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Kurita Water Industries Reports Earnings for the Six Months Ended September 30, 2017

Tokyo, Japan, October 31, 2017—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 108,107 million yen and profit attributable to owners of parent of 7,412 million yen, or 65.99 yen per share, for the six months ended September 30, 2017 (April 1, 2017 – September 30, 2017).

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, 2017 rose 11.4% from the level of the year-ago period, to 125,300 million yen, and net sales increased 4.1%, to 108,107 million yen.

Operating income was 10,153 million yen, up 5.3% versus the same the year-ago period, and ordinary income was 10,274 million yen, up 6.6%. Profit attributable to owners of parent amounted to 7,412 million yen, up 13.3%.

Looking at the market environment surrounding the Kurita Group, in Japan, there were signs of a recovery in production and capital expenditure in the manufacturing industry on the back of a recovery in consumer spending and exports. Overseas, the U.S. economy and the European economy continued to recover. Emerging economies, particularly the Chinese economy, have also remained firm.

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. Results at Fremont Industries, LLC, a U.S. company the Group has acquired, are being consolidated from the first quarter of this fiscal year.

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 44,582 million yen, up 6.1% versus the same period of the fiscal year ended March 31, 2017, while sales rose 6.3%, to 44,074 million yen.

Operating income was down 5.7% to 3,850 million yen, reflecting an increase in selling, general and administrative expenses, despite the effect of the increase in sales.

In Japan, capacity utilization recovered at customers' plants, and the Group sought to gain new customers by proposing solutions using new products and services. This effort produced growth in our main products, boiler water treatment chemicals and cooling water treatment chemicals. Process treatment chemicals for paper and pulp and chemicals for iron and steel also grew. As a result, both orders and sales increased in Japan.

Overseas, both orders and sales increased, reflecting the consolidation of results at the acquired subsidiary based in the United States from the first quarter of this fiscal year.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 80,717 million yen, up 14.5% versus the same period of the previous fiscal year. Sales rose 2.7%, to 64,032 million yen.

Operating income climbed 13.3%, to 6,307 million yen mainly due to the increase in sales and an improvement in profitability through thorough process and cost management in installment in construction work.

In Japan, in the electronics industry, orders in the water treatment facilities increased due to orders for large-scale projects. Sales also increased with progress in construction work for large-scale projects the orders for which were received in the previous fiscal year. Orders and sales in maintenance services increased on the strength of orders associated with expansion and remodeling projects against a backdrop of a rise in capacity utilization at customers' plants.

In general industries, orders and sales in the water treatment facilities both declined. Orders and sales in maintenance services increased mainly due to demand for the renewal and expansion of facilities at customers' plants. Orders for water treatment facilities for electric power declined, but sales for them increased. Although orders in soil remediation rose with large-scale projects, sales declined due to the higher sales in the same period of the previous fiscal year, which included sales from large-scale projects.

Overseas, orders rose significantly on orders for large-scale projects received in China and South Korea. Sales also increased, reflecting progress in construction work for projects the orders for which were received in the previous fiscal year.

Total sales in the ultrapure water supply business in Japan and overseas declined due to the effect of a decrease in sales resulting from changes in contracts with a certain customer in the previous fiscal year, despite the posting of sales from expansion projects.

Financial Condition

Current assets totaled 153,576 million yen at the end of the second quarter (September 30, 2017), a decrease of 2,354 million yen versus the end of the previous fiscal year (March 31, 2017). This was mainly a result of a decrease of 5,805 million yen in funds in hand, or cash and deposits and marketable securities, which outweighed increases of 1,610 million yen in trade accounts receivable and 1,419 million yen in work in process. The increase in trade accounts receivable was chiefly the result of relatively strong sales in the six months under review. The rise in work in process is attributable mainly to progress in construction in the Water Treatment Facilities business. The decrease in funds in hand, cash and deposits and marketable securities was mainly the result of the acquisition of 5,588 million yen's worth of own shares, principally on the open market.

Non-current assets totaled 146,516 million yen at the end of the first half (September 30, 2017), an increase of 3,198 million yen versus the end of the previous fiscal year. The increase reflected increases of 2,299 million yen in property, plant and equipment and 1,263 million yen in investments and other assets. The increase in property, plant and equipment was primarily due to capital expenditure mainly on facilities in the ultrapure water supply business in excess of depreciation. The rise in investments and other assets was attributable chiefly to an increase in unrealized gains on investment securities due to rises in the market prices of the shares held by the Group.

Current liabilities totaled 44,868 million yen at the end of the period, an increase of

458 million yen versus the end of the previous fiscal year. The increase mainly reflected a rise of 906 million yen in “other” current liabilities mainly due to an increase in accounts payable related to capital expenditure.

Non-current liabilities totaled 25,858 million yen at the end of the period, a decrease of 222 million yen versus the end of the previous fiscal year.

Net assets totaled 229,366 million yen, an increase of 608 million yen versus the end of the previous fiscal year due mainly to a rise of 1,614 million yen in accumulated other comprehensive income, which outweighed a decrease of 1,026 million yen in shareholders’ equity. The decrease in shareholders’ equity was attributable mainly to a decline of 3,978 million yen in retained earnings, which outweighed a decrease of 2,951 million yen in treasury stock (an increase in net assets). The fall in retained earnings was attributable to a decrease of 11,390 million yen as a result of year-end dividends of 2,865 million yen for the previous fiscal year and the retirement of treasury shares of 8,525 million yen, which outweighed the posting of a profit attributable to owners of parent of 7,412 million yen for the first six-month period under review. The decrease in treasury stock (an increase in net assets) was attributable to an increase of 5,588 million yen mainly through market purchases and a decrease of 8,539 million yen mainly due to retirement. The increase in accumulated other comprehensive income resulted mainly from an increase of 1,477 million yen in unrealized gains on available-for-sale securities in association with a rise in unrealized gains on investment securities and a rise of 939 million yen in foreign currency translation adjustments due to the weakening of the yen against foreign currencies, which outweighed a decrease of 797 million yen in deferred gains on hedges.

Cash Flows

Consolidated net cash and cash equivalents at the end of the first half of the fiscal year (September 30, 2017) stood at 57,789 million yen, a decrease of 7,648 million yen from the end of the previous fiscal year (March 31, 2017). 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, 2018, totaled 10,957 million yen, a decrease of 5,311 million yen from a year ago. Inflows from income before income taxes (10,480 million yen), depreciation and amortization (8,209 million yen; including the amortization of goodwill of 561 million yen), and other inflows were partially offset by an increase in trade notes and accounts receivable (2,197 million yen), an increase in inventories (1,769 million yen), a decrease in notes and accounts payable-trade (1,371 million yen), income taxes paid (2,911 million yen), and other outflows.

Cash flows from investing activities

Net cash used in investing activities stood at 9,597 million yen, an increase of 13,069 million yen from a year earlier, chiefly reflecting net deposits into time deposit accounts of 1,841 million yen, payments for the purchase of property, plant and equipment, including capital expenditures for the ultrapure water supply business, of 7,111 million yen, and other outflows.

Cash flows from financing activities

Net cash used in financing activities came to 9,040 million yen, an increase of 4,946 million yen from a year earlier, attributable mainly to the purchase of treasury stock of 5,588 million yen and cash dividends paid of 2,882 million yen.

Outlook for the Fiscal Year Ending March 31, 2018

As stated in the “Kurita Water Industries Revises Earnings Forecast” announced on October 24, 2017, the consolidated earnings forecast for the fiscal year ending March 31, 2018 has been revised as stated 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 the consolidated earnings forecast for the fiscal year ending March 31, 2018
(April 1, 2017 – March 31, 2018)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share (Yen)
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	223,000	18,500	19,000	13,000	115.76
Revised forecast (B)	230,000	21,000	21,500	15,000	133.57
Change (B – A)	7,000	2,500	2,500	2,000	17.81
Percent change (%)	3.1	13.5	13.2	15.4	15.4
For reference: Fiscal year ended March 31, 2017	214,187	19,452	20,074	14,506	125.23

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2017 Amount	(Million yen) As of September 30, 2017 Amount
Assets		
Current assets		
Cash and deposits	72,750	66,955
Notes receivable – trade	7,843	8,525
Accounts receivable – trade	60,439	62,049
Marketable securities	603	593
Finished products	3,114	3,386
Work in process	4,181	5,600
Raw materials and supplies	2,229	2,341
Other	5,016	4,396
Allowance for doubtful accounts	(246)	(272)
Total current assets	155,930	153,576
Non-current assets		
Property, plant and equipment		
Buildings (net)	13,203	11,895
Machinery and equipment (net)	35,936	36,213
Other (net)	24,896	28,226
Total property, plant and equipment	74,036	76,335
Intangible fixed assets		
Goodwill	15,049	15,053
Other	10,259	9,892
Total intangible fixed assets	25,308	24,945
Investments and other assets		
Investment securities	34,844	36,917
Other	9,317	8,509
Allowance for doubtful accounts	(189)	(190)
Total investments and other assets	43,972	45,235
Total noncurrent assets	143,318	146,516
Total assets	299,249	300,093

	As of March 31, 2017 Amount	(Million yen) As of September 30, 2017 Amount
Liabilities		
Current liabilities		
Notes payable – trade	1,710	1,964
Accounts payable – trade	21,715	20,602
Income taxes payable	2,875	2,989
Provision for bonuses	2,361	2,742
Other provision	883	799
Other	14,863	15,769
Total current liabilities	44,410	44,868
Non-current liabilities		
Net defined benefit liability	16,054	16,341
Provision	25	86
Other	9,999	9,429
Total noncurrent liabilities	26,080	25,858
Total liabilities	70,490	70,726
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,993	10,993
Retained earnings	205,586	201,608
Treasury stock	(13,891)	(10,940)
Total shareholders' equity	216,138	215,112
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	14,792	16,269
Deferred gains (losses) on hedges	670	(127)
Revaluation reserve for land	(380)	(380)
Foreign currency translation adjustments	(3,593)	(2,654)
Remeasurements of defined benefit plans	(3)	(8)
Total accumulated other comprehensive income	11,484	13,098
Non-controlling interests		
	1,135	1,155
Total net assets	228,758	229,366
Total liabilities and net assets	299,249	300,093

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
	Amount	Amount
Net sales	103,811	108,107
Cost of sales	69,487	71,575
Gross profit	34,324	36,532
Selling, general and administrative expenses		
Directors' and corporate auditors' compensations, salaries and allowances	8,925	9,487
Provision for bonuses	1,469	1,465
Research and development expenses	2,433	2,554
Other	11,851	12,871
Total Selling, general and administrative expenses	24,680	26,378
Operating income	9,643	10,153
Non-operating income		
Interest income	99	94
Dividend income	258	281
Equity in earnings of unconsolidated subsidiaries and affiliates	89	72
Other	226	286
Total non-operating income	673	734
Non-operating expenses		
Interest expense	93	209
Foreign exchange losses	375	171
Other	208	232
Total non-operating expenses	677	612
Ordinary income	9,639	10,274
Extraordinary income		
Gain on sales of investment securities	-	206
Total extraordinary income	-	206
Income before income taxes	9,639	10,480
Income taxes	3,022	3,015
Net income	6,616	7,465
Profit attributable to non-controlling interests	74	52
Profit attributable to owners of parent	6,542	7,412

Statement of Comprehensive Income

	(Million yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
	Amount	Amount
Net income	6,616	7,465
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(3,555)	1,471
Deferred gains (losses) on hedges	882	(798)
Foreign currency translation adjustments	(6,049)	656
Remeasurements of defined benefit plans, net of tax	50	(4)
Share of other comprehensive income of associates accounted for using equity method	(186)	(17)
Total other comprehensive income	(8,857)	1,306
Comprehensive income	(2,240)	8,771
Components:		
Comprehensive income attributable to owners of parent	(2,239)	8,732
Comprehensive income attributable to non-controlling interests	(0)	39

Statement of Cash Flows — Consolidated

	(Million yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	9,639	10,480
Depreciation and amortization	7,545	7,648
Amortization of goodwill	507	561
Increase (decrease) in provision	301	382
(Increase) decrease in notes and accounts receivable – trade	5,460	(2,197)
(Increase) decrease in inventories	(1,290)	(1,769)
Increase (decrease) in notes and accounts payable – trade	(2,584)	(1,371)
Increase (decrease) in net defined benefit liability	354	234
Income taxes paid	(4,038)	(2,911)
Other	372	(94)
Net cash provided by (used in) operating activities	16,268	10,962
Cash flows from investing activities		
Deposits into time deposit accounts	(13,476)	(9,533)
Withdrawals from time deposits	22,340	7,692
Payments for purchases of property, plant and equipment	(4,818)	(7,111)
Proceeds from sale of property, plant and equipment	10	30
Payments for purchases of investment securities	(5)	(4)
Proceeds from sales and redemption of investment securities	9	286
Payments associated with acquisition of business	(54)	(137)
Other payments	(703)	(913)
Other proceeds	170	93
Net cash provided by (used in) investing activities	3,472	(9,597)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(171)	-
Repayments of long-term loans payable	(11)	(250)
Repayment of finance lease obligations	(323)	(322)
Proceeds from sales of treasury shares	-	4
Purchase of treasury stock	(782)	(5,588)
Cash dividends paid	(2,787)	(2,863)
Dividends paid to non-controlling interests	(16)	(19)
Net cash provided by (used in) financing activities	(4,094)	(9,040)
Effect of exchange rate changes on cash and cash equivalents	(1,222)	32
Net increase (decrease) in cash and cash equivalents	14,424	(7,648)
Cash and cash equivalents at the beginning of the period	43,591	65,438
Cash and cash equivalents at the end of the period	58,016	57,789

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Six months ended September 30, 2017 (April 1, 2017 – September 30, 2017)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Six months ended September 30, 2016 (April 1, 2017 – September 30, 2017)

- (1) Based on a resolution at a meeting of the Board of Directors held on February 28, 2017, 2,004,400 shares of own shares was acquired. As a result, treasury stock increased 5,586 million yen.
- (2) Based on a resolution at a meeting of the Board of Directors held on March 30, 2017, treasury stock was canceled. The retirement of treasury stock did not have any impact on the total amount of shareholders' equity. However, treasury stock declined by 8,525 million yen (shareholders amount increased), and retained earnings declined by the same amount.
 - 1) Class of stock canceled
Common stock of the Company
 - 2) Number of shares canceled
2,963,900 shares
 - 3) Value of shares canceled
8,525 million yen
 - 4) Date of retirement of stock
April 6, 2017
 - 5) Number of issued shares after the retirement of treasury stock
116,200,694 shares

(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.

(Segment Information)

1. Sales and income by reportable segment

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

	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	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.

Six months ended September 30, 2017 (April 1, 2017 – September 30, 2017)

	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	44,074	64,032	108,107	–	108,107
Inter-segment sales or transfers	202	128	330	(330)	–
Total	44,276	64,161	108,438	(330)	108,107
Segment income	3,850	6,307	10,158	(5)	10,153

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,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	42,005	37.3	44,582	35.6
Water Treatment Facilities	70,476	62.7	80,717	64.4
Total	112,481	100.0	125,300	100.0

(2) Net Sales

(Million yen)

Business segment	Six months ended September 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	41,451	39.9	44,074	40.8
Water Treatment Facilities	62,360	60.1	64,032	59.2
Total	103,811	100.0	108,107	100.0

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

(Million yen)

Business segment	Six months ended September 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	862	22.6	917	10.4
Water Treatment Facilities	2,951	77.4	7,901	89.6
Total	3,813	100.0	8,819	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Six months ended September 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	784	11.6	843	12.8
Water Treatment Facilities	5,954	88.4	5,744	87.2
Total	6,738	100.0	6,588	100.0