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Kurita Water Industries Reports Earnings for the Nine Months Ended December 31, 2015

Tokyo, Japan, January 29, 2016—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 148,862 million yen and profit attributable to owners of the parent company of 9,314 million yen, or 80.16 yen per share, for the nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015).

Results of Operations

Total consolidated orders for the Kurita Group in the nine months ended December 31, 2015 rose 16.2% from the level of the same period of the previous fiscal year, to 159,228 million yen, and net sales increased 11.8%, to 148,862 million yen. Operating income was 14,040 million yen, up 13.4% versus the same period of the previous fiscal year, and ordinary income was 14,735 million yen, up 16.1%. Profit attributable to owners of the parent company amounted to 9,314 million, up 20.8%. Because of the consolidation of acquired businesses, consolidated orders and net sales of the Group and the Water Treatment Chemicals segment rose 16,031 million yen, but the consolidated operating income declined 691 million yen. The decline in operating income was principally attributable to the posting of the amortization of the goodwill and technology-related assets acquired in association with the business acquisition and a temporary rise in expenses associated with a review of the initial allocation of the cost of the business acquisition.

Looking at the market environment surrounding Kurita Group (Kurita Water Industries Ltd. and its consolidated subsidiaries and equity method affiliates), in Japan, the recovery in production in the manufacturing industry remained at a standstill, mainly due to sluggish growth in exports. There were signs of a recovery in capital expenditure in certain areas, reflecting an improvement in corporate earnings, but capital expenditure overall remained flat. There was uncertainty over the outlook for overseas economies, given a slowdown in China and other emerging economies and a sharp fall in crude oil prices. The U.S. and European economies continued to recover.

In this environment, the Kurita Group worked to propose solutions to customers' challenges by combining its three functions: water treatment chemicals, water treatment facilities and maintenance services. From the first quarter, the Group is consolidating the results of operations of the businesses that it has acquired from BK Giulini GmbH in Germany and its affiliates.

Segment Information

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment were 62,133 million yen, up 41.5% versus the same period of the fiscal year ended March 31, 2015, while sales rose 39.7%, to 62,060 million yen. Operating income was down 7.5% to 5,506 million yen due to the posting of the amortization of goodwill and technology-related assets and a temporary expense associated with a review of the initial allocation of the cost of business acquisition.

In Japan, the Group took steps to gain new customers. However, capacity utilization at customers' plants recovered only moderately, and overall orders and sales in Japan remained flat. Overseas, orders and sales increased significantly, reflecting strong

performance in China and Southeast Asia and the consolidation of acquired businesses from the first quarter.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 97,094 million yen, up 4.3% versus the same period of the previous fiscal year. Sales declined 2.2%, to 86,801 million yen. Operating income climbed 32.8%, to 8,544 million yen due to an improvement in the cost rate as a result of the strengthening of collaboration among the sales, design, and construction work divisions and the curbing of unprofitable projects.

In Japan, orders and sales in the water treatment facilities business and maintenance services for the electronics industry rose, reflecting high capacity utilization at plants manufacturing electronic components for smartphones. In the ultrapure water supply business, despite the termination of some contract periods, overall sales rose slightly with the posting of revenue from new contracts. In general industries, orders declined due to a decrease in orders for water treatment facilities for electric power and soil remediation services. Sales of water treatment facilities for electric power and sales in maintenance services rose, but overall sales of water treatment facilities remained flat due to a decline in sales of water treatment facilities, with the exception of facilities for electric power, as a result of delays in progress in construction. Overseas, orders rose, chiefly reflecting large-scale projects in the electronics industry in China and Taiwan, but sales fell due to the completion of construction in large-scale projects.

Financial Condition

Assets, liabilities and net assets

Current assets totaled 145,725 million yen at the end of the third quarter (December 31, 2015), a decrease of 3,242 million yen versus the end of the previous fiscal year (March 31, 2015). This was mainly a result of declines of 3,197 million yen in cash and deposits and 5,625 million yen in trade accounts receivable, which outweighed an increase of 6,239 million yen in work in process. The decline in cash and deposits principally reflected the acquisition of businesses in Europe. The decline in trade accounts receivable was the result of progress in collecting receivables and a decrease in sales in the nine months under review from the fourth quarter of the previous fiscal year. The increase in work in process was mainly due to progress in construction work in the water treatment facilities business.

Noncurrent assets totaled 148,676 million yen at the end of the third quarter (December 31, 2015), an increase of 3,151 million yen versus the end of the previous fiscal year. The increase was principally attributable to a 2,898 million yen increase in property, plant and equipment and a 1,603 million yen increase in investments and other assets, which outweighed a 1,351 million yen decrease in intangible fixed assets. The increase in property, plant and equipment was attributable chiefly to an increase in construction in progress associated with new ultrapure water supply projects. The increase in investments and other assets was mainly due to an increase in unrealized gains on investment securities due to rises in the market prices of the shares held by the Group. The decrease in intangible fixed assets chiefly reflected the posting of amortization of goodwill associated with business acquisition in Europe.

Current liabilities totaled 43,117 million yen at the end of the period, a decline of 4,858 million yen versus the end of the previous fiscal year. This was mainly a result of declines of 2,639 million yen in income taxes payable and 1,339 million yen in

provision.

Noncurrent liabilities totaled 23,902 million yen at the end of the period, an increase of 863 million yen versus the end of the previous fiscal year chiefly due to an increase in net defined benefit liability.

Net assets totaled 227,381 million yen at the end of the period, an increase of 3,903 million yen versus the end of the previous fiscal year primarily due to an increase of 2,868 million yen in shareholders' equity and an increase of 1,113 million yen in accumulated other comprehensive income. The increase in shareholders' equity chiefly reflected growth in retained earnings due to the posting of a profit attributable to owners of the parent company of 9,314 million yen in the nine months under review, which exceeded year-end dividends for the previous fiscal year and interim dividends for the fiscal year under review of a total of 5,469 million yen, and a rise of 990 million yen in treasury stock due to the acquisition of treasury stock. The increase in accumulated other comprehensive income resulted mainly from a 1,535 million yen decrease in foreign currency translation adjustment due to a stronger yen against foreign currencies and a 2,608 million yen increase in unrealized gains on available-for-sale securities associated with an increase in unrealized gains on investment securities.

Outlook for the Fiscal Year Ending March 31, 2016

The Group's current outlook for the full year ending March 31, 2016 is consistent with the revised forecast disclosed in the Earnings for the Six Months Ended September 30, 2015, which was announced on October 29, 2015.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2015	(Million yen) As of December 31, 2015
	Amount	Amount
Assets		
Current assets		
Cash and deposits	52,497	49,300
Notes receivable – trade	7,513	7,090
Accounts receivable – trade	59,810	54,185
Marketable securities	14,999	14,999
Finished products	3,840	3,217
Work in process	3,078	9,317
Raw materials and supplies	2,561	2,362
Other	4,898	5,459
Allowance for doubtful accounts	(233)	(208)
Total current assets	148,967	145,725
Noncurrent assets		
Property, plant and equipment		
Buildings (net)	18,307	15,707
Machinery and equipment (net)	29,708	29,580
Other (net)	27,017	32,644
Total property, plant and equipment	75,033	77,931
Intangible fixed assets		
Goodwill	17,475	16,762
Other	9,701	9,064
Total intangible fixed assets	27,177	25,826
Investments and other assets		
Investment securities	35,678	39,317
Other	7,938	5,849
Allowance for doubtful accounts	(302)	(249)
Total investments and other assets	43,314	44,917
Total noncurrent assets	145,525	148,676
Total assets	294,492	294,401

	As of March 31, 2015	(Million yen) As of December 31, 2015
	Amount	Amount
Liabilities		
Current liabilities		
Notes payable – trade	1,650	1,749
Accounts payable – trade	19,169	19,029
Income taxes payable	4,595	1,956
Provision	4,076	2,737
Other	18,483	17,644
Total current liabilities	47,975	43,117
Noncurrent liabilities		
Net defined benefit liability	13,750	14,394
Provision	75	57
Other	9,213	9,450
Total noncurrent liabilities	23,039	23,902
Total liabilities	71,014	67,019
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,980	10,993
Retained earnings	189,693	193,539
Treasury stock	(7,705)	(8,695)
Total shareholders' equity	206,419	209,287
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	14,768	17,376
Deferred gains (losses) on hedges	66	114
Revaluation reserve for land	(442)	(442)
Foreign currency translation adjustments	1,510	(25)
Remeasurements of defined benefit plans	8	2
Total accumulated other comprehensive income	15,911	17,024
Non-controlling interests		
Total net assets	223,478	227,381
Total liabilities and net assets	294,492	294,401

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Nine months ended December 31, 2014	Nine months ended December 31, 2015
	Amount	Amount
Net sales	133,180	148,862
Cost of sales	91,541	97,939
Gross profit	41,638	50,923
Selling, general and administrative expenses	29,258	36,882
Operating income	12,380	14,040
Non-operating income		
Interest income	136	172
Dividend income	386	467
Equity in earnings of unconsolidated subsidiaries and affiliates	206	168
Other	381	322
Total non-operating income	1,110	1,130
Non-operating expenses		
Interest expense	49	154
Acquisition-related expenses	666	87
Other	78	193
Total non-operating expenses	794	435
Ordinary income	12,696	14,735
Extraordinary income		
Gain on sales of non-current assets	-	147
Total extraordinary income	-	147
Extraordinary losses		
Loss on retirement of non-current assets	165	-
Loss on liquidation of business	-	150
Total extraordinary losses	165	150
Income before income taxes	12,530	14,731
Income taxes	4,793	5,299
Net income	7,737	9,432
Profit attributable to non-controlling interests	25	117
Profit attributable to owners of parent	7,711	9,314

Statement of Comprehensive Income

	(Million yen)	
	Nine months ended December 31, 2014	Nine months ended December 31, 2015
	Amount	Amount
Net income	7,737	9,432
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	4,048	2,606
Deferred gains (losses) on hedges	8	48
Foreign currency translation adjustments	178	(1,461)
Remeasurements of defined benefit plans, net of tax	19	(6)
Share of other comprehensive income of associates accounted for using equity method	52	(125)
Total other comprehensive income	4,308	1,061
Comprehensive income	12,045	10,494
Components:		
Comprehensive income attributable to owners of parent company	12,015	10,421
Comprehensive income attributable to non-controlling interests	30	73

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)

Not applicable

(Segment Information)

1. Sales and income by reportable segment

Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)

	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	44,415	88,765	133,180	–	133,180
Inter-segment sales or transfers	247	136	384	(384)	–
Total	44,663	88,902	133,565	(384)	133,180
Segment income	5,953	6,433	12,386	(6)	12,380

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.

Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)

	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	62,060	86,801	148,862	–	148,862
Inter-segment sales or transfers	191	113	304	(304)	–
Total	62,252	86,915	149,167	(304)	148,862
Segment income	5,506	8,544	14,051	(10)	14,040

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,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	43,920	32.1	62,133	39.0
Water Treatment Facilities	93,081	67.9	97,094	61.0
Total	137,002	100.0	159,228	100.0

(2) Net Sales

(Million yen)

Business segment	Nine months ended December 31,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	44,415	33.3	62,060	41.7
Water Treatment Facilities	88,765	66.7	86,801	58.3
Total	133,180	100.0	148,862	100.0

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

(Million yen)

Business segment	Nine months ended December 31,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	904	19.0	1,238	9.0
Water Treatment Facilities	3,858	81.0	12,529	91.0
Total	4,762	100.0	13,768	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Nine months ended December 31,			
	2014		2015	
	Amount	%	Amount	%
Water Treatment Chemicals	881	8.2	1,186	11.8
Water Treatment Facilities	9,880	91.8	8,880	88.2
Total	10,761	100.0	10,066	100.0