

Kurita Water Industries Reports Earnings for the Nine Months Ended December 31, 2013

Tokyo, Japan, January 31, 2014—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 123,802 million yen and net income of 6,283 million yen, or 52.73 yen per share, for the nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013).

Results of Operations

Total consolidated orders for the Kurita Group in the nine months ended December 31, 2013, decreased 1.5% from the same period of the previous fiscal year, to 128,933 million yen. Net sales declined 4.5% year on year, to 123,802 million yen. In terms of income, operating income declined 33.1% year on year to 9,785 million yen, and ordinary income fell 30.6%, to 10,675 million yen. Net income amounted to 6,283 million yen, down 12.9%.

During the nine months under review, the global economy recovered moderately, backed by a strong U.S. economy, despite a slowdown in China and emerging economies in Asia. There were signs that the European economy, which had been sluggish, was bottoming out. In Japan, business sentiment improved, and personal spending and corporate earnings appeared to be recovering with the correction to the strong yen and the introduction of new government economic policies, but customers' capacity utilization and capital expenditure did not improve significantly.

The Kurita Group (Kurita Water Industries and its consolidated subsidiaries and equity method affiliates) faced a challenging environment. Capital expenditure was weak, and capacity utilization recovered only moderately at the Group's main customers, namely manufacturers in Japan. Overseas, demand for water treatment expanded, but capital spending plans were cancelled or postponed in the electronics industry. In addition, the Group was affected by intensifying price competition. Reflecting this, orders and sales declined from a year earlier, and income fell due to the worsening of the cost rate and an increase in selling, general and administrative expenses.

Segment Information

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment in the nine-month period stood at 44,100 million yen, up 5.4% versus the same period of the previous fiscal year. Sales increased 1.7%, to 43,165 million yen, while operating income declined 6.7%, to 6,095 million yen.

In Japan, with a slow improvement in capacity utilization at customers' plants, orders for and sales of mainstay boiler water treatment chemicals and process treatment chemicals for the pulp and paper industries declined. Overseas, orders for and sales of cooling water treatment chemicals, wastewater treatment chemicals, and reverse osmosis membrane treatment chemicals increased, especially in Southeast Asia and China. In the overall segment, sales rose. 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 nine-month period amounted to 84,832 million yen, down 4.7% versus the same period of the previous fiscal year. Sales declined 7.6%, to 80,637 million yen, and operating income dropped 54.2%, to 3,699 million yen.

In Japan, orders for and sales of water treatment facilities declined in the electronics industry, where demand for capital expenditure was weak. Orders for and sales of water treatment facilities for electric power in general industries also fell due to the completion of demand related to reconstruction after the Great East Japan Earthquake. Orders and sales declined slightly in the ultrapure water supply business, which is less susceptible to capital expenditure trends. Overseas, both orders and sales declined, reflecting postponements of the commencement of work and cancellations of orders in the electronics industry in East Asia due to delays in customers' capital expenditures.

Because of the decline in revenue, and unprofitable contracts and additional costs at certain projects, the cost rate worsened.

Financial Condition

Assets, liabilities and net assets

Current assets totaled 154,397 million yen at the end of the third quarter (December 31, 2013), an increase of 7,523 million yen versus the end of the previous fiscal year (March 31, 2013). This was mainly a result of increases of 5,705 million yen in cash and deposits, 4,000 million yen in marketable securities, and 4,329 million yen in work in process, which outweighed a decline of 9,547 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 third quarter under review than in the fourth quarter 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 114,112 million yen at the end of the third quarter (December 31, 2013), a decline of 2,593 million yen versus the end of the previous fiscal year. The decline was principally attributable to a 7,418 million yen decrease in property, plant and equipment, which was partly offset by a 4,957 million yen rise in investments and other assets. The decline in property, plant and equipment was due to the 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 33,182 million yen at the end of the period, a decline of 2,233 million yen versus the end of the previous fiscal year. The decline was mainly attributable to a 2,052 million yen decrease in income taxes payable resulting from the annual and interim tax returns.

Noncurrent liabilities totaled 18,945 million yen at the end of the period, a slight decrease of 101 million yen versus the end of the previous fiscal year.

Net assets totaled 216,381 million yen at the end of the period, an increase of 7,263 million yen versus the end of the previous fiscal year primarily due to a 1,158 million yen increase in shareholders' equity and a 5,987 million yen rise in accumulated other comprehensive income. The increase in shareholders' equity resulted from net income of 6,283 million yen for the first nine months, which exceeded dividend payments of 5,124 million yen, the sum of year-end dividends for the previous fiscal year and interim dividends for the fiscal year under review. The increase in accumulated other comprehensive income is a result of a 4,963 million yen rise in unrealized gains on available-for-sale securities due to the increase in unrealized gains on investment securities and a 1,024 million yen increase in foreign currency translation adjustments associated with a weaker yen. Certain shares of treasury stock were cancelled in the second quarter, 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.

Outlook for the Fiscal Year Ending March 31, 2014

The Group's current outlook for the full year ending March 31, 2014 is consistent with the targets disclosed in "Earnings Report for the Six Months Ended September 30, 2013," which was announced on October 31, 2013.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	(Million yen)	
	As of March 31, 2013	As of December 31, 2013
	Amount	Amount
Assets		
Current assets		
Cash and deposits	43,039	48,744
Notes receivable - trade	6,108	7,087
Accounts receivable - trade	55,279	45,732
Marketable securities	34,000	38,000
Finished products	1,445	1,740
Work in process	2,238	6,567
Raw materials and supplies	1,191	2,015
Other	3,676	4,594
Allowance for doubtful accounts	(104)	(86)
Total current assets	146,874	154,397
Noncurrent assets		
Property, plant and equipment		
Buildings (net)	23,693	21,575
Machinery and equipment (net)	36,173	34,533
Other (net)	26,954	23,293
Total property, plant and equipment	86,820	79,402
Intangible fixed assets	1,619	1,487
Investments and other assets		
Other	28,506	33,596
Allowance for doubtful accounts	(241)	(374)
Total investments and other assets	28,265	33,222
Total noncurrent assets	116,705	114,112
Total assets	263,580	268,509
Liabilities		
Current liabilities		
Notes payable – trade	1,451	1,855
Accounts payable - trade	16,522	15,293
Income taxes payable	2,509	457
Allowances	3,550	3,951
Other	11,382	11,624
Total current liabilities	35,415	33,182
Noncurrent liabilities		
Accrued employees' retirement benefits	10,835	11,308
Other allowances	165	96
Other	8,045	7,541
Total noncurrent liabilities	19,046	18,945
Total liabilities	54,462	52,128
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	11,426	11,426
Retained earnings	202,807	182,107
Treasury stock	(21,859)	(1)
Total shareholders' equity	205,826	206,984
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	4,079	9,042
Unrealized gains (losses) on revaluation of land	(564)	(564)
Foreign currency translation adjustments	(1,469)	(445)
Total accumulated other comprehensive income	2,045	8,032
Minority interests	1,246	1,365
Total net assets	209,118	216,381
Total liabilities and net assets	263,580	268,509

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Nine months ended December 31, 2012	Nine months ended December 31, 2013
	Amount	Amount
Net sales	129,662	123,802
Cost of sales	86,610	84,291
Gross profit	43,052	39,510
Selling, general and administrative expenses	28,435	29,724
Operating income	14,617	9,785
Non-operating income		
Interest income	108	123
Dividend income	347	335
Equity in earnings of unconsolidated subsidiaries and affiliates	271	190
Other	197	424
Total non-operating income	925	1,074
Non-operating expenses		
Interest expense	61	46
Settlement	–	56
Other	98	81
Total non-operating expenses	159	184
Ordinary income	15,382	10,675
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	* 190
Valuation loss on investment securities	2,343	–
Contribution	–	** 500
Total extraordinary losses	3,778	690
Income before income taxes and minority interests	12,790	9,985
Income taxes	5,529	3,653
Income before minority interests	7,260	6,331
Minority interests in earnings of consolidated subsidiaries	47	48
Net income	7,213	6,283

Statement of Comprehensive Income

	(Million yen)	
	Nine months ended December 31, 2012	Nine months ended December 31, 2013
	Amount	Amount
Income before minority interests	7,260	6,331
Other comprehensive income		
Unrealized gains on available-for-sale securities	2,168	4,957
Foreign currency translation adjustments	(54)	998
Share of other comprehensive income of associates accounted for using equity method	22	105
Total other comprehensive income	2,136	6,061
Comprehensive income	9,396	12,393
Components:		
Comprehensive income attributable to owners of the parent company	9,338	12,270
Comprehensive income attributable to minority interests	57	123

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013)

Not applicable

(Notes on Statement of Income)

* Provision for building demolition expenses

Nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013)

The Company decided to demolish the annex of its former head office building (Tokyo, Shinjuku Ward). Based on a reasonable estimate of the cost, the Company booked a provision for building demolition expenses of 190 million yen as an extraordinary loss.

** Contribution

Nine months ended December 31, 2013 (April 1, 2013 – December 31, 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)

Nine months ended December 31, 2013 (April 1, 2013 – December 31, 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

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

Nine months ended December 31, 2013 (April 1, 2013 – December 31, 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	43,165	80,637	123,802	–	123,802
Inter-segment sales or transfers	208	158	366	(366)	–
Total	43,373	80,795	124,168	(366)	123,802
Segment income	6,095	3,699	9,795	(9)	9,785

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	Nine months ended December 31,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	41,857	32.0	44,100	34.2
Water Treatment Facilities	88,986	68.0	84,832	65.8
Total	130,844	100.0	128,933	100.0

(2) Net Sales

(Million yen)

Business segment	Nine months ended December 31,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	42,428	32.7	43,165	34.9
Water Treatment Facilities	87,233	67.3	80,637	65.1
Total	129,662	100.0	123,802	100.0

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

(Million yen)

Business segment	Nine months ended December 31,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	1,009	23.8	1,192	36.6
Water Treatment Facilities	3,237	76.2	2,063	63.4
Total	4,247	100.0	3,255	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Nine months ended December 31,			
	2012		2013	
	Amount	%	Amount	%
Water Treatment Chemicals	816	7.5	849	8.0
Water Treatment Facilities	10,101	92.5	9,809	92.0
Total	10,918	100.0	10,659	100.0