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Kurita Water Industries Reports Earnings for the Six Months ended September 30, 2012

Tokyo, Japan, October 31, 2012—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 90,236 million yen and net income of 4,865 million yen, or 38.41 yen per share, for the six months ended September 30, 2012 (April 1, 2012 – September 30, 2012).

Results of Operations

Total consolidated orders for the Kurita Group in the six months ended September 30, 2012, decreased 4.4% versus the same period of the previous fiscal year to 94,070 million yen. Net sales rose 0.8% year on year to 90,236 million yen. In terms of income, operating income declined 16.6% year on year to 10,854 million yen, while ordinary income declined 15.3% to 11,335 million yen. Net income amounted to 4,865 million yen, down 38.3%. In the second quarter, the company posted an extraordinary gain of 1,184 million yen mainly as a result of the sale of some ultrapure water supply business facilities, as well as extraordinary losses of 3,778 million yen, mainly due to an impairment loss in relation to the relocation of the head office and a valuation loss on investment securities.

Reviewing markets in which the Kurita Group operates, the business environment in Japan remained severe during the period. Although recovery from the Great East Japan Earthquake progressed, capital investment was sluggish overall due to continued consolidation of production sites within the manufacturing industry and the transfer of manufacturing operations overseas. Outside Japan, the protracted European debt crisis impacted China and other emerging economies, leading to a slowdown in global economic activity. In East Asia, for example, electronics firms have scaled back or postponed major capital investments, as the sense of economic uncertainty intensified during the six-month period.

Amid this environment, the Kurita Group strove to increase orders by further bolstering teamwork within the Group in Japan and overseas and leveraging the Group's comprehensive capabilities through consultative sales to help customers with issues such as productivity enhancement and environmental mitigation.

Segment Information

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment in the six-month period totaled 28,694 million yen, down 1.1% versus the same period of the previous fiscal year, while sales increased 0.2% to 28,674 million yen. Operating income declined 6.2% to 4,681 million yen.

In Japan, there was an increase in orders for and sales of process treatment chemicals for the paper and pulp industries and treatment chemicals for waste incineration equipment. On the other hand, there was a decline in orders for and sales of mainstay cooling water treatment chemicals to customers in the electronics and petrochemical industries amid consolidation and halt in operations of manufacturing plants. Additionally, there was a decline in orders for equipment and services which had shown an increase in the same period last year as a result of strong post-earthquake recovery demand.

Overseas, despite robust business in China, both orders and sales declined in Europe due to the impact of the European debt crisis and ensuing economic slump.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment in the six-month period amounted to 65,376 million yen, down 5.8% versus the same period of the previous fiscal year. Sales increased 1.1% to 61,562 million yen, while operating income declined 23.2% to 6,161 million yen.

In the electronics industry, orders and sales in the ultrapure water supply business were largely unchanged compared to the same period of the previous fiscal year. Orders and sales of water treatment facilities and maintenance services declined, however, due to the restructuring of manufacturing plants among major customers, lower capacity utilization rates, and a decline in post-earthquake recovery-related demand. Overseas, while some customers scaled back or postponed capital investments due to the global economic slowdown, there was an increase in orders and sales to semiconductor and LCD panel plants.

In general industries, orders declined mainly in the electric power industry and for soil remediation due to the decline in earthquake recovery-related demand and sluggish capital investment. Sales increased as progress on the construction of water treatment facilities for the electric power industry as part of earthquake reconstruction efforts, outweighed a decline in sales of soil remediation services.

Financial Condition

Current assets totaled 152,175 million yen at the end of the second quarter (September 30, 2012), an increase of 7,190 million yen versus the end of the previous fiscal year (March 31, 2012). This was mainly a result of an increase of 19,000 million yen in marketable securities, which outweighed declines of 7,085 million yen in trade accounts receivable and 4,740 million yen in cash and deposits. The decline in trade accounts receivable was the result of progress in collecting receivables since the end of the previous fiscal year. The decline in cash and deposits and increase in marketable securities was mainly the result of increased investment in negotiable certificates, which are treated as marketable securities.

Noncurrent assets totaled 116,520 million yen at the end of the six-month period (September 30, 2012), a decline of 9,636 million yen versus the end of the previous fiscal year. The decline was mainly due to a 7,840 million yen decrease in property, plant and equipment and 1,714 million yen decrease in investment securities. The decline in property, plant and equipment was due to depreciation of ultrapure water supply business facilities exceeding capital expenditures during the six months ended September 30, 2012, as well as the sale of some ultrapure water supply business facilities. The decline in investment securities was due to a valuation loss booked in conjunction with a decline in market prices.

Current liabilities totaled 36,203 million yen at the end of the period, a decline of 6,155 million yen versus the end of the previous fiscal year. This was mainly a result of declines of 3,269 million yen in income taxes payable and 2,578 million yen in trade accounts payable.

Noncurrent liabilities totaled 19,606 million yen at the end of the period, an increase of 825 million yen versus the end of the previous fiscal year.

Net assets totaled 212,884 million yen at the end of the period, an increase of 2,882 million yen versus the end of the previous fiscal year. The change mainly reflects a 2,324 million yen increase in retained earnings resulting from the posting of 4,865 million yen in net income, which exceeded the dividend payments of 2,533 million yen at the end of the previous fiscal year.

Cash Flows

Consolidated net cash and cash equivalents at the end of the six month-period under review (September 30, 2012) totaled 12,562 million yen, a decrease of 7,263 million versus the end of the previous fiscal year (March 31, 2012). The various cash flows and related factors are outlined below.

Cash flows from operating activities

Net cash provided by operating activities in the six months ended September 30, 2012 totaled 16,613 million yen, an increase of 1,631 million yen versus the same period of the previous fiscal year. This primarily reflects a net inflow comprising income before income taxes and minority interests of 8,741 million yen, 7,647 million yen in depreciation and amortization, and a 7,577 million yen decrease in trade receivables, which was partially offset by income taxes paid of 7,022 million yen and a decline of 3,108 million yen in trade account payables.

Cash flows from investing activities

Net cash used in investing activities was 20,585 million yen, an increase of 7,858 million yen versus the same period of the previous fiscal year. This primarily reflects a net inflow from deposits into and withdrawals from time deposits of 5,968 million yen, and an inflow of 3,342 million yen from the sale of some ultrapure water supply business facilities offset by outflows including 27,500 million yen for the purchase and redemption of marketable securities and 1,973 million yen million for payments for purchase of property, plant and equipment, mainly equipment for the ultrapure water supply business.

Cash flows from financing activities

Net cash used in financing activities totaled 3,335 million yen, an increase of 493 million versus the same period of the previous fiscal year. The main cash outflow was 2,537 million in cash dividends paid.

Outlook for the Fiscal Year Ending March 31, 2013

The company has revised its outlook for the full year ending March 31, 2013 from the targets disclosed in the April 27, 2012 financial results announcement. For further details, please see the October 17, 2012 announcement, "Kurita Water Industries Revises Earnings Forecast."

Consolidated Earnings Forecast

Revision of consolidated earnings forecast for the full fiscal year ending March 31, 2013 (April 1, 2012 – March 31, 2013)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	(millions of yen)				(yen)
Previous forecast (A)	200,000	29,500	30,000	17,500	138.17
Revised forecast (B)	196,000	25,000	25,700	13,600	107.37
Change (B – A)	(4,000)	(4,500)	(4,300)	(3,900)	—
Percent change	(2.0)%	(15.3)%	(14.3)%	(22.3)%	—
For reference:					
Fiscal year ended March 31, 2012 (actual)	193,792	29,382	30,369	16,548	130.65

Other Information

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

a. 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 and minority interests for the fiscal year and then multiplying quarterly income before income taxes and minority interests by this estimated effective tax rate.

(2) Changes in accounting policy, changes in accounting estimates, and retrospective restatement

Changes in accounting policy hard to distinguish from changes in accounting estimates

In response to Japan's recent corporate tax law amendments and effective from the first quarter of the fiscal year ending March 31, 2013, the method which Kurita Water Industries Ltd. and its domestic consolidated subsidiaries use for depreciation of noncurrent assets acquired on or after April 1, 2012 will be adjusted to reflect the revised corporate tax code. Impact on earnings for the six months ended September 30, 2012 is expected to be minimal.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2012	(millions of yen) As of September 30, 2012
	Amount	Amount
Assets		
Current assets		
Cash and deposits	28,902	24,162
Notes receivable - trade	7,045	6,612
Accounts receivable - trade	59,311	52,226
Marketable securities	40,500	59,500
Finished products	1,598	1,347
Work in process	2,715	3,419
Raw materials and supplies	1,209	1,424
Other	3,761	3,530
Allowance for doubtful accounts	(58)	(47)
Total current assets	144,985	152,175
Noncurrent assets		
Property, plant and equipment		
Buildings (net)	28,355	25,267
Machinery and equipment (net)	44,779	39,944
Other (net)	25,233	25,317
Total property, plant and equipment	98,368	90,528
Intangible fixed assets	1,683	1,782
Investments and other assets		
Other	26,443	24,544
Allowance for doubtful accounts	(339)	(335)
Total investments and other assets	26,103	24,209
Total noncurrent assets	126,156	116,520
Total assets	271,141	268,695
Liabilities		
Current liabilities		
Notes payable – trade	1,701	1,547
Accounts payable - trade	19,620	17,042
Income taxes payable	7,045	3,776
Accrued employees' bonuses	2,427	2,757
Other allowances	1,007	1,148
Other	10,555	9,931
Total current liabilities	42,358	36,203
Noncurrent liabilities		
Accrued employees' retirement benefits	10,335	10,576
Other allowances	168	593
Other	8,277	8,437
Total noncurrent liabilities	18,781	19,606
Total liabilities	61,139	55,810
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	11,426	11,426
Retained earnings	196,541	198,865
Treasury stock	(9,642)	(9,643)
Total shareholders' equity	211,776	214,099

Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	252	766
Unrealized gains (losses) on revaluation of land	(564)	(564)
Foreign currency translation adjustments	(2,572)	(2,563)
Total accumulated other comprehensive income	(2,884)	(2,361)
Minority interests	1,110	1,147
Total net assets	210,002	212,884
Total liabilities and net assets	271,141	268,695

Statements of Income and Comprehensive Income – Consolidated

Statement of Income

	(millions of yen)	
	Six months ended September 30, 2011	Six months ended September 30, 2012
	Amount	Amount
Net sales	89,515	90,236
Cost of sales	58,226	60,294
Gross profit	31,288	29,942
Selling, general and administrative expenses		
Directors' and corporate auditors' compensations, salaries and allowances	6,544	6,716
Provision for bonuses	1,513	1,527
Research and development expenses	2,065	2,183
Other	8,147	8,660
Total selling, general and administrative expenses	18,270	19,088
Operating income	13,017	10,854
Non-operating income		
Interest income	52	75
Dividend income	189	187
Equity in earnings of unconsolidated subsidiaries and affiliates	155	173
Other	135	148
Total non-operating income	533	584
Non-operating expenses		
Interest expense	48	48
Other	117	54
Total non-operating expenses	166	103
Ordinary income	13,384	11,335
Extraordinary gains		
Gain on sales of noncurrent assets	-	1,046
Gain on discontinuation of approved retirement annuity system (closed-type)	-	137
Total extraordinary gains	-	1,184
Extraordinary losses		
Impairment losses	-	(*1) 1,001
Provision for building demolition expenses	-	(*2) 434
Valuation loss on investment securities	-	2,343
Disaster losses	17	-
Disaster recovery expenses	17	-
Total extraordinary losses	35	3,778
Income before income taxes and minority interests	13,349	8,741
Income taxes	5,445	3,834
Income before minority interests	7,904	4,906
Minority interests in earnings of consolidated subsidiaries	22	41
Net income	7,881	4,865

Statement of Comprehensive Income

	(millions of yen)	
	Six months ended September 30, 2011	Six months ended September 30, 2012
Income before minority interests	7,904	4,906
Other comprehensive income		
Unrealized gains on available-for-sale securities	(1,211)	514
Foreign currency translation adjustments	248	6
Share of other comprehensive income of associates accounted for using equity method	27	9
Total other comprehensive income	(935)	531
Comprehensive income	6,968	5,437
(Components)		
Comprehensive income attributable to owners of the parent company	6,927	5,388
Comprehensive income attributable to minority interests	41	49

Statements of Cash Flows — Consolidated

	(millions of yen)	
	Six months ended September 30, 2011	Six months ended September 30, 2012
	Amount	Amount
Cash flows from operating activities		
Income before income taxes and minority interests	13,349	8,741
Depreciation and amortization	7,904	7,647
Increase (decrease) in allowances	271	603
(Gains) losses on sale/disposal of property, plant and equipment	7	(1,034)
Impairment loss	-	1,001
Valuation (gain) loss on investment securities	7	2,343
(Increase) decrease in notes and accounts receivable - trade	1,047	7,577
(Increase) decrease in inventories	(2,560)	(662)
Increase (decrease) in notes and accounts payable - trade	434	(3,108)
Income taxes paid	(5,817)	(7,022)
Other	337	526
Net cash provided by (used in) operating activities	14,982	16,613
Cash flows from investing activities		
Deposits into time deposit accounts	(19,647)	(12,224)
Withdrawals from time deposits	27,689	18,192
Payments for purchases of marketable securities	(39,000)	(59,500)
Proceeds from sale and redemption of marketable securities	21,000	32,000
Payments for purchases of property, plant and equipment	(2,671)	(1,973)
Proceeds from sale of property, plant and equipment	8	3,342
Payments for purchases of investment securities	(6)	(6)
Other payments	(319)	(508)
Other proceeds	219	93
Net cash provided by (used in) investing activities	(12,727)	(20,585)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(182)	(597)
Proceeds from long-term loans payable	2	57
Repayment of finance lease obligations	(244)	(256)
Purchase of treasury stock	(1)	(1)
Cash dividends paid	(2,403)	(2,525)
Cash dividends paid to minority shareholders	(13)	(12)
Net cash provided by (used in) financing activities	(2,842)	(3,335)
Effect of exchange rate changes on cash and cash equivalents	47	44
Net increase (decrease) in cash and cash equivalents	(540)	(7,263)
Cash and cash equivalents at the beginning of the period	10,834	19,825
Increase in cash and cash equivalents from newly consolidated subsidiaries	-	-
Cash and cash equivalents at the end of the period	10,294	12,562

Notes on the Going-concern Assumption

Six months ended September 30, 2012 (April 1, 2012 – September 30, 2012)

Not applicable

Notes to Consolidated Financial Statements

(Concerning quarterly consolidated statement of income)

*1 Impairment loss

For the first six months of the fiscal year ending March 31, 2013 (April 1, 2012 – September 30, 2012)

The Group has booked an impairment loss for the following asset group.

Use	Category	Location	Impairment loss
Idle assets	Buildings and structures, etc.	Tokyo, Shinjuku Ward	1,001 million yen

The Company categorizes business assets by type of business structure, and leased assets and idle assets by individual property type. In the first six months of the fiscal year, though there were no indications of impairment to business assets or leased assets, land, buildings, and structures, etc. owned by the company in Tokyo, Shinjuku Ward became idle as a result of the relocation of the head office. Among these assets, the book value of the buildings and structures, etc. was reduced to the residual value due to asset deterioration and the company's recognition of its inability to recover book value. In conjunction with this, the company booked an impairment loss of 1,001 million yen as an extraordinary loss.

*2 Booking of provision for building demolition expenses

In the first six months of the fiscal year ending March 31, 2013, the company resolved to demolish its former head office building (Tokyo, Shinjuku Ward). In conjunction with the decision, the company has made a reasonable estimate of the cost and booked a provision for building demolition expenses of 434 million yen as an extraordinary loss.

Segment Information

1. Sales and income/loss by reportable segment

Six months ended September 30, 2011 (April 1, 2011 – September 30, 2011)

(millions of yen)

	Reportable Segment			Adjustments (note 1)	Amounts reported on the quarterly statements of income (note 2)
	Water Treatment Chemicals	Water Treatment Facilities	Total		
Sales					
Sales to outside customers	28,617	60,898	89,515	-	89,515
Inter-segment sales or transfers	197	92	290	(290)	-
Total	28,814	60,991	89,806	(290)	89,515
Segment income	4,991	8,027	13,018	(0)	13,017

Six months ended September 30, 2012 (April 1, 2012 – September 30, 2012)

(millions of yen)

	Reportable Segment			Adjustments (note 1)	Amounts reported on the quarterly statements of income (note 2)
	Water Treatment Chemicals	Water Treatment Facilities	Total		
Sales					
Sales to outside customers	28,674	61,562	90,236	-	90,236
Inter-segment sales or transfers	144	97	242	(242)	-
Total	28,818	61,660	90,478	(242)	90,236
Segment income	4,681	6,161	10,842	11	10,854

Notes:

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

2. Impairment loss on noncurrent assets by reportable segment

Impairment loss on idle noncurrent assets was recognized in the six months ended September 30, 2012. This had no effect on each segment.

Notes on Significant Changes in Shareholders' Equity

Six months ended September 30, 2012 (April 1, 2012 – September 30, 2012)

Not applicable

Other Information — Consolidated

(1) Order Intake

(millions of yen)

Six months ended September 30,

Business segment	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	29,018	29.5	28,694	30.5
Water Treatment Facilities	69,418	70.5	65,376	69.5
Total	98,436	100.0	94,070	100.0

(2) Net Sales

(millions of yen)

Six months ended September 30,

Business segment	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	28,617	32.0	28,674	31.8
Water Treatment Facilities	60,898	68.0	61,562	68.2
Total	89,515	100.0	90,236	100.0

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

(millions of yen)

Six months ended September 30,

Business segment	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	667	25.2	804	28.2
Water Treatment Facilities	1,984	74.8	2,050	71.8
Total	2,652	100.0	2,855	100.0

(4) Depreciation (Property, Plant and Equipment)

(millions of yen)

Six months ended September 30,

Business segment	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	563	7.4	529	7.2
Water Treatment Facilities	7,015	92.6	6,832	92.8
Total	7,579	100.0	7,361	100.0