

FOR IMMEDIATE RELEASE

Kurita Water Industries Reports Earnings for the Six Months Ended September 30, 2016

Tokyo, Japan, October 31, 2016—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 103,811 million yen and profit attributable to owners of parent of 6,542 million yen, or 56.36 yen per share, for the six months ended September 30, 2016 (April 1, 2016 – September 30, 2016).

Results of Operations

Total consolidated orders for the Kurita Group (Kurita Water Industries Ltd. and its consolidated subsidiaries and equity method affiliates) in the six months ended September 30, 2016 rose 2.3% from the level of the same period of the previous fiscal year, to 112,481 million yen, and net sales increased 6.0%, to 103,811 million yen. Operating income was 9,643 million yen, up 5.6% versus the same period of the previous fiscal year, and ordinary income was 9,639 million yen, up 1.6%. Profit attributable to owners of parent amounted to 6,542 million yen, up 13.5%.

Looking at the market environment surrounding the Kurita Group, in Japan, production in the manufacturing industry recovered moderately mainly due to inventory adjustments, while the recovery of capital expenditure slowed due to the effect of a decline in corporate earnings associated with the stronger yen. Overseas, growth in China and other emerging economies continued to slow, while the U.S. and European economies continued to recover. Overall, overseas economies recovered moderately.

In this environment, the Kurita Group sought to develop and market competitive products, technologies, and services. The Group also focused on proposing solutions to customers' challenges, including the reduction of the environmental burden, energy saving, and the improvement of productivity, using IT and sensing technologies.

Segment Information

The Group consists of two reportable segments in its segment information: Water Treatment Chemicals and Water Treatment Facilities

Water Treatment Chemicals

Total Group orders for the Water Treatment Chemicals segment were 42,005 million yen, up 1.6% versus the same period of the fiscal year ended March 31, 2016, while sales rose 2.1%, to 41,451 million yen. Operating income was up 13.5% to 4,083 million yen, reflecting the increase in sales and the elimination of temporary expenses in association with a revision of the initial allocation of the cost of the acquisition of businesses in Europe in the previous fiscal year.

In Japan, capacity utilization recovered at certain customers' plants, and the Group worked to gain new customers by proposing solutions using new products and services. As a result, both orders and sales rose. Despite the adverse effect of the stronger yen on orders and sales in yen at overseas subsidiaries, both orders and sales overseas increased, reflecting the consolidation of the operating results of the business in Europe, which have been consolidated from the previous consolidated fiscal year, for a month longer than in the previous fiscal year.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 70,476 million yen, up 2.6% versus the same period of the previous fiscal year. Sales rose 8.8%, to 62,360 million yen. Operating income climbed 0.5%, to 5,569 million yen due to increases in sales in the water treatment facilities business and in maintenance services.

In Japan, in the electronics industry, orders in maintenance services declined partly in reaction to the strong performance in the same period of the previous fiscal year, but orders in the water treatment facilities remained flat. Sales in the water treatment facilities remained flat, while sales in maintenance services increased on progress with construction in projects for which orders were received in the previous fiscal year. In general industries, orders in the water treatment facilities remained flat, but orders, primarily from public offices, in maintenance services rose. Orders for large-scale projects were received in water treatment facilities for thermal power plants and soil remediation services. Sales of water treatment facilities for electric power declined, but overall sales in general industries rose due to steady progress in construction associated with water treatment facilities for other uses and maintenance.

Overseas, orders fell, reflecting orders for large-scale projects in China and Taiwan in the same period of the previous fiscal year, but sales climbed due to progress in construction in large-scale projects in China and South Korea.

Sales in the ultrapure water supply business declined, reflecting the effects of the expiration of contracts and reviews of contracts with a certain customer, despite the posting of sales from new contracts.

Financial Condition

Assets, liabilities and net assets

Current assets totaled 149,086 million yen at the end of the second quarter (September 30, 2016), a decrease of 1,460 million yen versus the end of the previous fiscal year (March 31, 2016). This was mainly a result of a decrease of 7,465 million yen in trade accounts receivable, which outweighed increases of 5,481 million yen in funds in hand, consisting of cash and deposits and marketable securities, and 1,252 million yen in work in process. The increase in funds in hand principally reflected progress in collecting trade accounts receivable. The rise in work in process was chiefly the result of progress in construction in the water treatment facilities business.

Non-current assets totaled 136,506 million yen at the end of the first half (September 30, 2016), a decline of 11,055 million yen versus the end of the previous fiscal year. The decline was principally attributable to decreases of 4,197 million yen in property, plant and equipment, 3,564 million yen in intangible fixed assets, and 3,294 million yen in investments and other assets. The decrease in property, plant and equipment was chiefly due to depreciation mainly on facilities for the ultrapure water supply business in excess of capital expenditure. The decline in intangible fixed assets was mainly attributable to the amortization of goodwill and technology-related assets and a decrease in the value of assets after it was converted into yen because of the stronger yen against the euro. The decrease in investments and other assets was primarily due to a decrease in unrealized gains on investment securities due to falls in the market prices of the shares held by Kurita.

Current liabilities totaled 38,783 million yen at the end of the period, a decline of 5,624 million yen versus the end of the previous fiscal year. This was mainly a result of declines of 4,190 million yen in trade accounts payable and 1,069 million yen in “other”

current liabilities. The decrease in “other” current liabilities was attributable mainly to a decline of 1,101 million yen in accounts payable-other and accrued expenses.

Non-current liabilities totaled 23,632 million yen at the end of the period, a decrease of 1,103 million yen versus the end of the previous fiscal year, chiefly reflecting a decrease in “other” non-current liabilities.

Net assets totaled 223,176 million yen at the end of the period, a decrease of 5,788 million yen versus the end of the previous fiscal year primarily due to a fall of 8,741 million yen in accumulated other comprehensive income, which was partly offset by an increase of 2,971 million yen in shareholders’ equity. The increase in shareholders’ equity reflected an increase of 3,754 million yen in retained earnings as a result of a profit attributable to owners of parent of 6,542 million yen in excess of year-end dividends of 2,788 million yen for the previous fiscal year, and a rise of 782 million yen in treasury stock (a decrease in net assets) due to the acquisition of treasury stock associated with the introduction of a performance-based stock compensation system for directors and the purchase of shares less than one unit.

The decrease in accumulated other comprehensive income resulted mainly from a decrease of 3,554 million yen in unrealized gains on available-for-sale securities in association with a decline in unrealized gains on investment securities and a fall of 6,121 million yen in foreign currency translation adjustments due to the strengthening of the yen against foreign currencies.

Cash flows

Consolidated net cash and cash equivalents at the end of the first half of the fiscal year (September 30, 2016) stood at 58,016 million yen, an increase of 24,239 million yen from the end of the previous fiscal year (March 31, 2016). 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, 2017, totaled 16,268 million yen, an increase of 4,041 million yen from a year ago. Inflows from income before income taxes (9,639 million yen), depreciation and amortization (8,052 million yen; including the amortization of goodwill of 507 million yen), and a decrease in trade notes and accounts receivable (5,460 million yen) were partially offset by an increase in inventories (1,290 million yen), a decrease in notes and accounts payable-trade (2,584 million yen), income taxes paid (4,038 million yen), and other outflows.

Cash flows from investing activities

Net cash provided by investing activities stood at 3,472 million yen, an increase of 34,175 million yen from a year earlier, reflecting net withdrawals from time deposits of 8,864 million yen and other inflows, which were partially offset by payments for the purchase of property, plant and equipment, including capital expenditures for the ultrapure water supply business, of 4,818 million yen, and other outflows.

Cash flows from financing activities

Net cash used in financing activities came to 4,094 million yen, a decrease of 402 million yen from a year earlier, attributable mainly to the purchase of treasury stock of 782 million yen and cash dividends paid of 2,803 million yen.

Outlook for the Fiscal Year Ending March 31, 2017

The Company has revised its earnings forecast for the fiscal year ending March 31, 2017, in light of its results in the first half under review and uncertainty about the business environment in the second half. The details of the revision are as shown below.

The forecast is produced by the Company based on information available at the time of publication of this document. Actual results may differ significantly from the forecast due to a change in a range of factors.

(Consolidated earnings forecast)

Revision of consolidated earnings forecast for the fiscal year ending March 31, 2017
(April 1, 2016 – March 31, 2017)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
	(Million yen)	(Million yen)	(Million yen)	(Million yen)	(Yen)
Previous forecast (A)	222,000	21,500	22,000	14,000	120.49
Revised forecast (B)	216,000	18,500	19,000	12,000	103.48
Change (B – A)	(6,000)	(3,000)	(3,000)	(2,000)	(17.01)
Percent change (%)	(2.7)	(14.0)	(13.6)	(14.3)	(14.1)
For reference: The fiscal year ended March 31, 2016	214,372	19,833	20,439	12,577	108.24

Other Information

(1) Important changes in subsidiaries during the six months under review

There have been no changes in specified subsidiaries resulting in changes in the scope of consolidation.

From the first half of the fiscal year under review, Kurita Polska SP.z.o.o. and KURITAZ Hokuriku Co., Ltd., two new companies, are included in the scope of consolidation. Kurita Europe GmbH, which was a consolidated subsidiary, was merged with Kurita Europe APW GmbH, a consolidated subsidiary, and has been excluded from the scope of consolidation. Kurita Europe APW GmbH has been renamed Kurita Europe GmbH.

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

(3) Changes in accounting principles and changes or restatement of accounting estimates

Change in accounting principles

With the revision of the Corporation Tax Act, the Company and its domestic consolidated subsidiaries applied the Practical Solution on a change in depreciation method due to Tax Reform 2016 (PITF No. 32, June 17, 2016) in the first quarter and changed the depreciation method for the facilities attached to buildings and structures acquired from April 1, 2016 from the declining-balance method to the straight-line method.

The effect of the change on earnings in the first half of the fiscal year under review is minor.

(4) Additional information

Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets

From the first quarter of the fiscal year, the Group is applying the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Revised Guidance No. 26, March 28, 2016).

Performance-based stock compensation system for directors

At the shareholders' meeting held on June 29, 2016, the Company resolved to introduce a performance-based stock compensation system for directors (excluding external directors; the same shall apply hereinafter) to boost their motivation to contribute to the sustainable growth of the Group and increases in the Group's enterprise value in the medium to long terms. The system has been introduced.

1) Outline of the system

This system is a performance-based stock compensation system where points will be given to the directors in accordance with their positions and performance and shares in the Company will be transferred to them when they retire. The number of shares to be transferred to each director will be in accordance with their cumulative points.

At the introduction of the system, the Company contributed funds to set up a trust to deliver shares to officials ("the Trust").

2) Shares in the Company remaining in the Trust

Shares in the Company remaining in the Trust are included in treasury stock in net assets of the quarterly consolidated balance sheet. As of September 30, 2016, the book value of shares in the Company held by the Trust was 781 million yen, and the number of shares in the Company held by the Trust was 339,000.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2016	(Million yen) As of September 30, 2016
	Amount	Amount
Assets		
Current assets		
Cash and deposits	58,374	70,961
Notes receivable – trade	7,463	7,355
Accounts receivable – trade	63,552	56,087
Marketable securities	7,566	460
Finished products	3,130	2,879
Work in process	3,690	4,942
Raw materials and supplies	2,433	2,142
Other	4,518	4,452
Allowance for doubtful accounts	(185)	(195)
Total current assets	150,546	149,086
Non-current assets		
Property, plant and equipment		
Buildings (net)	15,093	14,094
Machinery and equipment (net)	32,304	35,806
Other (net)	30,990	24,291
Total property, plant and equipment	78,388	74,191
Intangible fixed assets		
Goodwill	15,114	12,462
Other	9,088	8,175
Total intangible fixed assets	24,202	20,638
Investments and other assets		
Investment securities	37,063	31,694
Other	8,111	10,166
Allowance for doubtful accounts	(204)	(185)
Total investments and other assets	44,970	41,676
Total non-current assets	147,561	136,506
Total assets	298,107	285,592

	As of March 31, 2016	(Million yen) As of September 30, 2016
	Amount	Amount
Liabilities		
Current liabilities		
Notes payable – trade	1,719	1,572
Accounts payable – trade	21,060	16,870
Income taxes payable	3,705	3,200
Provision for bonuses	2,365	2,683
Other provision	1,052	1,022
Other	14,503	13,434
Total current liabilities	44,407	38,783
Non-current liabilities		
Net defined benefit liability	15,467	15,554
Provision	57	25
Other	9,210	8,052
Total noncurrent liabilities	24,735	23,632
Total liabilities	69,142	62,415
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,993	10,993
Retained earnings	196,788	200,542
Treasury stock	(8,695)	(9,478)
Total shareholders' equity	212,536	215,507
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	16,061	12,507
Deferred gains (losses) on hedges	398	1,281
Revaluation reserve for land	(380)	(380)
Foreign currency translation adjustments	(618)	(6,739)
Remeasurements of defined benefit plans	(101)	(50)
Total accumulated other comprehensive income	15,360	6,619
Non-controlling interests		
	1,067	1,049
Total net assets	228,964	223,176
Total liabilities and net assets	298,107	285,592

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
	Amount	Amount
Net sales	97,918	103,811
Cost of sales	64,129	69,487
Gross profit	33,788	34,324
Selling, general and administrative expenses		
Directors' and corporate auditors' compensations, salaries and allowances	8,920	8,925
Provision for bonuses	1,504	1,469
Research and development expenses	2,620	2,433
Other	11,609	11,851
Total Selling, general and administrative expenses	24,654	24,680
Operating income	9,133	9,643
Non-operating income		
Interest income	103	99
Dividend income	253	258
Equity in earnings of unconsolidated subsidiaries and affiliates	87	89
Other	206	226
Total non-operating income	650	673
Non-operating expenses		
Interest expense	108	93
Foreign exchange losses	72	375
Other	112	208
Total non-operating expenses	294	677
Ordinary income	9,490	9,639
Extraordinary income		
Gain on sales of non-current assets	146	-
Total extraordinary income	146	-
Extraordinary losses		
Loss on liquidation of business	150	-
Total extraordinary losses	150	-
Income before income taxes	9,485	9,639
Income taxes	3,642	3,022
Net income	5,843	6,616
Profit attributable to non-controlling interests	79	74
Profit attributable to owners of parent	5,764	6,542

Statement of Comprehensive Income

	(Million yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
	Amount	Amount
Net income	5,843	6,616
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(2,591)	(3,555)
Deferred gains (losses) on hedges	(210)	882
Foreign currency translation adjustments	487	(6,049)
Remeasurements of defined benefit plans, net of tax	(4)	50
Share of other comprehensive income of associates accounted for using equity method	(6)	(186)
Total other comprehensive income	(2,325)	(8,857)
Comprehensive income	3,518	(2,240)
Components:		
Comprehensive income attributable to owners of parent	3,448	(2,239)
Comprehensive income attributable to non-controlling interests	69	(0)

Statement of Cash Flows — Consolidated

	(Million yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	9,485	9,639
Depreciation and amortization	7,025	7,545
Amortization of goodwill	484	507
Increase (decrease) in provision	139	301
(Increase) decrease in notes and accounts receivable – trade	5,908	5,460
(Increase) decrease in inventories	(2,853)	(1,290)
Increase (decrease) in notes and accounts payable – trade	(1,970)	(2,584)
Increase (decrease) in net defined benefit liability	391	354
Income taxes paid	(4,762)	(4,038)
Other	(1,621)	372
Net cash provided by (used in) operating activities	12,227	16,268
Cash flows from investing activities		
Deposits into time deposit accounts	(23,940)	(13,476)
Withdrawals from time deposits	11,759	22,340
Payments for purchases of marketable securities	(9,000)	-
Payments for purchases of property, plant and equipment	(6,790)	(4,818)
Proceeds from sale of property, plant and equipment	161	10
Payments for purchases of investment securities	(4)	(5)
Proceeds from sales and redemption of investment securities	-	9
Payments associated with acquisition of business	(2,549)	(54)
Other payments	(346)	(703)
Other proceeds	6	170
Net cash provided by (used in) investing activities	(30,703)	3,472
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	326	(171)
Repayments of long-term loans payable	(2)	(11)
Repayment of finance lease obligations	(320)	(323)
Purchase of treasury stock	(988)	(782)
Cash dividends paid	(2,684)	(2,787)
Dividends paid to non-controlling interests	(23)	(16)
Net cash provided by (used in) financing activities	(3,692)	(4,094)
Effect of exchange rate changes on cash and cash equivalents	212	(1,222)
Net increase (decrease) in cash and cash equivalents	(21,957)	14,424
Cash and cash equivalents at the beginning of the period	55,675	43,591
Increase in cash and cash equivalents from newly consolidated subsidiary	59	-
Cash and cash equivalents at the end of the period	33,777	58,016

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Six months ended September 30, 2016 (April 1, 2016 – September 30, 2016)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Six months ended September 30, 2016 (April 1, 2016 – September 30, 2016)

Not applicable

(Segment Information)

1. Sales and income by reportable segment

Six months ended September 30, 2015 (April 1, 2015 – September 30, 2015)

	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	40,595	57,322	97,918	–	97,918
Inter-segment sales or transfers	132	70	202	(202)	–
Total	40,727	57,393	98,120	(202)	97,918
Segment income	3,597	5,541	9,139	(5)	9,133

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.

Six months ended September 30, 2016 (April 1, 2016 – September 30, 2016)

	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	41,451	62,360	103,811	–	103,811
Inter-segment sales or transfers	120	106	227	(227)	–
Total	41,572	62,466	104,039	(227)	103,811
Segment income	4,083	5,569	9,653	(9)	9,643

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,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	41,335	37.6	42,005	37.3
Water Treatment Facilities	68,664	62.4	70,476	62.7
Total	110,000	100.0	112,481	100.0

(2) Net Sales

(Million yen)

Business segment	Six months ended September 30,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	40,595	41.5	41,451	39.9
Water Treatment Facilities	57,322	58.5	62,360	60.1
Total	97,918	100.0	103,811	100.0

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

(Million yen)

Business segment	Six months ended September 30,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	920	11.1	862	22.6
Water Treatment Facilities	7,408	88.9	2,951	77.4
Total	8,329	100.0	3,813	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Six months ended September 30,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	667	10.2	784	11.6
Water Treatment Facilities	5,865	89.8	5,954	88.4
Total	6,532	100.0	6,738	100.0