

Kurita Water Industries Reports Earnings for the Six Months Ended September 30, 2013

Tokyo, Japan, October 31, 2013—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 82,772 million yen and net income of 4,104 million yen, or 34.44 yen per share, for the six months ended September 30, 2013 (April 1, 2013 – September 30, 2013).

Results of Operations

Total consolidated orders for the Kurita Group in the six months ended September 30, 2013, decreased 4.6% versus the same period of the previous fiscal year, to 89,739 million yen. Net sales declined 8.3% year on year, to 82,772 million yen. In terms of income, operating income declined 38.3% year on year to 6,702 million yen, and ordinary income fell 36.9% to 7,158 million yen. Net income amounted to 4,104 million yen, down 15.6%.

During the six months under review, the global economy recovered moderately, backed by the strong U.S. economy, but nonetheless remained uncertain, reflecting the sluggish European economy and a slowdown in emerging economies, including China. In Japan, corporate earnings started to increase with new economic policies and a correction to the strong yen, but capital expenditure and production did not improve significantly.

In this environment, the results of the Kurita Group (Kurita Water Industries and its consolidated subsidiaries and equity method affiliates) fell short of the earnings forecast made at the beginning of the fiscal year under review.

As capacity utilization was slow to recover and capital expenditure was weak at the Group's main customers, namely manufacturers in Japan, major products and services saw declines in orders and sales. In the electronic industry overseas, capital expenditures in water treatment facilities were cancelled or postponed. Reflecting this, sales in the Water Treatment Chemicals segment rose only slightly from a year earlier, and sales in the Water Treatment Facilities segment declined. Income fell sharply from a year ago because of the decrease in sales, unprofitable projects in the water treatment facilities projects overseas, and an increase in selling, general and administrative expenses associated with the expansion of the workforce overseas.

Segment Information

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment in the six-month period stood at 29,327 million yen, up 2.2% versus the same period of the previous fiscal year. Sales increased 0.5%, to 28,806 million yen, while operating income declined 5.3%, to 4,433 million yen.

In Japan, with low capacity utilization at customers' plants, orders for and sales of mainstay boiler water treatment chemicals, waste water treatment chemicals, and process treatment chemicals for the pulp and paper industries declined. Overseas, orders for and sales of cooling water treatment chemicals, waste water treatment chemicals, and reverse osmosis membrane treatment chemicals increased, especially in China and Southeast Asia, partly due to a weaker yen. In the entire segment, both orders and sales rose slightly. Selling, general and administrative expenses increased, reflecting an increase in the overseas workforce.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment in the six-month period amounted to 60,411 million yen, down 7.6% versus the same period of the previous fiscal year. Sales declined 12.3% to 53,965 million yen, and operating income dropped 63.1% to 2,276 million yen.

In Japan, orders for and sales of water treatment facilities in the electric power industry declined from the same period of the previous fiscal year due to the completion of demand related to reconstruction after the Great East Japan Earthquake. Orders for and sales of water treatment facilities and maintenance services decreased in the electronics industry due to a slow recovery in capital expenditure demand and capacity utilization at customers' plants. Orders and sales in the ultrapure water supply business fell slightly with contracts changing in the previous fiscal year. Overseas, both orders and sales declined due to cancellations of orders and postponements of the commencement of work for large projects in the electronics industry in East Asia. Because of cost increases, the cost rate worsened at certain projects.

Financial Condition

Assets, liabilities and net assets

Current assets totaled 151,689 million yen at the end of the second quarter (September 30, 2013), an increase of 4,815 million yen versus the end of the previous fiscal year (March 31, 2013). This was mainly a result of increases of 10,000 million yen in marketable securities and 1,816 million yen in work in process, which outweighed a decline of 7,988 million yen in trade accounts receivable.

The decline in trade accounts receivable was the result of progress in collecting receivables and weaker sales in the first half under review than in the second half of the previous fiscal year. The rise in marketable securities was attributable chiefly to a rise in negotiable deposits which are treated as marketable securities. The increase in work in process was mainly the result of progress in construction work in the water treatment facilities business.

Noncurrent assets totaled 114,277 million yen at the end of the first half (September 30, 2013), a decline of 2,428 million versus the end of the previous fiscal year. The decline was principally attributable to a 4,924 million yen decrease in property, plant and equipment, which was partly offset by a 2,565 million yen rise in investments and other assets. The decline in property, plant and equipment was due to depreciation of ultrapure water supply business facilities exceeding capital expenditures. The increase in investments and other assets reflected a rise in unrealized gains on investment securities due to rises in the market prices of the shares held by the Group.

Current liabilities totaled 32,483 million yen at the end of the period, a decline of 2,932 million versus the end of the previous fiscal year. This was mainly a result of declines of 2,062 million yen in trade accounts payable and 1,817 million yen in "Other" current liabilities.

Noncurrent liabilities totaled 18,970 million yen at the end of the period, a slight decrease of 76 million yen versus the end of the previous fiscal year.

Net assets totaled 214,512 million yen at the end of the period, an increase of 5,394 million yen versus the end of the previous fiscal year primarily due to a 1,601 million yen increase in shareholders' equity and a 3,714 million yen rise in accumulated other comprehensive income. The increase in shareholders' equity resulted from net income of 4,104 million yen exceeding year-end dividends of 2,502 million yen for the previous fiscal year. The increase in accumulated other comprehensive income is a result of a 2,601 million yen rise in unrealized gains on available-for-sale securities due to the increase in unrealized gains on investment securities and a 1,113 million yen increase in

foreign currency translation adjustments associated with a weaker yen. Certain shares of treasury stock were cancelled, which did not affect total net assets but reduced treasury stock 21,859 million yen (an increase in net assets) and retained earnings by the same amount.

Cash flows

Consolidated net cash and cash equivalents at the end of the first half of the fiscal year (September 30, 2013) stood at 27,784 million yen, a decrease of 5,528 million from the end of the previous fiscal year (March 31, 2013). 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, 2014, totaled 14,432 million yen, a decrease of 2,181 million yen from a year ago. Inflows from income before income taxes and minority interests (6,658 million yen), depreciation and amortization (7,364 million), and a decrease in trade notes and accounts receivable (7,699 million yen) were partially offset by income taxes paid (2,735 million yen), an increase in inventories (2,395 million yen), and a decrease in trade notes and accounts payable (2,474 million yen).

Cash flows from investing activities

Net cash used in investing activities stood at 17,575 million yen, a decrease of 3,010 million yen from a year earlier, primarily reflecting net deposits into time deposit accounts of 4,258 million yen, net payments for the purchase of marketable securities (after the deduction of proceeds from sale and redemption of marketable securities) of 10,000 million yen, and payments for the purchase of property, plant and equipment, including capital expenditures for ultrapure water supply business, of 3,152 million yen.

Cash flows from financing activities

Net cash used in financing activities came to 2,820 million yen, a decrease of 515 million yen from a year earlier, attributable mainly to cash dividends paid of 2,513 million yen.

Outlook for the Fiscal Year Ending March 31, 2014

Capacity utilization and capital expenditure at customers' plants have been slow to recover, and the recovery is expected to take time before it influences the Group's results. Considering the situation, the Company has determined that it is difficult to achieve the initial earnings forecast and, on October 11, 2013, revised the earnings forecasts for the fiscal year ending March 31, 2014, which it announced on April 30, 2013. For details, please refer to the "Kurita Water Industries Revises Earnings Forecast" announced on October 11, 2013.

Other Information

(1) Changes in significant subsidiaries during the six months ended September 30, 2013
There were no changes in specified subsidiaries that would have changed the scope of consolidation.

Starting the first quarter under review, the equity method is applied to a newly established company and a company whose significance has increased.

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

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2013 Amount	(Million yen) As of September 30, 2013 Amount
Assets		
Current assets		
Cash and deposits	43,039	41,805
Notes receivable - trade	6,108	7,214
Accounts receivable - trade	55,279	47,291
Marketable securities	34,000	44,000
Finished products	1,445	1,642
Work in process	2,238	4,054
Raw materials and supplies	1,191	1,747
Other	3,676	4,019
Allowance for doubtful accounts	(104)	(85)
Total current assets	146,874	151,689
Noncurrent assets		
Property, plant and equipment		
Buildings (net)	23,693	22,025
Machinery and equipment (net)	36,173	36,505
Other (net)	26,954	23,365
Total property, plant and equipment	86,820	81,896
Intangible fixed assets	1,619	1,550
Investments and other assets		
Other	28,506	31,207
Allowance for doubtful accounts	(241)	(377)
Total investments and other assets	28,265	30,830
Total noncurrent assets	116,705	114,277
Total assets	263,580	265,966
Liabilities		
Current liabilities		
Notes payable – trade	1,451	1,590
Accounts payable - trade	16,522	14,460
Income taxes payable	2,509	2,315
Provision for bonuses	2,362	2,793
Other provision	1,187	1,757
Other	11,382	9,565
Total current liabilities	35,415	32,483
Noncurrent liabilities		
Accrued employees' retirement benefits	10,835	11,078
Other allowances	165	94
Other	8,045	7,798
Total noncurrent liabilities	19,046	18,970
Total liabilities	54,462	51,454
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	11,426	11,426
Retained earnings	202,807	182,550
Treasury stock	(21,859)	(0)
Total shareholders' equity	205,826	207,427
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	4,079	6,680
Unrealized gains (losses) on revaluation of land	(564)	(564)
Foreign currency translation adjustments	(1,469)	(356)
Total accumulated other comprehensive income	2,045	5,759
Minority interests	1,246	1,326
Total net assets	209,118	214,512
Total liabilities and net assets	263,580	265,966

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Six months ended September 30, 2012	Six months ended September 30, 2013
	Amount	Amount
Net sales	90,236	82,772
Cost of sales	60,294	56,025
Gross profit	29,942	26,747
Selling, general and administrative expenses		
Directors' and corporate auditors' compensations, salaries and allowances	6,716	7,101
Provision for bonuses	1,527	1,544
Research and development expenses	2,183	2,204
Other	8,660	9,193
Total Selling, general and administrative expenses	19,088	20,044
Operating income	10,854	6,702
Non-operating income		
Interest income	75	84
Dividend income	187	169
Equity in earnings of unconsolidated subsidiaries and affiliates	173	107
Other	148	164
Total non-operating income	584	526
Non-operating expenses		
Interest expense	48	31
Other	54	39
Total non-operating expenses	103	70
Ordinary income	11,335	7,158
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	1,001	—
Provision for building demolition expenses	434	—
Valuation loss on investment securities	2,343	—
Contribution	—	* 500
Total extraordinary losses	3,778	500
Income before income taxes and minority interests	8,741	6,658
Income taxes	3,834	2,536
Income before minority interests	4,906	4,121
Minority interests in earnings of consolidated subsidiaries	41	16
Net income	4,865	4,104

Statement of Comprehensive Income

	(Million yen)	
	Six months ended September 30, 2012	Six months ended September 30, 2013
	Amount	Amount
Income before minority interests	4,906	4,121
Other comprehensive income		
Unrealized gains on available-for-sale securities	514	2,593
Foreign currency translation adjustments	6	1,132
Share of other comprehensive income of associates accounted for using equity method	9	54
Total other comprehensive income	531	3,781
Comprehensive income	5,437	7,902
Components:		
Comprehensive income attributable to owners of the parent company	5,388	7,818
Comprehensive income attributable to minority interests	49	84

Statement of Cash Flows — Consolidated

	(Million yen)	
	Six months ended September 30, 2012	Six months ended September 30, 2013
	Amount	Amount
Cash flows from operating activities		
Income before income taxes and minority interests	8,741	6,658
Depreciation and amortization	7,647	7,364
Increase (decrease) in provision	603	1,215
(Gains) losses on sale/disposal of property, plant and equipment	(1,034)	7
Impairment loss	1,001	–
Valuation (gain) loss on investment securities	2,343	–
(Increase) decrease in notes and accounts receivable - trade	7,577	7,699
(Increase) decrease in inventories	(662)	(2,395)
Increase (decrease) in notes and accounts payable - trade	(3,108)	(2,474)
Income taxes paid	(7,022)	(2,735)
Other	526	(906)
Net cash provided by (used in) operating activities	16,613	14,432
Cash flows from investing activities		
Deposits into time deposit accounts	(12,224)	(10,606)
Withdrawals from time deposits	18,192	6,348
Payments for purchases of marketable securities	(59,500)	(52,000)
Proceeds from sale and redemption of marketable securities	32,000	42,000
Payments for purchases of property, plant and equipment	(1,973)	(3,152)
Proceeds from sale of property, plant and equipment	3,342	5
Payments for purchases of investment securities	(6)	(6)
Other payments	(508)	(333)
Other proceeds	93	169
Net cash provided by (used in) investing activities	(20,585)	(17,575)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(597)	(2)
Proceeds from long-term loans payable	57	–
Repayment of finance lease obligations	(256)	(301)
Purchase of treasury stock	(1)	(0)
Cash dividends paid	(2,525)	(2,500)
Cash dividends paid to minority shareholders	(12)	(13)
Net cash provided by (used in) financing activities	(3,335)	(2,820)
Effect of exchange rate changes on cash and cash equivalents	44	435
Net increase (decrease) in cash and cash equivalents	(7,263)	(5,528)
Cash and cash equivalents at the beginning of the period	19,825	33,313
Cash and cash equivalents at the end of the period	12,562	27,784

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Six months ended September 30, 2013 (April 1, 2013 – September 30, 2013)

Not applicable

(Notes on Statement on Income)

* Contribution

Six months ended September 30, 2013 (April 1, 2013 – September 30, 2013)

The Company made an additional contribution of 500 million yen to the basic fund of the Kurita Water and Environment Foundation and posted the amount as a contribution in extraordinary losses.

(Notes on Significant Changes in Shareholders' Equity)

Six months ended September 30, 2013 (April 1, 2013 – September 30, 2013)

Under a resolution at a meeting of the Board of Directors held on July 30, 2013, the Company canceled 13,635,662 shares of its treasury stock on August 6, 2013. The cancellation has not changed the total amount of shareholders' equity, but treasury stock declined 21,859 million yen (an increase in shareholders' equity), and retained earnings fell by the same amount.

(Segment Information)

1. Sales and income by reportable segment

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

	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	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

Six months ended September 30, 2013 (April 1, 2013 – September 30, 2013)

	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	28,806	53,965	82,772	–	82,772
Inter-segment sales or transfers	122	114	237	(237)	–
Total	28,929	54,080	83,009	(237)	82,772
Segment income	4,433	2,276	6,710	(7)	6,702

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.

Supplementary Information — Consolidated

(1) Order Intake

(Million yen)

Business segment	Six months ended September 30,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	28,694	30.5	29,327	32.7
Water Treatment Facilities	65,376	69.5	60,411	67.3
Total	94,070	100.0	89,739	100.0

(2) Net Sales

(Million yen)

Business segment	Six months ended September 30,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	28,674	31.8	28,806	34.8
Water Treatment Facilities	61,562	68.2	53,965	65.2
Total	90,236	100.0	82,772	100.0

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

(Million yen)

Business segment	Six months ended September 30,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	804	28.2	816	41.2
Water Treatment Facilities	2,050	71.8	1,166	58.8
Total	2,855	100.0	1,982	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Six months ended September 30,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	529	7.2	549	7.8
Water Treatment Facilities	6,832	92.8	6,534	92.2
Total	7,361	100.0	7,083	100.0