613	2,739	2,173	(126)	440
Allowance for product warranty	1,058	882	1,028	176	30
Other	710	419	718	291	(8)
Total current liabilities	38,526	31,844	42,954	6,682	(4,428)
<u>Fixed liabilities</u>					
Long-term debt	292	35	349	257	(57)
Accrued employees' retirement benefits	9,107	10,855	9,149	(1,748)	(42)
Accrued retirement benefits for directors and corporate auditors	623	556	658	67	(35)
Deferred tax liabilities by revaluation	-	13	-	(13)	-
Other	827	789	800	38	27
Total fixed liabilities	10,850	12,250	10,958	(1,400)	(108)
Total liabilities	49,376	44,094	53,912	5,282	(4,536)
< Minority Interests >					
Minority Interests	1,066	1,066	1,031	-	35
< Shareholders' Equity >					
Common Stock	13,450	13,450	13,450	-	-
Additional paid-in capital	11,409	11,398	11,398	11	11
Retained earnings	110,933	102,901	108,180	8,032	2,753
Unrealized losses(gains) on revaluation of land	(257)	20	(257)	(277)	-
Unrealized holding gains on other securities	1,366	1,473	1,625	(107)	(259)
Foreign currency translation adjustments	(868)	(494)	(829)	(374)	(39)
Treasury stock	(4,823)	(4,888)	(4,890)	65	67
Total shareholders' equity	131,210	123,862	128,676	7,348	2,534
Total liabilities, minority interests and shareholders' equity	181,653	169,023	183,620	12,630	(1,967)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in million yen)

	First half ended September 30, 2004	First half ended September 30, 2003	Fiscal year ended March 31, 2004
<b>Cash flows from operating activities</b>			
Income before income taxes	6,759	4,426	14,918
Depreciation and amortization	2,019	1,774	3,872
Amortization of consolidation goodwill	0	-	(2)
Equity in earnings of unconsolidated subsidiaries and affiliates	(129)	(63)	(208)
Decrease in accrued employees' retirement benefits	(43)	(614)	(2,317)
Increase(Decrease) in allowance for doubtful accounts	(4)	66	73
Increase in other allowance	434	362	45
Interest and dividend income	(202)	(232)	(409)
Other non-operating income	(182)	(166)	(402)
Interest expense	17	7	27
Other non-operating expense and special loss	204	188	354
Gain/Loss on sale/revaluation of investment securities	-	-	(1,414)
Loss on revaluation of tangible fixed assets	-	-	499
(Gain)Loss on sale and disposal of tangible fixed assets	0	3	(57)
Increase(Decrease) in accounts receivables, trade	11,910	7,270	(7,202)
Increase in inventories	(3,872)	(1,649)	(442)
Increase(Decrease) in other current assets	211	14	(327)
Increase(Decrease) in accounts payable, trade	(4,763)	(6,115)	2,995
Increase in advances received	1,531	868	409
Increase(Decrease) in other current liabilities	(1,258)	(1,091)	636
Bonuses paid to directors and corporate auditors	(80)	(62)	(118)
Other	22	(6)	(1)
Sub total	12,573	4,981	10,927
Interest and dividend received	261	278	482
Other non-operating income received	173	172	408
Interest paid	(16)	(6)	(27)
Other non-operating expenses paid	(227)	(162)	(388)
Income taxes paid	(3,591)	(3,467)	(5,829)
<b>Net cash provided by operating activities</b>	<b>9,172</b>	<b>1,794</b>	<b>5,574</b>
<b>Cash flows from investing activities</b>			
Increase in time deposits	(1,312)	(262)	(507)
Decrease in time deposits	218	157	431
Payments for purchase of marketable securities	(999)	-	(200)
Proceeds from sale of marketable securities	3,320	3,723	6,695
Payments for purchase of tangible fixed assets	(2,984)	(4,207)	(8,364)
Proceeds from sale of tangible fixed assets	162	103	1,183
Payments for purchase of investment securities	(136)	(6)	(2,212)
Proceeds from sale of investment securities	152	200	3,992
Other expenses	(579)	(610)	(1,642)
Other	337	328	476
<b>Net cash used in investing activities</b>	<b>(1,820)</b>	<b>(573)</b>	<b>(146)</b>

	First half ended September 30, 2004	First half ended September 30, 2003	Fiscal year ended March 31, 2004
<b>Cash flows from financing activities</b>			
Proceeds from of long-term debt	39	-	358
Repayment of long-term debt	(59)	(8)	(12)
Net amount from purchase and sale of treasury stock	(2)	(2)	(4)
Dividends paid (including dividends paid to minority stockholders)	(1,027)	(1,028)	(2,089)
Other	-	-	28
<b>Net cash used in financing activities</b>	<b>(1,050)</b>	<b>(1,039)</b>	<b>(1,720)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(2)</b>	<b>56</b>	<b>(127)</b>
<b>Increase(Decrease) in cash and cash equivalents</b>	<b>6,229</b>	<b>239</b>	<b>3,580</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>35,137</b>	<b>31,507</b>	<b>31,507</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries, beginning of period</b>	<b>-</b>	<b>50</b>	<b>50</b>
<b>Cash and cash equivalents, end of period</b>	<b>41,437</b>	<b>31,796</b>	<b>35,137</b>