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Kurita Water Industries Reports Earnings for the Three Months Ended June 30, 2014

Tokyo, Japan, July 30, 2014—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 38,851 million yen and net income of 2,135 million yen, or 17.92 yen per share, for the three months ended June 30, 2014 (April 1, 2014 – June 30, 2014).

Results of Operations

Total consolidated orders for the Kurita Group in the three months ended June 30, 2014 rose 9.4% from the level of the same period of the previous fiscal year, to 46,082 million yen, and net sales increased 6.3%, to 38,851 million yen. Operating income was 3,020 million yen, up 17.6% versus the same period of the previous fiscal year, and ordinary income was 3,237 million yen, up 12.8%. Net income amounted to 2,135 million yen, up 18.4%.

Looking at the global economy during the three months under review, the U.S. economy continued to recover moderately, and there were signs of a recovery in Europe. Although there was concern over a slowdown in growth in emerging economies, including those in Asia, they appeared to have bottomed out. The Japanese economy continued to recover moderately. However, personal spending fell in reaction to a spike in demand before the consumption tax hike. Capital expenditure varied from industry to industry, and there were positive signs: certain companies, especially companies that had improved their earnings strength, began to replace equipment.

In this environment, the Kurita Group took steps to retain earnings strength and expand overseas operations, harnessing its combined strength in water treatment chemicals, water treatment facilities and maintenance services.

Segment Information

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment were 14,750 million yen, up 1.3% versus the same period of the fiscal year ended March 31, 2014, while sales rose 1.1%, to 13,836 million yen. Operating income was down 7.0% to 1,725 million yen.

In Japan, although mainstay products—boiler water treatment chemicals, cooling water treatment chemicals, and wastewater treatment chemicals—saw decreased orders and sales, process treatment chemicals for the pulp and paper industries rose in orders and sales.

Overseas, orders for and sales of boiler water treatment chemicals, cooling water treatment chemicals, and wastewater treatment chemicals, among other chemicals, increased, especially in Southeast Asia and China. In the overall segment, sales rose. Income, however, declined, reflecting the worsening of the cost rate chiefly due to a decline in sales of the main products in Japan, and an increase in selling, general and administrative expenses to strengthen the overseas business structure.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 31,332 million yen, up 13.7% versus the same period of the previous fiscal year, sales rose 9.3%, to 25,014 million yen, and operating income climbed 81.1%, to 1,295 million yen.

In Japan, in the electronics industry, sales of water treatment facilities rose, while sales of maintenance services declined. Sales in the ultrapure water supply business remained roughly flat. In the general industries, orders for and sales of water treatment facilities for electric power increased.

Overseas, sales rose, especially in South Korea and Taiwan, where production of semiconductors and small liquid crystal display panels was strong given the expansion of the smartphone market. Overall income in the Water Treatment Facilities segment increased significantly on increased sales and an improvement in the cost rate.

Financial Condition

Assets, liabilities and net assets

Current assets totaled 159,741 million yen at the end of the first quarter (June 30, 2014), a decrease of 2,759 million yen versus the end of the previous fiscal year (March 31, 2014). This was mainly a result of declines of 7,542 million yen in cash and deposits and 6,047 million yen in trade accounts receivable, which outweighed increases of 7,000 million yen in marketable securities, 2,482 million yen in work in process, and 833 million yen in trade notes receivable.

The decline in trade accounts receivable was the result of progress in collecting receivables and weaker sales in the first quarter under review than in the fourth quarter 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. The increase in work in process was mainly the result of progress in the water treatment facilities business.

Noncurrent assets totaled 111,683 million yen at the end of the three-month period (June 30, 2014), a decline of 742 million yen versus the end of the previous fiscal year. The decline was principally attributable to a 1,611 million yen decrease in property, plant and equipment, which was partly offset by an 840 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 34,060 million yen at the end of the period, a decline of 2,839 million yen versus the end of the previous fiscal year. This was mainly a result of declines of 3,065 million yen in trade accounts payable and 1,053 million yen in income taxes payable, and 1,206 million yen in provisions, and an increase of 2,376 million yen in “other” current liabilities. The decline in trade accounts payable reflected payments of trade accounts payable towards the end of the previous fiscal year. The decrease in provisions was attributable mainly to reversals of accrued employees’ bonuses and provision for building demolition expenses. The increase in “other” was chiefly due to rises in accounts payable-other/acrued expenses and advances received.

Noncurrent liabilities totaled 19,638 million yen at the end of the period, an increase of 766 million yen versus the end of the previous fiscal year. This was primarily attributable to a 924 million yen rise in net defined benefit liability associated with a change in the Accounting Standard for Retirement Benefits.

Net assets totaled 217,726 million yen at the end of the period, a decrease of 1,427 million yen versus the end of the previous fiscal year primarily due to falls of 446 million yen in capital surplus, 1,009 million yen in retained earnings, and 447 million yen in minority interests, which were partly offset by a 476 million yen rise in accumulated other comprehensive income. The declines in capital surplus and minority interests were attributable to additional acquisitions of equity in consolidated subsidiaries. The decrease in retained earnings resulted from a year-end dividend for the previous fiscal year of 2,621 million yen exceeding net income in the first quarter under review of 2,135 million yen and a reduction of 501 million yen in retained earnings at the beginning of this fiscal year in association with the change in the Accounting Standard for Retirement Benefits. The rise in accumulated other comprehensive income chiefly reflects a 717 million yen increase in unrealized gains on available-for-sale securities associated with a rise in unrealized gains from investment securities and a 247 million yen decrease in foreign currency translation adjustments due to the stronger yen against foreign currencies.

Outlook for the Fiscal Year Ending March 31, 2015

The Group's current outlook for the six months ending September 30, 2014, and the full year ending March 31, 2015 is consistent with the targets disclosed in "Earnings Report for the Full Year Ended March 31, 2014," which was announced on April 30, 2014.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2014 Amount	As of June 30, 2014 Amount
(Million yen)		
Assets		
Current assets		
Cash and deposits	47,336	39,794
Notes receivable - trade	7,287	8,120
Accounts receivable - trade	50,503	44,456
Marketable securities	47,999	54,999
Finished products	1,788	1,825
Work in process	2,568	5,050
Raw materials and supplies	1,455	1,583
Other	3,745	4,045
Allowance for doubtful accounts	(184)	(134)
Total current assets	162,500	159,741
Noncurrent assets		
Property, plant and equipment		
Buildings (net)	20,795	19,982
Machinery and equipment (net)	32,765	30,896
Other (net)	24,294	25,364
Total property, plant and equipment	77,855	76,244
Intangible fixed assets	1,578	1,608
Investments and other assets		
Other	33,401	34,227
Allowance for doubtful accounts	(409)	(396)
Total investments and other assets	32,991	33,831
Total noncurrent assets	112,425	111,683
Total assets	274,925	271,424
Liabilities		
Current liabilities		
Notes payable – trade	1,860	1,967
Accounts payable - trade	17,027	13,962
Income taxes payable	2,535	1,482
Provision	4,556	3,350
Other	10,920	13,296
Total current liabilities	36,899	34,060
Noncurrent liabilities		
Net defined benefit liability	11,363	12,287
Provision	98	69
Other	7,411	7,281
Total noncurrent liabilities	18,872	19,638
Total liabilities	55,772	53,698
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	11,426	10,980
Retained earnings	185,159	184,150
Treasury stock	(2)	(3)
Total shareholders' equity	210,034	208,578
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	7,862	8,579
Unrealized gains (losses) on revaluation of land	(564)	(564)
Foreign currency translation adjustments	384	137
Remeasurements of defined benefit plans	(25)	(19)
Total accumulated other comprehensive income	7,657	8,133
Minority interests	1,461	1,014
Total net assets	219,153	217,726
Total liabilities and net assets	274,925	271,424

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Three months ended June 30, 2013	Three months ended June 30, 2014
	Amount	Amount
Net sales	36,558	38,851
Cost of sales	24,021	25,919
Gross profit	12,536	12,931
Selling, general and administrative expenses	9,968	9,910
Operating income	2,568	3,020
Non-operating income		
Interest income	47	42
Dividend income	164	190
Equity in earnings of unconsolidated subsidiaries and affiliates	23	54
Other	95	32
Total non-operating income	332	321
Non-operating expenses		
Interest expense	14	14
Foreign exchange losses	–	59
Other	15	30
Total non-operating expenses	30	104
Ordinary income	2,870	3,237
Income before income taxes and minority interests	2,870	3,237
Income taxes	1,094	1,145
Income before minority interests	1,775	2,091
Minority interests in earnings (losses) of consolidated subsidiaries	(27)	(43)
Net income	1,803	2,135

Statement of Comprehensive Income

	(Million yen)	
	Three months ended June 30, 2013	Three months ended June 30, 2014
	Amount	Amount
Income before minority interests	1,775	2,091
Other comprehensive income		
Unrealized gains on available-for-sale securities	1,712	715
Foreign currency translation adjustments	873	(231)
Remeasurements of defined benefit plans	–	6
Share of other comprehensive income of associates accounted for using equity method	40	(36)
Total other comprehensive income	<u>2,627</u>	<u>452</u>
Comprehensive income	<u>4,403</u>	<u>2,544</u>
Components:		
Comprehensive income attributable to owners of the parent company	4,379	2,611
Comprehensive income attributable to minority interests	24	(67)

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Three months ended June 30, 2014 (April 1, 2014 – June 30, 2014)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Three months ended June 30, 2014 (April 1, 2014 – June 30, 2014)

Not applicable

(Segment Information)

1. Sales and income by reportable segment

Three months ended June 30, 2013 (April 1, 2013 – June 30, 2013)

	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	13,681	22,876	36,558	–	36,558
Inter-segment sales or transfers	44	47	92	(92)	–
Total	13,726	22,923	36,650	(92)	36,558
Segment income	1,855	715	2,571	(2)	2,568

Three months ended June 30, 2014 (April 1, 2014 – June 30, 2014)

	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	13,836	25,014	38,851	–	38,851
Inter-segment sales or transfers	48	42	90	(90)	–
Total	13,884	25,056	38,941	(90)	38,851
Segment income	1,725	1,295	3,021	(0)	3,020

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	Three months ended June 30,			
	2013		2014	
	Amount	%	Amount	%
Water Treatment Chemicals	14,564	34.6	14,750	32.0
Water Treatment Facilities	27,546	65.4	31,332	68.0
Total	42,111	100.0	46,082	100.0

(2) Net Sales

(Million yen)

Business segment	Three months ended June 30,			
	2013		2014	
	Amount	%	Amount	%
Water Treatment Chemicals	13,681	37.4	13,836	35.6
Water Treatment Facilities	22,876	62.6	25,014	64.4
Total	36,558	100.0	38,851	100.0

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

(Million yen)

Business segment	Three months ended June 30,			
	2013		2014	
	Amount	%	Amount	%
Water Treatment Chemicals	211	23.5	257	13.1
Water Treatment Facilities	689	76.5	1,707	86.9
Total	901	100.0	1,965	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Three months ended June 30,			
	2013		2014	
	Amount	%	Amount	%
Water Treatment Chemicals	265	7.6	279	7.9
Water Treatment Facilities	3,253	92.4	3,246	92.1
Total	3,519	100.0	3,526	100.0