

FOR IMMEDIATE RELEASE

Kurita Water Industries Reports Earnings for the Nine Months Ended December 31, 2016

Tokyo, Japan, January 31, 2017—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 152,086 million yen and profit attributable to owners of parent of 10,144 million yen, or 87.45 yen per share, for the nine months ended December 31, 2016 (April 1, 2016 – December 31, 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 nine months ended December 31, 2016 rose 1.8% from the level of the same period of the previous fiscal year, to 162,115 million yen, and net sales increased 2.2%, to 152,086 million yen. Operating income was 13,646 million yen, down 2.8% versus the same period of the previous fiscal year, and ordinary income was 14,104 million yen, down 4.3%. Profit attributable to owners of parent amounted to 10,144 million yen, up 8.9%.

Looking at the market environment surrounding the Kurita Group, in Japan, production in the manufacturing industry recovered moderately mainly due to a recovery in demand and inventory adjustments, while the recovery of capital expenditure slowed due to the effect of a decline in corporate earnings. Overseas, the U.S. and European economies continued to recover moderately. There were signs of a recovery in China and other emerging economies.

In this environment, the Kurita Group sought to develop and market competitive products, technologies, and services and 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 61,246 million yen, down 1.4% versus the same period of the fiscal year ended March 31, 2016, while sales fell 1.3%, to 61,276 million. Operating income was up 6.6% to 5,870 million yen, reflecting 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 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 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, both orders and sales overseas declined, as the strength of yen offset the solid performance of orders and sales in local currency terms overseas.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 100,868 million yen, up 3.9% versus the same period of the previous fiscal year. Sales rose 4.6%, to 90,810 million yen. Despite increases in sales in the water treatment facilities business and in maintenance services, operating income declined 8.8%, to 7,791 million yen, due to a decline in sales in the ultrapure water supply business.

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 increased significantly, reflecting orders for large-scale projects. Sales in the water treatment facilities declined, 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 fell, but orders in maintenance services rose both from private plants and from public offices. 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 services.

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.

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

Financial Condition

Assets, liabilities and net assets

Current assets totaled 151,241 million yen at the end of the third quarter (December 31, 2016), an increase of 695 million yen versus the end of the previous fiscal year (March 31, 2016). This was mainly a result of increases of 5,249 million yen in funds in hand, consisting of cash and deposits and marketable securities, and 4,182 million yen in work in process, which outweighed a decrease of 8,226 million yen in trade accounts receivable. 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 136,550 million yen at the end of the third quarter (December 31, 2016), a decline of 11,011 million yen versus the end of the previous fiscal year. The decline was principally attributable to decreases of 5,056 million yen in property, plant and equipment, 4,070 million yen in intangible fixed assets, and 1,884 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 and its affiliates.

Current liabilities totaled 39,139 million yen at the end of the period, a decline of 5,268 million yen versus the end of the previous fiscal year. This was mainly a result of declines of 2,141 million yen in trade accounts payable, 2,404 million yen in income taxes payable, and 1,233 million yen in provision.

Non-current liabilities totaled 23,734 million yen at the end of the period, a decrease of 1,001 million yen versus the end of the previous fiscal year, chiefly reflecting a decrease in “other” non-current liabilities.

Net assets totaled 224,918 million yen at the end of the period, a decrease of 4,046 million yen versus the end of the previous fiscal year primarily due to a fall of 7,712 million yen in accumulated other comprehensive income, which was partly offset by an increase of 3,669 million yen in shareholders’ equity. The increase in shareholders’ equity chiefly reflected an increase of 4,451 million yen in retained earnings as a result of profit attributable to owners of parent of 10,144 million yen in the nine months under review, which exceeded the total of year-end dividends of 2,788 million yen for the previous fiscal year and interim dividends of 2,904 million yen for the fiscal year under review, 5,693 million yen, 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 1,527 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 6,545 million yen in foreign currency translation adjustments due to the strengthening of the yen against foreign currencies.

Outlook for the Fiscal Year Ending March 31, 2017

The Group’s current outlook for the full year ending March 31, 2017 is consistent with the revised forecast disclosed in the Earnings for the Six Months Ended September 30, 2016, which was announced on October 31, 2016.

Other Information

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

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

The Group included three new companies in the scope of consolidation from this fiscal year, namely, Kurita Polska SP.z.o.o. and KURITAZ Hokuriku Co., Ltd. from the first half, and Kurita America Holdings Incorporated from the third quarter.

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 from the first half of this fiscal year. 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 three quarters 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 this 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 December 31, 2016, the book value of shares in the Company held by the Trust was 779 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 December 31, 2016
	Amount	Amount
Assets		
Current assets		
Cash and deposits	58,374	70,705
Notes receivable – trade	7,463	7,571
Accounts receivable – trade	63,552	55,326
Marketable securities	7,566	484
Finished products	3,130	2,862
Work in process	3,690	7,872
Raw materials and supplies	2,433	2,078
Other	4,518	4,501
Allowance for doubtful accounts	(185)	(162)
Total current assets	150,546	151,241
Non-current assets		
Property, plant and equipment		
Buildings (net)	15,093	13,455
Machinery and equipment (net)	32,304	34,046
Other (net)	30,990	25,830
Total property, plant and equipment	78,388	73,332
Intangible fixed assets		
Goodwill	15,114	12,168
Other	9,088	7,963
Total intangible fixed assets	24,202	20,132
Investments and other assets		
Investment securities	37,063	34,313
Other	8,111	8,961
Allowance for doubtful accounts	(204)	(189)
Total investments and other assets	44,970	43,086
Total non-current assets	147,561	136,550
Total assets	298,107	287,792

	As of March 31, 2016	(Million yen) As of December 31, 2016
	Amount	Amount
Liabilities		
Current liabilities		
Notes payable – trade	1,719	2,121
Accounts payable – trade	21,060	18,919
Income taxes payable	3,705	1,301
Provision	3,418	2,185
Other	14,503	14,611
Total current liabilities	44,407	39,139
Non-current liabilities		
Net defined benefit liability	15,467	15,777
Provision	57	25
Other	9,210	7,930
Total noncurrent liabilities	24,735	23,734
Total liabilities	69,142	62,873
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,993	10,993
Retained earnings	196,788	201,239
Treasury stock	(8,695)	(9,477)
Total shareholders' equity	212,536	216,205
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	16,061	14,534
Deferred gains (losses) on hedges	398	683
Revaluation reserve for land	(380)	(380)
Foreign currency translation adjustments	(618)	(7,163)
Remeasurements of defined benefit plans	(101)	(25)
Total accumulated other comprehensive income	15,360	7,648
Non-controlling interests		
Total net assets	228,964	224,918
Total liabilities and net assets	298,107	287,792

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
	Amount	Amount
Net sales	148,862	152,086
Cost of sales	97,939	102,076
Gross profit	50,923	50,009
Selling, general and administrative expenses	36,882	36,363
Operating income	14,040	13,646
Non-operating income		
Interest income	172	138
Dividend income	467	477
Equity in earnings of unconsolidated subsidiaries and affiliates	168	124
Other	322	315
Total non-operating income	1,130	1,056
Non-operating expenses		
Interest expense	154	151
Acquisition-related expenses	87	129
Other	193	316
Total non-operating expenses	435	597
Ordinary income	14,735	14,104
Extraordinary income		
Gain on sales of non-current assets	147	-
Gain on sales of investment securities	-	391
Total extraordinary income	147	391
Extraordinary losses		
Loss on liquidation of business	150	-
Total extraordinary losses	150	-
Income before income taxes	14,731	14,496
Income taxes	5,299	4,256
Net income	9,432	10,239
Profit attributable to non-controlling interests	117	94
Profit attributable to owners of parent	9,314	10,144

Statement of Comprehensive Income

	(Million yen)	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
	Amount	Amount
Net income	9,432	10,239
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	2,606	(1,528)
Deferred gains (losses) on hedges	48	284
Foreign currency translation adjustments	(1,461)	(6,515)
Remeasurements of defined benefit plans, net of tax	(6)	76
Share of other comprehensive income of associates accounted for using equity method	(125)	(156)
Total other comprehensive income	1,061	(7,840)
Comprehensive income	10,494	2,398
Components:		
Comprehensive income attributable to owners of parent	10,421	2,385
Comprehensive income attributable to non-controlling interests	73	13

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Nine months ended December 31, 2016 (April 1, 2016 – December 31, 2016)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Nine months ended December 31, 2016 (April 1, 2016 – December 31, 2016)

Not applicable

(Segment Information)

1. Sales and income by reportable segment

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

Nine months ended December 31, 2016 (April 1, 2016 – December 31, 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	61,276	90,810	152,086	–	152,086
Inter-segment sales or transfers	185	146	332	(332)	–
Total	61,462	90,956	152,418	(332)	152,086
Segment income	5,870	7,791	13,661	(15)	13,646

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.

Significant Subsequent Events

Acquisition of equity interests by a consolidated subsidiary

On December 19, 2016, the Company concluded a contract to acquire all of the equity interests of Fremont Industries, LLC (hereinafter, referred to as “Fremont”), a U.S. water treatment chemicals manufacturing and sales company, through Kurita America Holdings Incorporated, a wholly owned subsidiary of the Company established on November 30, 2016. On January 3, 2017, the acquisition of all of the equity interests was completed.

1. Name, address, representative, paid-in capital, and business of the company of which equity interests are to be acquired

- (1) Name: Fremont Industries, LLC
- (2) Address: 4400 Valley Ind. Blvd. N. Shakopee, Minnesota, U.S.A.
- (3) Representative: Mark L. Gruss, CEO
- (4) Paid-in capital: 10,000 US dollars
- (5) Business: Manufacture and sale of water treatment chemicals

2. Purpose of acquisition

Fremont is a water treatment chemicals manufacturing and sales company headquartered in Minnesota, U.S.A. The company provides water treatment chemicals primarily in the biofuel and food industries, which are expected to grow, and in a broad range of other fields, including hospitals and air conditioning for buildings. Fremont has built local area-centric operating bases and systems in the Midwest. The Company will take advantage of Fremont’s customer base and sales network to expand sales of the Group’s products and technologies and tap new markets.

3. Date of acquisition

January 3, 2017

4. Acquisition price and shareholding after acquisition

- (1) Acquisition price: 4,623 million yen
- (2) Shareholding after acquisition: 100%

Supplementary Information — Consolidated

(1) Order Intake

(Million yen)

Business segment	Nine months ended December 31,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	62,133	39.0	61,246	37.8
Water Treatment Facilities	97,094	61.0	100,868	62.2
Total	159,228	100.0	162,115	100.0

(2) Net Sales

(Million yen)

Business segment	Nine months ended December 31,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	62,060	41.7	61,276	40.3
Water Treatment Facilities	86,801	58.3	90,810	59.7
Total	148,862	100.0	152,086	100.0

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

(Million yen)

Business segment	Nine months ended December 31,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	1,238	9.0	1,290	20.7
Water Treatment Facilities	12,529	91.0	4,932	79.3
Total	13,768	100.0	6,222	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Nine months ended December 31,			
	2015		2016	
	Amount	%	Amount	%
Water Treatment Chemicals	1,186	11.8	1,192	11.9
Water Treatment Facilities	8,880	88.2	8,784	88.1
Total	10,066	100.0	9,976	100.0