

Kurita Water Industries Reports Earnings for the Nine Months Ended December 31, 2012

Tokyo, Japan, January 31, 2013—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 129,662 million yen and net income of 7,213 million yen, or 57.33 yen per share, for the nine months ended December 31, 2012 (April 1, 2012 – December 31, 2012).

Results of Operations

Total consolidated orders for the Kurita Group in the nine months ended December 31, 2012, decreased 5.3% versus the same period of the previous fiscal year to 130,844 million yen. Net sales declined 2.8% year on year to 129,662 million yen. In terms of income, operating income declined 25.4% year on year to 14,617 million yen, while ordinary income declined 24.1% to 15,382 million yen. Net income amounted to 7,213 million yen, down 32.9%.

Reviewing markets in which the Kurita Group (Kurita Water Industries and its consolidated subsidiaries and an equity method affiliate) operates, the business environment in Japan remained severe during the period. Capital investment was sluggish, and capacity utilization was low in the manufacturing industry, reflecting declining demand associated with the recovery from the Great East Japan Earthquake, a slowdown in personal spending, and weak exports. Outside Japan, the global downturn continued with the European economy remaining sluggish and growth in emerging economies—hitherto the driving force behind the global economy—slowing.

Amid this environment, the Kurita Group strove to increase orders through collaboration between operations in Japan and those overseas and the expansion of products and services that help customers enhance productivity and address challenges such as reducing their environmental footprint.

Segment Information

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment in the nine-month period totaled 41,857 million yen, down 1.1% versus the same period of the previous fiscal year, while sales increased 0.1% to 42,428 million yen. Operating income declined 9.2% to 6,531 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 and waste water treatment chemicals due to the consolidation and halt of operations of customers' manufacturing plants.

Overseas, both orders and sales declined in Europe, where the economies remained stagnant, but performance was strong in Asia, especially in China and Thailand. Overall both orders and sales rose.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment in the nine-month period amounted to 88,986 million yen, down 7.2% versus the same period of the previous fiscal year. Sales slipped 4.2% to 87,233 million yen, while operating income declined 34.8% to 8,074 million yen.

In the electronics industry, orders and sales of maintenance services declined from the same period of the previous fiscal year due to the restructuring of manufacturing plants among major customers and lower capacity utilization rates. Orders and sales in the ultrapure water supply business fell with a contract expiring. Overseas, while some customers postponed or scaled back capital investments, orders from the semiconductor and LCD panel industries in Asia increased.

In general industries, orders for water treatment facilities in the electric power industry and maintenance services declined due to the completion of earthquake recovery-related demand and low capacity utilization at customers' plants. Sales of water treatment facilities for the electric power industry increased with progress in construction, while sales of soil remediation services decreased.

Financial Condition

Current assets totaled 137,191 million yen at the end of the third quarter (December 31, 2012), a decrease of 7,794 million yen versus the end of the previous fiscal year (March 31, 2012). This was mainly a result of declines of 11,577 million yen in trade accounts receivable and 6,736 million yen in cash and deposits, which outweighed increases of 7,000 million yen in marketable securities and 3,226 million yen in work in process.

The decline in trade accounts receivable was the result of progress in collecting receivables since the end of the previous fiscal year and strong sales in the second half of the previous fiscal year. The increase in work in process was mainly the result of progress in construction work in the water treatment facilities business.

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 115,876 million yen at the end of the nine-month period (December 31, 2012), a decline of 10,280 million yen versus the end of the previous fiscal year. The decline was mainly due to a 10,038 million yen decrease in property, plant and equipment. The decline in property, plant and equipment was due to depreciation of ultrapure water supply business facilities exceeding capital expenditures during the nine months ended December 31, 2012, the sale of some ultrapure water supply business facilities, and an impairment loss in relation to the relocation of the head office.

Current liabilities totaled 31,527 million yen at the end of the period, a decline of 10,831 million yen versus the end of the previous fiscal year. This was mainly a result of declines of 6,613 million yen in income taxes payable and 4,073 million yen in trade accounts payable. The decrease in income taxes payable resulted from annual tax return and interim tax return adjustments. The decline in trade accounts payable was the result of reduced purchases than in the second half of the previous fiscal year.

Noncurrent liabilities totaled 19,570 million yen at the end of the period, an increase of 789 million yen versus the end of the previous fiscal year.

Net assets totaled 201,969 million yen at the end of the period, a decrease of 8,033 million yen versus the end of the previous fiscal year. The change mainly reflects a 12,216 million yen increase in treasury stock through a tender offer and other means, a 2,170 million yen rise in unrealized gains on available-for-sale securities due to upturns in stock prices after the posting of a valuation loss on investment securities of 2,343 million yen in the second quarter, and a climb of 2,012 million yen in retained earnings resulting from the posting of 7,213 million yen in net income in the first nine months, which exceeded dividend payments of 5,193 million yen, the sum of year-end dividends for the previous fiscal year and interim dividends for the fiscal year under review.

Outlook for the Fiscal Year Ending March 31, 2013

The Group's current outlook for the full year ending March 31, 2013 is consistent with the targets disclosed in "Earnings Report for the Six Months Ended September 30, 2012," which was announced on October 31, 2012.

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 nine months ended December 31, 2012 is expected to be minimal.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2012 Amount	(Million yen) As of December 31, 2012 Amount
Assets		
Current assets		
Cash and deposits	28,902	22,166
Notes receivable - trade	7,045	6,584
Accounts receivable - trade	59,311	47,734
Marketable securities	40,500	47,500
Finished products	1,598	1,364
Work in process	2,715	5,941
Raw materials and supplies	1,209	1,480
Other	3,761	4,464
Allowance for doubtful accounts	(58)	(45)
Total current assets	144,985	137,191
Noncurrent assets		
Property, plant and equipment		
Buildings (net)	28,355	24,461
Machinery and equipment (net)	44,779	38,010
Other (net)	25,233	25,858
Total property, plant and equipment	98,368	88,330
Intangible fixed assets	1,683	1,706
Investments and other assets		
Other	26,443	26,177
Allowance for doubtful accounts	(339)	(338)
Total investments and other assets	26,103	25,839
Total noncurrent assets	126,156	115,876
Total assets	271,141	253,067
Liabilities		
Current liabilities		
Notes payable – trade	1,701	1,378
Accounts payable - trade	19,620	15,547
Income taxes payable	7,045	432
Allowances	3,434	2,332
Other	10,555	11,836
Total current liabilities	42,358	31,527
Noncurrent liabilities		
Accrued employees' retirement benefits	10,335	10,693
Other allowances	168	596
Other	8,277	8,280
Total noncurrent liabilities	18,781	19,570
Total liabilities	61,139	51,098
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	11,426	11,426
Retained earnings	196,541	198,553
Treasury stock	(9,642)	(21,858)
Total shareholders' equity	211,776	201,572
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	252	2,422
Unrealized gains (losses) on revaluation of land	(564)	(564)
Foreign currency translation adjustments	(2,572)	(2,616)
Total accumulated other comprehensive income	(2,884)	(758)
Minority interests	1,110	1,156
Total net assets	210,002	201,969
Total liabilities and net assets	271,141	253,067

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Nine months ended December 31, 2011	Nine months ended December 31, 2012
	Amount	Amount
Net sales	133,404	129,662
Cost of sales	86,768	86,610
Gross profit	46,636	43,052
Selling, general and administrative expenses	27,049	28,435
Operating income	19,586	14,617
Non-operating income		
Interest income	107	108
Dividend income	353	347
Equity in earnings of unconsolidated subsidiaries and affiliates	265	271
Other	134	197
Total non-operating income	860	925
Non-operating expenses		
Interest expense	69	61
Other	121	98
Total non-operating expenses	191	159
Ordinary income	20,255	15,382
Extraordinary gains		
Gain on sales of noncurrent assets	-	1,048
Gain on discontinuation of approved retirement annuity system (closed-type)	-	137
Total extraordinary gains	-	1,186
Extraordinary losses		
Impairment losses	-	1,001
Provision for building demolition expenses	-	434
Valuation loss on investment securities	608	2,343
Disaster losses and disaster recovery expenses	35	-
Total extraordinary losses	644	3,778
Income before income taxes and minority interests	19,611	12,790
Income taxes	8,825	5,529
Income before minority interests	10,786	7,260
Minority interests in earnings of consolidated subsidiaries	31	47
Net income	10,754	7,213

Statement of Comprehensive Income

	(Million yen)	
	Nine months ended December 31, 2011	Nine months ended December 31, 2012
	Amount	Amount
Income before minority interests	10,786	7,260
Other comprehensive income		
Unrealized gains on available-for-sale securities	(1,758)	2,168
Unrealized gains (losses) on revaluation of land	184	-
Foreign currency translation adjustments	(577)	(54)
Share of other comprehensive income of associates accounted for using equity method	(57)	22
Total other comprehensive income	(2,207)	2,136
Comprehensive income	8,578	9,396
Components:		
Comprehensive income attributable to owners of the parent company	8,588	9,338
Comprehensive income attributable to minority interests	(10)	57

Notes on the Going-concern Assumption

Nine months ended December 31, 2012 (April 1, 2012 – December 31, 2012)

Not applicable

Notes to Consolidated Financial Statements

(Concerning quarterly consolidated statement of income)

*1 Impairment loss

For the first nine months of the fiscal year ending March 31, 2013 (April 1, 2012 – December 31, 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 nine 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 nine 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 by reportable segment

Nine months ended December 31, 2011 (April 1, 2011 – December 31, 2011)

	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	42,393	91,011	133,404	–	133,404
Inter-segment sales or transfers	265	198	463	(463)	–
Total	42,658	91,209	133,868	(463)	133,404
Segment income	7,194	12,392	19,587	(0)	19,586

Nine months ended December 31, 2012 (April 1, 2012 – December 31, 2012)

	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	42,428	87,233	129,662	–	129,662
Inter-segment sales or transfers	236	115	351	(351)	–
Total	42,664	87,349	130,014	(351)	129,662
Segment income	6,531	8,074	14,605	11	14,617

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.

2. Impairment loss on noncurrent assets by reportable segment

Impairment loss on idle noncurrent assets was recognized in the nine months ended December 31, 2012. This had no effect on each segment.

Notes on Significant Changes in Shareholders' Equity

Nine months ended December 31, 2012 (April 1, 2012 – December 31, 2012)

The Company resolved at the Board of Directors meeting held on October 31, 2012 to acquire treasury stock specifically by means of tender offer (“Tender Offer”) pursuant to Article 156, Paragraph 1, applied with the replacement of certain terms as provided in Article 165, Paragraph 3 of the Company Act and the provisions of its Articles of Association, and acquired 7,493,655 common shares for 12,214 million yen. As a result, the value of treasury stock increased 12,216 million yen, including the value of fractional shares acquired, during the first nine months, to 21,858 million yen at the end of the first nine months.

Supplementary Information — Consolidated

(1) Order Intake

(Million yen)

Business segment	Nine months ended December 31			
	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	42,330	30.6	41,857	32.0
Water Treatment Facilities	95,864	69.4	88,986	68.0
Total	138,194	100.0	130,844	100.0

(2) Net Sales

(Million yen)

Business segment	Nine months ended December 31,			
	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	42,393	31.8	42,428	32.7
Water Treatment Facilities	91,011	68.2	87,233	67.3
Total	133,404	100.0	129,662	100.0

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

(Million yen)

Business segment	Nine months ended December 31,			
	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	853	15.8	1,009	23.8
Water Treatment Facilities	4,562	84.2	3,237	76.2
Total	5,415	100.0	4,247	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Nine months ended December 31,			
	2011		2012	
	Amount	%	Amount	%
Water Treatment Chemicals	867	7.6	816	7.5
Water Treatment Facilities	10,615	92.4	10,101	92.5
Total	11,482	100.0	10,918	100.0