

FOR IMMEDIATE RELEASE

Kurita Water Industries Reports Earnings for the Six Months Ended September 30, 2015

Tokyo, Japan, October 29, 2015—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 97,918 million yen and profit attributable to owners of the parent company of 5,764 million yen, or 49.61 yen per share, for the six months ended September 30, 2015 (April 1, 2015 – September 30, 2015).

Results of Operations

Total consolidated orders for the Kurita Group in the six months ended September 30, 2015 rose 13.4% from the level of the same period of the previous fiscal year, to 110,000 million yen, and net sales increased 10.1%, to 97,918 million yen. Operating income was 9,133 million yen, up 5.8% versus the same period of the previous fiscal year, and ordinary income was 9,490 million yen, up 3.3%. Profit attributable to owners of the parent company amounted to 5,764 million yen, down 2.1%. Because of the consolidation of acquired businesses, the consolidated orders and net sales of the Group and the Water Treatment Chemicals segment rose 9,858 million yen, but the consolidated operating income declined 537 million yen. The decline in operating income was principally attributable to the posting of the amortization of the goodwill and technology-related assets acquired in association with the business acquisition and a temporary rise in expenses associated with a review of the initial allocation of the cost of the business acquisition.

Looking at the market environment surrounding the Kurita Group (Kurita Water Industries Ltd. and its consolidated subsidiaries and equity method affiliates), production in the manufacturing industry remained flat mainly due to sluggish growth in exports, but there were signs of recovery in capital expenditure on the back of an improvement in corporate earnings in Japan. Overseas, growth in China and other emerging economies slowed, but the U.S. and European economies continued to recover. Overall, economies worldwide grew modestly.

In this environment, the Kurita Group worked to propose solutions to customers' challenges by combining its three functions: water treatment chemicals, water treatment facilities and maintenance services. From the first quarter, the Group is consolidating the results of operations of the businesses that it has acquired from BK Giulini GmbH in Germany and its affiliates.

Segment Information

The Group consists of segments by product and service based on business divisions. The reportable segments in segment information are the Water Treatment Chemicals segment and the Water Treatment Facilities segment.

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment were 41,335 million yen, up 39.0% versus the same period of the fiscal year ended March 31, 2015, while sales rose 38.3%, to 40,595 million yen. Operating income was down 12.3% to 3,597 million yen due to the posting of the amortization of goodwill and technology-related assets and a temporary expense associated with a review of the initial allocation of the

cost of business acquisition.

In Japan, the Group worked to gain new customers by proposing solutions using new products and services. Meanwhile, capacity utilization recovered at only part of customers' plants. For those reasons, orders and sales remained flat. Overseas, both orders and sales increased significantly, reflecting strong performance in China and Southeast Asia and the consolidation of acquired businesses from the first quarter.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 68,664 million yen, up 2.1% versus the same period of the previous fiscal year. Sales declined 3.8%, to 57,322 million yen. Operating income climbed 22.1%, to 5,541 million yen due to an improvement in the cost rate as a result of cost cutting.

In Japan, in the electronics industry, orders and sales in maintenance services rose, mainly reflecting an improvement in capacity utilization at plants manufacturing electronic components for smartphones. In the ultrapure water supply business, orders and sales rose mainly due to an increase in basic rate revenue through additional investment. In general industries, orders declined slightly. Sales of water treatment facilities for electric power and sales in maintenance services rose, but sales of water treatment facilities except for electric power declined chiefly due to delays in progress in construction in progress. Overseas, orders rose, chiefly reflecting large-scale projects in the electronics industry in China and Taiwan, but sales fell.

Financial Condition

Assets, liabilities and net assets

Current assets totaled 146,163 million yen at the end of the second quarter (September 30, 2015), a decrease of 2,804 million yen versus the end of the previous fiscal year (March 31, 2015). This was mainly a result of declines of 2,868 million yen in cash and deposits and 5,324 million yen in trade accounts receivable, which outweighed increases of 2,000 million yen in marketable securities, 2,782 million yen in work in process, and 1,146 million yen in "other" current assets.

The decline in cash and deposits principally reflected the settlement of part of the remaining cost of business acquisition in Europe. The decline in trade accounts receivable was the result of progress in collecting receivables. The increase in marketable securities was mainly the result of increased investment in negotiable certificates, which are treated as marketable securities. The rise in work in process was chiefly the result of progress in construction in the water treatment facilities business. The climb in "other" current assets was mainly due to an increase of 1,000 million yen in accounts receivable-other in association with the business acquisition in Europe.

Noncurrent assets totaled 143,103 million yen at the end of the first half (September 30, 2015), a decline of 2,422 million yen versus the end of the previous fiscal year. The decline was principally attributable to a 3,635 million yen decrease in investments and other assets, which was partly offset by a 1,584 million yen rise in property, plant and equipment. The decline in investments and other assets was chiefly due to a decrease in unrealized gains on investment securities due to falls in the market prices of the shares held by the Group. The increase in property, plant and equipment was mainly due to an increase in construction in progress in new ultrapure water supply projects.

Current liabilities totaled 43,178 million yen at the end of the period, a decline of

4,797 million yen versus the end of the previous fiscal year. This was mainly a result of declines of 1,792 million yen in trade accounts payable, 868 million yen in income taxes payable, and 2,210 million yen in “other” current liabilities. The decrease in “other” current liabilities was attributable mainly to the settlement of part of the remaining cost of business acquisition in Europe.

Noncurrent liabilities totaled 22,773 million yen at the end of the period, a decrease of 266 million yen versus the end of the previous fiscal year.

Net assets totaled 223,315 million yen at the end of the period, a decrease of 163 million yen versus the end of the previous fiscal year primarily due to a fall of 2,316 million yen in accumulated other comprehensive income, which was partly offset by an increase of 2,096 million yen in shareholders’ equity. The decrease in accumulated other comprehensive income resulted mainly from a decline of 2,591 million yen in unrealized gains (losses) on available-for-sale securities in association with a decline in unrealized gains on investment securities. The increase in shareholders’ equity reflected an increase of 3,084 million yen as a result of net income of 5,764 million yen in excess of year-end dividends of 2,680 million yen for the previous fiscal year, and a rise of 989 million yen in treasury stock due to the acquisition of treasury stock.

Cash flows

Consolidated net cash and cash equivalents at the end of the first half of the fiscal year (September 30, 2015) stood at 33,777 million yen, an increase of 5,232 million yen from the end of the previous fiscal year (March 31, 2015). Cash flows in each category and their main factors are outlined below.

Cash flows from operating activities

Net cash provided by operating activities during the first half of the fiscal year ending March 31, 2016, totaled 12,227 million yen, a decrease of 297 million yen from a year ago. Inflows from income before income taxes (9,485 million yen), depreciation and amortization (7,509 million yen; including the amortization of goodwill), and a decrease in trade notes and accounts receivable (5,908 million yen) were partially offset by income taxes paid (4,762 million yen), an increase in inventories (2,853 million yen), a decrease in notes and accounts payable-trade (1,970 million yen), and other outflows (1,621 million yen).

Cash flows from investing activities

Net cash used in investing activities stood at 30,703 million yen, an increase of 9,211 million yen from a year earlier, primarily reflecting net deposits into time deposit accounts of 12,181 million yen, payments for purchases of marketable securities of 9,000 million yen, payments for the purchase of property, plant and equipment, including capital expenditures for ultrapure water supply business, of 6,790 million yen, and a payment of 2,549 million yen for business acquisition in Europe.

Cash flows from financing activities

Net cash used in financing activities came to 3,692 million yen, an increase of 324 million yen from a year earlier, attributable mainly to the purchase of treasury stock of 988 million yen and cash dividends paid of 2,707 million yen.

Outlook for the Fiscal Year Ending March 31, 2016

The Company has revised its earnings forecast for the fiscal year ending March 31, 2016, in light of its results in the first half under review and uncertainty about the business environment in the second half. The details of the revision are as shown below.

The forecast is produced by the Company based on information available at the time of publication of this document. Actual results may differ significantly from the forecast due to a change in a range of factors.

(Consolidated earnings forecast)

Revision of consolidated earnings forecast for the fiscal year ending March 31, 2016
(April 1, 2015 – March 31, 2016)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
	(Million yen)	(Million yen)	(Million yen)	(Million yen)	(Yen)
Previous forecast (A)	216,000	19,500	20,000	12,300	105.85
Revised forecast (B)	214,000	19,500	20,000	12,300	105.85
Change (B – A)	(2,000)	–	–	–	–
Percent change (%)	(0.9)	–	–	–	–
For reference: The fiscal year ended March 31, 2015	189,398	19,435	18,934	10,434	87.81

Other Information

(1) Important changes in subsidiaries during the six months under review

There have been no changes in specified subsidiaries resulting in changes in the scope of consolidation.

An equity method affiliate has been included in the scope of consolidation since the first quarter due to an increase in its significance.

(2) Accounting treatment specific to the preparation of quarterly consolidated financial statements

Tax expense

The Company calculates tax expense by producing a reasonable estimate of the effective tax rate after applying tax-effect accounting to income before income taxes for the fiscal year and then multiplying quarterly income before income taxes by this estimated effective tax rate.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2015	(Million yen) As of September 30, 2015
	Amount	Amount
Assets		
Current assets		
Cash and deposits	52,497	49,629
Notes receivable – trade	7,513	7,105
Accounts receivable – trade	59,810	54,486
Marketable securities	14,999	16,999
Finished products	3,840	3,439
Work in process	3,078	5,860
Raw materials and supplies	2,561	2,825
Other	4,898	6,044
Allowance for doubtful accounts	(233)	(227)
Total current assets	148,967	146,163
Noncurrent assets		
Property, plant and equipment		
Buildings (net)	18,307	16,631
Machinery and equipment (net)	29,708	26,370
Other (net)	27,017	33,615
Total property, plant and equipment	75,033	76,617
Intangible fixed assets		
Goodwill	17,475	17,340
Other	9,701	9,465
Total intangible fixed assets	27,177	26,806
Investments and other assets		
Investment securities	35,678	31,828
Other	7,938	8,111
Allowance for doubtful accounts	(302)	(260)
Total investments and other assets	43,314	39,679
Total noncurrent assets	145,525	143,103
Total assets	294,492	289,267

	As of March 31, 2015	(Million yen) As of September 30, 2015
	Amount	Amount
Liabilities		
Current liabilities		
Notes payable – trade	1,650	1,463
Accounts payable – trade	19,169	17,377
Income taxes payable	4,595	3,727
Provision for bonuses	2,255	2,741
Other provision	1,821	1,594
Other	18,483	16,273
Total current liabilities	<u>47,975</u>	<u>43,178</u>
Noncurrent liabilities		
Net defined benefit liability	13,750	14,212
Provision	75	57
Other	9,213	8,504
Total noncurrent liabilities	<u>23,039</u>	<u>22,773</u>
Total liabilities	<u>71,014</u>	<u>65,951</u>
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,980	10,980
Retained earnings	189,693	192,777
Treasury stock	(7,705)	(8,694)
Total shareholders' equity	<u>206,419</u>	<u>208,515</u>
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	14,768	12,177
Deferred gains (losses) on hedges	66	(144)
Revaluation reserve for land	(442)	(442)
Foreign currency translation adjustments	1,510	2,001
Remeasurements of defined benefit plans	8	4
Total accumulated other comprehensive income	<u>15,911</u>	<u>13,595</u>
Non-controlling interests		
Total net assets	<u>223,478</u>	<u>223,315</u>
Total liabilities and net assets	<u>294,492</u>	<u>289,267</u>

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Six months ended September 30, 2014	Six months ended September 30, 2015
	Amount	Amount
Net sales	88,956	97,918
Cost of sales	60,511	64,129
Gross profit	28,444	33,788
Selling, general and administrative expenses		
Directors' and corporate auditors' compensations, salaries and allowances	7,223	8,920
Provision for bonuses	1,457	1,504
Research and development expenses	2,141	2,620
Other	8,985	11,609
Total Selling, general and administrative expenses	19,808	24,654
Operating income	8,636	9,133
Non-operating income		
Interest income	79	103
Dividend income	194	253
Equity in earnings of unconsolidated subsidiaries and affiliates	139	87
Other	260	206
Total non-operating income	674	650
Non-operating expenses		
Interest expense	33	108
Foreign exchange losses	-	72
Other	85	112
Total non-operating expenses	119	294
Ordinary income	9,191	9,490
Extraordinary income		
Gain on sales of non-current assets	-	146
Total extraordinary income	-	146
Extraordinary losses		
Loss on liquidation of business	-	150
Total extraordinary losses	-	150
Income before income taxes	9,191	9,485
Income taxes	3,312	3,642
Net income	5,879	5,843
Profit (loss) attributable to non-controlling interests	(5)	79
Profit attributable to owners of parent	5,885	5,764

Statement of Comprehensive Income

	Six months ended September 30, 2014	(Million yen) Six months ended September 30, 2015
	Amount	Amount
Net income	5,879	5,843
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	1,974	(2,591)
Deferred gains (losses) on hedges	-	(210)
Foreign currency translation adjustments	(397)	487
Remeasurements of defined benefit plans, net of tax	12	(4)
Share of other comprehensive income of associates accounted for using equity method	5	(6)
Total other comprehensive income	1,595	(2,325)
Comprehensive income	7,475	3,518
Components:		
Comprehensive income attributable to owners of parent	7,515	3,448
Comprehensive income attributable to non-controlling interests	(40)	69

Statement of Cash Flows — Consolidated

	(Million yen)	
	Six months ended September 30, 2014	Six months ended September 30, 2015
	Amount	Amount
Cash flows from operating activities		
Income before income taxes and minority interests	9,191	9,485
Depreciation and amortization	7,375	7,025
Amortization of goodwill	-	484
Increase (decrease) in provision	(21)	139
(Increase) decrease in notes and accounts receivable - trade	1,575	5,908
(Increase) decrease in inventories	(2,003)	(2,853)
Increase (decrease) in notes and accounts payable - trade	(171)	(1,970)
Increase (decrease) in net defined benefit liability	230	391
Income taxes paid	(2,550)	(4,762)
Other	(1,101)	(1,621)
Net cash provided by (used in) operating activities	12,524	12,227
Cash flows from investing activities		
Deposits into time deposit accounts	(26,587)	(23,940)
Withdrawals from time deposits	10,519	11,759
Payments for purchases of marketable securities	(44,000)	(9,000)
Proceeds from sale and redemption of marketable securities	42,000	-
Payments for purchases of property, plant and equipment	(3,216)	(6,790)
Proceeds from sale of property, plant and equipment	23	161
Payments for purchases of investment securities	(5)	(4)
Payments associated with acquisition of business	-	(2,549)
Other payments	(345)	(346)
Other proceeds	118	6
Net cash provided by (used in) investing activities	(21,492)	(30,703)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	330	326
Proceeds from long-term loans payable	48	-
Repayments of long-term loans payable	-	(2)
Repayment of finance lease obligations	(295)	(320)
Purchase of treasury stock	(1)	(988)
Proceeds from share issuance to non-controlling shareholders	51	-
Cash dividends paid	(2,623)	(2,684)
Dividends paid to non-controlling interests	(63)	(23)
Purchase of shares of subsidiaries without change in scope of consolidation	(815)	-
Net cash provided by (used in) financing activities	(3,368)	(3,692)
Effect of exchange rate changes on cash and cash equivalents	(147)	212
Net increase (decrease) in cash and cash equivalents	(12,483)	(21,957)
Cash and cash equivalents at the beginning of the period	41,028	55,675
Increase in cash and cash equivalents from newly consolidated subsidiary	-	59
Cash and cash equivalents at the end of the period	28,545	33,777

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Six months ended September 30, 2015 (April 1, 2015 – September 30, 2015)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Six months ended September 30, 2015 (April 1, 2015 – September 30, 2015)

Not applicable

(Segment Information)

1. Sales and income by reportable segment

Six months ended September 30, 2014 (April 1, 2014 – September 30, 2014)

	Reportable Segments			Adjustments (note 1)	(Million yen) Amounts reported on the quarterly statements of income (note 2)
	Water Treatment Chemicals	Water Treatment Facilities	Total		
Sales					
Sales to outside customers	29,349	59,606	88,956	–	88,956
Inter-segment sales or transfers	134	105	239	(239)	–
Total	29,483	59,712	89,195	(239)	88,956
Segment income	4,100	4,539	8,640	(3)	8,636

Notes:

1. Adjustments related to sales represent elimination of inter-segment sales. Resultant adjustment of segment income is reflected in segment income adjustments.
2. Segment income is shown at the operating income level.

Six months ended September 30, 2015 (April 1, 2015 – September 30, 2015)

	Reportable Segment			Adjustments (note 1)	(Million yen) Amounts reported on the quarterly statements of income (note 2)
	Water Treatment Chemicals	Water Treatment Facilities	Total		
Sales					
Sales to outside customers	40,595	57,322	97,918	–	97,918
Inter-segment sales or transfers	132	70	202	(202)	–
Total	40,727	57,393	98,120	(202)	97,918
Segment income	3,597	5,541	9,139	(5)	9,133

Notes:

1. Adjustments related to sales represent elimination of inter-segment sales. Resultant adjustment of segment income is reflected in segment income adjustments.
2. Segment income is shown at the operating income level.

(Business combinations)

Completion of provisional accounting treatment associated with business combinations

The Company applied provisional accounting treatment to business combinations on January 31, 2015, with Kurita Europe APW GmbH, Kurita Water Industries (Jiangyin) Co., Ltd., and seven other companies, and the provisional accounting treatment was completed in the second quarter under review.

On the completion of the provisional accounting treatment, a significant revision to the initial allocation of the acquisition cost is reflected in comparison information included in the consolidated financial statements for the six months under review.

The amount of goodwill that was provisionally calculated, 19,391 million yen, has been reduced by 1,916 million yen, to 17,475 million yen on the completion of the provisional accounting. The decrease in goodwill mainly reflects increases of 626 million yen in inventories, 987 million yen in property, plant and equipment, and 1,760 million yen in “other” intangible fixed assets.

Supplementary Information — Consolidated

(1) Order Intake

(Million yen)

Business segment	Six months ended September 30,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	29,732	30.7	41,335	37.6
Water Treatment Facilities	67,235	69.3	68,664	62.4
Total	96,967	100.0	110,000	100.0

(2) Net Sales

(Million yen)

Business segment	Six months ended September 30,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	29,349	33.0	40,595	41.5
Water Treatment Facilities	59,606	67.0	57,322	58.5
Total	88,956	100.0	97,918	100.0

(3) Capital Expenditures (Property, Plant and Equipment)

(Million yen)

Business segment	Six months ended September 30,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	690	21.9	920	11.1
Water Treatment Facilities	2,456	78.1	7,408	88.9
Total	3,146	100.0	8,329	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Six months ended September 30,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	580	8.1	667	10.2
Water Treatment Facilities	6,549	91.9	5,865	89.8
Total	7,129	100.0	6,532	100.0