FOR IMMEDIATE RELEASE

Kurita Water Industries Reports Earnings for the Three Months Ended June 30, 2018

Tokyo, Japan, August 10, 2018—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 64,349 million yen and profit attributable to owners of parent of 915 million yen, or 8.16 yen per share, for the three months ended June 30, 2018 (April 1, 2018 – June 30, 2018).

Results of Operations

Total consolidated orders for the Kurita Group (Kurita Water Industries Ltd. and its consolidated subsidiaries and equity method affiliates) in the three months ended June 30, 2018 rose 3.5% from the level of the year-ago period, to 70,460 million yen, and net sales increased 33.2%, to 64,349 million yen.

Operating income was 4,247 million yen, up 20.7% versus the same the year-ago period, and ordinary income was 4,263 million yen, up 18.5%. Profit attributable to owners of parent amounted to 915 million yen, down 63.1%. The Group has expanded the scope of application of the percentage-of-completion method, mainly in the Water Treatment Facilities business from the first quarter under review, and this has resulted in an increase in net sales by 6,009 million yen and rises in operating income and ordinary income by 1,391 million yen, respectively.

Looking at the market environment surrounding the Kurita Group, in Japan, production in the manufacturing industry continued to see an upward trend, and capital expenditure also remained firm on the back of a high level of corporate earnings. Overseas, the U.S. economy remained solid. The European economy and emerging economies, particularly the Chinese economy, also recovered moderately.

In this environment, the Group sought to develop and market competitive products and services using IT and sensing technologies. It also proposed solutions to customers' challenges including the reduction of environmental footprints, energy saving and improvements in productivity.

In addition, the Group passed a resolution at a meeting of its Board of Directors held on July 31, 2018 to transfer the aluminum compound business of Kurita Europe GmbH to Blitz 17-630 AG, a subsidiary of LIVIA Corporate Development SE, and entered into a business transfer agreement on August 3, 2018. The Group posted an estimated loss of 2,869 million yen associated with this transfer in extraordinary losses (provision for loss on transfer of business).

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 26,860 million yen, up 21.2% versus the same period of the fiscal year ended March 31, 2018, while sales rose 20.7%, to 25,429 million yen.

Operating income climbed 42.2%, to 2,187 million yen mainly due to the increase in overseas sales.

In Japan, orders and sales remained flat partly due to the absence of the posting of spot projects of facilities and services that was made in the year-ago period, while sales and orders in process treatment chemicals for petroleum refining and petrochemicals and iron and steel increased thanks to segment efforts to develop new customers by proposing problem solutions using new products and services.

Overseas, both orders and sales increased, reflecting an increase in the consolidation period for operating results of Hansu Co., Ltd. in South Korea, which became a consolidated subsidiary in the fourth quarter of the previous fiscal year, by three months, in addition to a rise in demand for water treatment, particularly in Asia.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 43,599 million yen, down 5.0% versus the same period of the previous fiscal year. Partly thanks to the expansion of the scope of application of the percentage-of-completion method, sales rose 42.9%, to 38,920 million yen.

Operating income rose 7.8%, to 2,138 million yen due to the increase in sales.

In Japan, in the electronics industry, both orders and sales increased in water treatment facilities. Orders and sales in maintenance services rose, thanks to orders for expansion and remodeling projects against a backdrop of a rise in capacity utilization at customers’ plants.

In general industries, orders for water treatment facilities increased, but sales declined. Orders and sales in maintenance services increased mainly for remodeling and expansion projects at customers’ plants for the purpose of expanding production capacity. While orders for water treatment facilities for electric power and soil remediation declined in the absence of the posting of orders for large projects in the year-ago period, sales increased significantly thanks to progress in construction work for large projects.

Overseas, while orders declined with the fall in the posting of orders for large projects from the year-ago period, sales increased with progress in construction for large projects in China and South Korea.

Sales in the ultrapure water supply business in Japan and overseas increased due to the posting of sales from expansion projects.

Financial Condition

1) Total assets: 336,197 million yen (increased 13,151 million yen from the end of the previous fiscal year)

Current assets totaled 169,443 million yen at the end of the first quarter (June 30, 2018), an increase of 9,034 million yen from the end of the previous fiscal year (March 31, 2018). This was mainly a result of an increase of 10,467 million yen in cash and deposits due to the steady collection of receivables and the receipt of long-term advances received, despite a decrease of 1,940 million yen in work in progress due to the absence of posting of the relevant projects chiefly associated with the expansion of the scope of application of the percentage-of-completion method.

Non-current assets totaled 166,753 million yen at the end of the three-month period (June 30, 2018), an increase of 4,116 million yen from the end of the previous fiscal year. This increase mainly reflected capital expenditure in the ultrapure water supply business (Water Treatment Facilities business), which outweighed the deprecation of existing facilities.

2) Liabilities: 101,377 million yen (increased 19,184 million yen from the end of the previous fiscal year)

Current liabilities totaled 58,861 million yen at the end of the period, an increase of 2,712 million yen from the end of the previous fiscal year. The increase mainly reflected a rise of 7,579 million yen in Other due to an increase in advances received and the posting of 2,869 million yen provision for loss on transfer of business associated with the sale of the aluminum compound business (Water Treatment Chemicals business) in Europe, while trade accounts payable and income taxes payable deceased 3,400 million yen and 3,479 million yen, respectively.

Non-current liabilities totaled 42,516 million yen at the end of the period, an increase of 16,472 million yen from the end of the previous fiscal year. This increase mainly reflected a rise of 16,297 million yen in Other due to the receipt of long-term advances received.

3) Net assets: 234,820 million yen (decreased 6,033 million yen from the end of the previous fiscal year)

Net assets totaled 234,820 million yen at the end of the period, a decrease of 6,033 million yen from the end of the previous fiscal year primarily due to falls of 2,069 million yen in shareholders' equity and 4,188 million yen in accumulated other comprehensive income. The decline in shareholders' equity was caused by a decrease of 1,948 million yen in retained earnings due to the posting of year-end dividends, which outweighed profit attributable to owners of parent. The fall in accumulated other comprehensive income was chiefly due to a decline of 3,834 million yen in foreign currency translation adjustments associated with the appreciation of the yen against foreign currencies and a decrease of 506 million yen in unrealized gains on available-for-sale securities as a result of falling unrealized gains on investment securities held.

Outlook for the Fiscal Year Ending March 31, 2019

The Group's current outlook for the six months ending September 30, 2018, and the full year ending March 31, 2019 is consistent with the earnings forecast disclosed in "Earnings Report for the Full Year Ended March 31, 2018," which was announced on April 27, 2018. While the Group has posted a 2,869 million yen provision for loss on transfer of business in extraordinary losses in the first quarter under review, the Group keeps its consolidated earnings forecasts for the fiscal year ending March 31, 2019 unchanged because a gain on sales of investment securities is expected to be posted from the second quarter of the current fiscal year as the Group is currently proceeding with the review of its shareholdings of other listed companies.

Financial Statements — Consolidated

Balance Sheet — Consolidated

(Million yen)

	As of March 31, 2018	As of June 30, 2018
	Amount	Amount
Assets		
Current assets		
Cash and deposits	61,086	71,553
Notes receivable – trade	7,870	7,944
Accounts receivable – trade	78,994	78,547
Finished products	3,968	4,147
Work in process	3,621	1,681
Raw materials and supplies	2,800	2,952
Other	2,531	3,083
Allowance for doubtful accounts	(464)	(466)
Total current assets	160,409	169,443
Non-current assets		
Property, plant and equipment		
Buildings (net)	11,132	12,216
Machinery and equipment (net)	42,843	42,278
Other (net)	32,051	34,582
Total property, plant and equipment	86,028	89,077
Intangible fixed assets		
Goodwill	20,362	21,260
Other	10,641	10,051
Total intangible fixed assets	31,003	31,311
Investments and other assets		
Investment securities	35,683	34,692
Other	10,099	11,848
Allowance for doubtful accounts	(176)	(175)
Total investments and other assets	45,605	46,365
Total noncurrent assets	162,637	166,753
Total assets	323,046	336,197

	As of March 31, 2018	As of June 30, 2018
	Amount	Amount
Liabilities		
Current liabilities		
Notes payable – trade	2,073	2,230
Accounts payable – trade	26,801	23,401
Income taxes payable	4,806	1,327
Provision for loss on transfer of business	-	2,869
Other provision	3,436	2,422
Other	19,031	26,610
Total current liabilities	56,149	58,861
Non-current liabilities		
Net defined benefit liability	16,610	16,801
Provision	191	175
Other	9,242	25,539
Total noncurrent liabilities	26,044	42,516
Total liabilities	82,193	101,377
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,959	10,839
Retained earnings	209,149	207,201
Treasury stock	(10,943)	(10,944)
Total shareholders' equity	222,615	220,546
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	16,558	16,052
Deferred gains (losses) on hedges	(1)	151
Revaluation reserve for land	(380)	(380)
Foreign currency translation adjustments	6	(3,828)
Remeasurements of defined benefit plans	3	4
Total accumulated other comprehensive income	16,187	11,999
Non-controlling interests	2,049	2,273
Total net assets	240,853	234,820
Total liabilities and net assets	323,046	336,197

(Million yen)

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

(Million yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
	Amount	Amount
Net sales	48,300	64,349
Cost of sales	31,597	45,669
Gross profit	16,702	18,679
Selling, general and administrative expenses	13,181	14,432
Operating income	3,520	4,247
Non-operating income		
Interest income	48	61
Dividend income	267	276
Foreign exchange gains	-	95
Equity in earnings of unconsolidated subsidiaries and affiliates	31	9
Other	134	263
Total non-operating income	482	707
Non-operating expenses		
Interest expense	119	83
Foreign exchange losses	158	-
Loss on valuation of investments in capital	-	251
Acquisition expenses	21	218
Other	106	138
Total non-operating expenses	405	691
Ordinary income	3,598	4,263
Extraordinary losses		
Provision for loss on transfer of business	-	* 2,869
Total extraordinary losses	-	2,869
Income before income taxes	3,598	1,394
Income taxes	1,072	462
Net income	2,525	931
Profit attributable to non-controlling interests	42	15
Profit attributable to owners of parent	2,483	915

Statement of Comprehensive Income

(Million yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
	Amount	Amount
Net income	2,525	931
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	1,202	(505)
Deferred gains (losses) on hedges	(477)	152
Foreign currency translation adjustments	(805)	(1,480)
Remeasurements of defined benefit plans, net of tax	0	0
Share of other comprehensive income of associates accounted for using equity method	34	(24)
Total other comprehensive income	(45)	(1,858)
Comprehensive income	2,480	(927)
Components:		
Comprehensive income attributable to owners of parent	2,460	(863)
Comprehensive income attributable to non-controlling interests	20	(63)

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)

Not applicable

(Changes in the scope of consolidation or the scope of application of the equity method)

(Changes in matters related to the fiscal year of consolidated subsidiaries)

In the past, the Group used the financial statements of all overseas consolidated subsidiaries whose closing date was December 31 as of this day and made necessary adjustments for consolidation for important transactions that had occurred during the period between their closing date and the consolidated closing date. However, the Group has changed the closing date of all overseas consolidated subsidiaries but Kurita Water Industries (Dalian) Co., Ltd., Kurita Water Industries (Jiangyin) Co., Ltd., Kurita Water Industries (Suzhou) Ltd., Kuritec (Shanghai) Co., Ltd. and Kurita do Brasil Ltda. to March 31. For the five companies above, the Group has changed their account settlement method to one in which a provisional closing equivalent to the full-year account settlement is made on the consolidated closing date. In association with this change, the Group has made an adjustment for profits and losses for three months from January 1, 2018 to March 31, 2018 using retained earnings and consolidated them in the first quarter under review.

(Changes in accounting policies)

(Changes to accounting policies that are difficult differentiating from changes to accounting estimates)

(Changes to the depreciation method of property, plant and equipment)

In the past, the Company adopted the declining-balance method for the deprecation of buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, facilities attached to buildings and structures acquired on or after April 1, 2016 and property, plant and equipment (excluding leased assets) except for facilities of ultrapure water supply business which the Company had installed at customers. However, the Company has changed the depreciation method for them to the straight-line method from the first quarter under review.

The Company has made this change because the pattern of consumption of the economic benefits of property, plant and equipment has changed as the expansion of the global business and a transition to the optimum production system have become clear. Given that actual production on a consolidated basis generally stays at a certain level and that the operation of facilities is also stable, the Company has determined that the straight-line method is more suitable for the consumption pattern of economic benefits of property, plant and equipment.

The impact of this change on profits and losses in the first quarter under review is minor.

(Application of accounting unique to the creation of quarterly consolidated financial statements)

Calculation of tax expense

The Company reasonably estimates an effective tax rate after the application of tax effect accounting for net income before income taxes for the consolidated fiscal year and multiplies the net income before income taxes by the estimated effective tax rate.

(Additional information)

(Adoption of the “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 on February 16, 2018), among others, from the beginning of the first quarter of the current fiscal year. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

(Expansion the scope of application of the percentage-of-completion method)

In the past, the Company applied the percentage-of-completion method to construction works for progress of which the certainty of outcome can be recognized and applied the completed-contract method to other construction works. However, the Company has applied the percentage-of-completion method to the other construction works from the first quarter under review because a reliable estimate has become possible for most of them due to the development and strengthening of the cost management system.

As a result, net sales have increased 6,009 million yen, and operating income, ordinary income and income before income taxes have increased 1,391 million yen, respectively.

(Statement of income)

* Provision for loss on transfer of business

Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)

This is an estimated amount of loss associated with the planned sale of the aluminum compound business of Kurita Europe GmbH.

(Business Combination)

(Business combination through acquisition)

1. Overview of business combination

(1) Name and business of the acquired company

Name: Fracta,Inc.

Business: Holding company of Fracta

The Company has also acquired Fracta, a wholly owned subsidiary of Fracta, Inc., through the investment in Fracta, Inc.

Name: Fracta

Business: Software services to predict the deterioration of water pipes utilizing artificial intelligence (AI) and machine learning (ML)

(2) Reason of business combination

Fracta, Inc. has developed software services to predict the deterioration of water pipes utilizing AI and ML at its wholly owned subsidiary Fracta. The Company will create and expand new digital businesses utilizing IoT and AI in the areas of water and the environment by acquiring the state-of-the-art technologies and know-how of Fracta, Inc. in AI and ML and applying them to the Company’s water treatment technologies and services.

(3) Date of business combination

May 31, 2018

(4) Legal form of business combination

Acquisition of shares with cash as consideration

(5) Name after business combination

The name will not change.

(6) Percentage of voting rights acquired

60.63% (fully diluted basis: 50.1%)

(7) Main reason for determining the acquiring company

Because the Company acquired shares with cash as consideration.

2. Period for financial results of the acquired company included in the quarterly consolidated statement of income for the first quarter

From June 1, 2018 to June 30, 2018

3. Breakdown of the acquisition cost of acquired business and consideration by type

Consideration for acquisition	Cash and deposits	3,968 million yen
Acquisition cost		3,968 million yen

4. Major expenses related to the acquisition

Compensation, fees, etc. paid to the advisor: 177 million yen

5. Amount of goodwill, reason of the occurrence of goodwill, amortization method, and amortization period

(1) Amount of goodwill 2,941 million yen

The amount above is provisional given that the specification of identifiable assets and liabilities as of the business combination is unfinished and that the allocation of the acquisition cost has yet to be completed because the period from the business combination to the closing date is short.

(2) Reason of the occurrence of goodwill

Expected excess earning power

(3) Amortization method and amortization period

Goodwill will subject to straight-line amortization over the period when it is effective. The amortization period will be fixed mainly in light of the result of the allocation of the acquisition cost.

6. Put options granted to non-controlling shareholders and call options held by the Company

The Company will make Fracta, Inc. a wholly owned subsidiary for up to four years from 2020. The Company has granted written put options for the shares of Fracta, Inc. to the non-controlling shareholders of Fracta, Inc. and holds purchased call options for the shares of Fracta, Inc. for the purpose of making it a wholly owned subsidiary in the future.

(Segment Information)

1. Sales and income by reportable segment

Three months ended June 30, 2017 (April 1, 2017 – June 30, 2017)

(Million yen)

	Reportable Segments			Adjustments (note 1)	Amounts reported on the quarterly statements of income (note 2)
	Water Treatment Chemicals	Water Treatment Facilities	Total		
Sales					
Sales to outside customers	21,061	27,238	48,300	–	48,300
Inter-segment sales or transfers	63	29	93	(93)	–
Total	21,125	27,267	48,393	(93)	48,300
Segment income	1,538	1,984	3,523	(2)	3,520

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.

Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(Million yen)

	Reportable Segment			Adjustments (note 1)	Amounts reported on the quarterly statements of income (note 2)
	Water Treatment Chemicals	Water Treatment Facilities	Total		
Sales					
Sales to outside customers	25,429	38,920	64,349	–	64,349
Inter-segment sales or transfers	176	235	411	(411)	–
Total	25,605	39,155	64,760	(411)	64,349
Segment income	2,187	2,138	4,326	(78)	4,247

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.

2. Matters related to changes in reportable segments

(Changes in the depreciation method of property, plant and equipment)

As stated in changes in accounting policies, the Company has changed the depreciation method for certain property, plant and equipment from the declining-balance method to the straight-line method from the first quarter under review. Associated with this, the Company has changed the depreciation method for property, plant and equipment in the relevant reportable segments from the declining-balance method to the straight-line method.

The impact of this change on segment income in the Water Treatment Chemicals business and the Water Treatment Facilities business in the first quarter is minor.

(Expansion of the scope of application of the percentage-of-completion method)

As stated in additional information, the Company has expanded the scope of application of the percentage-of-completion method from the first quarter under review.

As a result, net sales in the Water Treatment Facilities business has increased 6,009 million yen in the first quarter under review, and the segment income has risen 1,391 million yen.

Supplementary Information — Consolidated

(1) Order Intake

(Million yen)

	Three months ended June 30,			
	2017		2018	
Business segment	Amount	%	Amount	%
Water Treatment Chemicals	22,157	32.6	26,860	38.1
Water Treatment Facilities	45,891	67.4	43,599	61.9
Total	68,048	100.0	70,460	100.0

(2) Net Sales

(Million yen)

	Three months ended June 30,			
	2017		2018	
Business segment	Amount	%	Amount	%
Water Treatment Chemicals	21,061	43.6	25,429	39.5
Water Treatment Facilities	27,238	56.4	38,920	60.5
Total	48,300	100.0	64,349	100.0

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

(Million yen)

	Three months ended June 30,			
	2017		2018	
Business segment	Amount	%	Amount	%
Water Treatment Chemicals	382	10.5	819	13.4
Water Treatment Facilities	3,269	89.5	5,303	86.6
Total	3,651	100.0	6,122	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

	Three months ended June 30,			
	2017		2018	
Business segment	Amount	%	Amount	%
Water Treatment Chemicals	414	12.7	503	13.5
Water Treatment Facilities	2,841	87.3	3,212	86.5
Total	3,255	100.0	3,716	100.0