

FOR IMMEDIATE RELEASE

Kurita Water Industries Reports Earnings for the Nine Months Ended December 31, 2017

Tokyo, Japan, January 31, 2018—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 163,511 million yen and profit attributable to owners of parent of 13,545 million yen, or 120.60 yen per share, for the nine months ended December 31, 2017 (April 1, 2017 – December 31, 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 nine months ended December 31, 2017 rose 15.9% from the level of the year-ago period, to 187,926 million yen, and net sales increased 7.5%, to 163,511 million yen.

Operating income was 14,854 million yen, up 8.9% versus the same the year-ago period, and ordinary income was 14,726 million yen, up 4.4%. Profit attributable to owners of parent amounted to 13,545 million yen, up 33.5%. The Group recorded a gain on step acquisitions of 2,443 million yen in extraordinary income associated with the acquisition of additional shares of Hansu Co., Ltd., an equity-method affiliate in South Korea. The Group also recorded extraordinary income of 1,572 million yen from the sale of shares of other listed companies.

Looking at the market environment surrounding the Kurita Group, in Japan, the recovery of production activities of the manufacturing industry became increasingly evident, and capital expenditure also remained firm, reflecting an improvement in corporate earnings. Overseas, the U.S. economy and the European economy continued to grow, and positive indicators of an economic recovery continued to appear in emerging economies, particularly the Chinese economy.

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 66,511 million yen, up 8.6% versus the same period of the fiscal year ended March 31, 2017, while sales rose 8.5%, to 66,498 million yen.

Operating income was down 4.6% to 5,602 million yen, reflecting an increase in selling, general and administrative expenses caused by increases in personnel expenses due to the active development of overseas businesses, and IT-related 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, in addition to higher sales in each geographical area.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 121,415 million yen, up 20.4% versus the same period of the previous fiscal year. Sales rose 6.8%, to 97,013 million yen.

Operating income climbed 18.9%, to 9,260 million yen mainly due to the increase in sales and an improvement in profitability through thorough process control 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. In maintenance services, due to the strong orders associated with expansion and remodeling projects against a backdrop of a rise in capacity utilization at customers' plants, both orders and sales have increased.

In general industries, orders declined but sales increased in water treatment facilities. 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. Both orders and sales in soil remediation declined in a backlash to the posting of orders and sales of large projects in the previous fiscal year.

Overseas, orders rose significantly on orders for large-scale projects 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 152,133 million yen at the end of the third quarter (December 31, 2017), a decrease of 3,797 million yen versus the end of the previous fiscal year (March 31, 2017). This was mainly a result of a decrease of 16,703 million yen in funds in hand, or cash and deposits and marketable securities, which outweighed increases of 6,664 million yen in trade accounts receivable, 3,222 million yen in work in process, and 1,212 million yen in raw materials and supplies. The increase in trade accounts receivable was chiefly the result of relatively strong sales in the nine months under review. The rise in work in process, raw materials and supplies are 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 use of funds for capital expenditure mainly on facilities in the ultrapure water supply business, the conversion of the water treatment chemicals business company (equity-method affiliate) in South Korea into a consolidated subsidiary and the

acquisition of own shares.

Non-current assets totaled 156,956 million yen at the end of the third quarter (December 31, 2017), an increase of 13,638 million yen versus the end of the previous fiscal year. The increase reflected increases of 7,309 million yen in property, plant and equipment, 6,043 million yen in intangible fixed assets and 288 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 increase in intangible fixed assets was chiefly the result of posting goodwill of 6,246 million yen associated with the conversion of the water treatment chemicals business company in South Korea into a consolidated subsidiary. The increase in investments and other assets was due primarily to a rise of 1,929 million yen in investment securities as a result of an increase in unrealized gains on shares held due to a rise in share prices, as well as a decline of 1,642 million yen in “other” in investments and other assets due mainly to a decrease in shares of subsidiaries and associates attributable to the conversion of water treatment chemicals business company in South Korea into a consolidated subsidiary.

Current liabilities totaled 47,757 million yen at the end of the period, an increase of 3,347 million yen versus the end of the previous fiscal year. The increase mainly reflected a rise of 5,425 million yen in “other” current liabilities due to an increase in accounts payable related to capital expenditure, as well as a decrease of 1,095 million yen in provision.

Non-current liabilities totaled 26,100 million yen at the end of the period, an increase of 20 million yen versus the end of the previous fiscal year.

Net assets totaled 235,232 million yen, an increase of 6,474 million yen versus the end of the previous fiscal year. The increase was due mainly to increases of 2,177 million yen in shareholders’ equity and 3,491 million yen in accumulated other comprehensive income. The increase in shareholders’ equity was attributable mainly to a decline of 773 million yen in retained earnings and a decrease of 2,949 million yen in treasury stock (an increase in net assets). The fall in retained earnings was attributable to a decrease of 14,318 million yen as a result of dividends of 5,793 million yen, the sum of year-end dividends of 2,865 million yen for the previous fiscal year and interim dividends of 2,928 million yen for the current 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 13,545 million yen for the first nine-month period under review. The decrease in treasury stock (an increase in net assets) was attributable to an increase of 5,590 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 2,596 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 1,994 million yen in foreign currency translation adjustments due to the weakening of the yen against the euro, which outweighed a decrease of 1,085 million yen in deferred gains on hedges.

Outlook for the Fiscal Year Ending March 31, 2018

In light of financial results for the nine months ended December 31, 2017 and the strong performance of the water treatment facilities business for the electronics industry, 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) (Million yen)

	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)	230,000	21,000	21,500	15,000	133.57
Revised forecast (B)	235,000	21,700	21,700	18,300	162.95
Change (B – A)	5,000	700	200	3,300	29.38
Percent change (%)	2.2	3.3	0.9	22.0	22.0
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 December 31, 2017 Amount
Assets		
Current assets		
Cash and deposits	72,750	56,445
Notes receivable – trade	7,843	8,743
Accounts receivable – trade	60,439	67,103
Marketable securities	603	205
Finished products	3,114	3,875
Work in process	4,181	7,403
Raw materials and supplies	2,229	3,441
Other	5,016	5,202
Allowance for doubtful accounts	(246)	(286)
Total current assets	155,930	152,133
Non-current assets		
Property, plant and equipment		
Buildings (net)	13,203	11,835
Machinery and equipment (net)	35,936	34,698
Other (net)	24,896	34,811
Total property, plant and equipment	74,036	81,345
Intangible fixed assets		
Goodwill	15,049	21,512
Other	10,259	9,839
Total intangible fixed assets	25,308	31,351
Investments and other assets		
Investment securities	34,844	36,773
Other	9,317	7,675
Allowance for doubtful accounts	(189)	(188)
Total investments and other assets	43,972	44,260
Total noncurrent assets	143,318	156,956
Total assets	299,249	309,090

	As of March 31, 2017 Amount	(Million yen) As of December 31, 2017 Amount
Liabilities		
Current liabilities		
Notes payable – trade	1,710	2,154
Accounts payable – trade	21,715	20,987
Income taxes payable	2,875	2,177
Provision	3,244	2,149
Other	14,863	20,288
Total current liabilities	44,410	47,757
Non-current liabilities		
Net defined benefit liability	16,054	16,679
Provision	25	86
Other	9,999	9,333
Total noncurrent liabilities	26,080	26,100
Total liabilities	70,490	73,858
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,993	10,993
Retained earnings	205,586	204,813
Treasury stock	(13,891)	(10,942)
Total shareholders' equity	216,138	218,315
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	14,792	17,388
Deferred gains (losses) on hedges	670	(415)
Revaluation reserve for land	(380)	(380)
Foreign currency translation adjustments	(3,593)	(1,599)
Remeasurements of defined benefit plans	(3)	(16)
Total accumulated other comprehensive income	11,484	14,975
Non-controlling interests	1,135	1,942
Total net assets	228,758	235,232
Total liabilities and net assets	299,249	309,090

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017
	Amount	Amount
Net sales	152,086	163,511
Cost of sales	102,076	109,381
Gross profit	50,009	54,130
Selling, general and administrative expenses	36,363	39,275
Operating income	13,646	14,854
Non-operating income		
Interest income	138	139
Dividend income	477	537
Equity in earnings of unconsolidated subsidiaries and affiliates	124	140
Other	315	419
Total non-operating income	1,056	1,236
Non-operating expenses		
Interest expense	151	303
Foreign exchange losses	55	105
Acquisition-related expenses	129	530
Other	261	426
Total non-operating expenses	597	1,364
Ordinary income	14,104	14,726
Extraordinary income		
Gain on sales of investment securities	391	1,572
Gain on step acquisitions	-	2,443
Total extraordinary income	391	4,015
Income before income taxes	14,496	18,742
Income taxes	4,256	5,121
Net income	10,239	13,621
Profit attributable to non-controlling interests	94	76
Profit attributable to owners of parent	10,144	13,545

Statement of Comprehensive Income

	(Million yen)	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017
	Amount	Amount
Net income	10,239	13,621
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(1,528)	2,568
Deferred gains (losses) on hedges	284	(1,085)
Foreign currency translation adjustments	(6,515)	1,599
Remeasurements of defined benefit plans, net of tax	76	(12)
Share of other comprehensive income of associates accounted for using equity method	(156)	75
Total other comprehensive income	(7,840)	3,145
Comprehensive income	2,398	16,766
Components:		
Comprehensive income attributable to owners of parent	2,385	16,690
Comprehensive income attributable to non-controlling interests	13	76

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Nine months ended December 31, 2017 (April 1, 2017 – December 31, 2017)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Nine months ended December 31, 2017 (April 1, 2017 – December 31, 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.

(Business Combinations)

Business combination through acquisition

(1) Overview of the combined companies

(i) Name of the acquiree and the overview of its business

Name: Hansu Co., Ltd.

Business: Manufacture and sale of water treatment chemicals

(ii) Main reason for conducting the business combination

Hansu Co., Ltd. was established as a joint venture company with the Company in 1974 and has since been developing the water treatment chemicals business for more than 40 years in South Korea. Hansu Co., Ltd. has built community-based sales and service networks and has a number of staff with knowledge of water treatment in the electronics and various other manufacturing industries. The Company has acquired shares of Hansu Co., Ltd. on this occasion for the purpose of promoting the unification of business strategies by strengthening the operating base of Hansu Co., Ltd.

(iii) Date of business combination

November 30, 2017

(iv) Legal form of business combination

Acquisition of shares with cash as consideration

(v) Name of the acquiree after business combination

The name will remain unchanged.

(vi) Percentage of voting rights acquired

Percentage of voting rights owned immediately before business combination	33.2%
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Percentage of voting rights additionally acquired on the date of business combination	51.8%
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Percentage of voting rights after the acquisition	85.0%
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(vii) Main reason for deciding the acquirer

The Company has acquired shares with cash as consideration.

(2) Period of financial results of the acquiree included in the consolidated statement of income of the acquirer for the nine months ended December 31, 2017

Financial results of the acquiree from January 1, 2017 to November 30, 2017 are recorded as an investment gain/loss of an entity accounted for using equity method.

(3) The acquisition cost of the acquiree and the breakdown of consideration by type

Market value of equity in Hansu Co., Ltd. held immediately before the date of business combination	3,991 million yen
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Cash spent for the acquisition of additional shares	6,241 million yen
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Acquisition cost	10,232 million yen
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(4) Difference between the acquisition cost of the acquiree and the sum of acquisition costs for transactions that came to acquire it

Gain on step acquisitions: 2,443 million yen

(5) The amount of goodwill generated, causes for goodwill, the amortization method and the amortization period

(i) Amount of goodwill generated

6,246 million yen

The above amount is provisionally calculated, because the period from the date of business combination to the closing date was short, the specification of identifiable assets and liabilities and the estimation of their market values were unfinished as of the date of business combination and the allocation of the acquisition cost was not completed.

(ii) Causes for goodwill

Goodwill was generated due to an expected future excess earnings power.

(iii) Amortization method and the amortization period

Goodwill will be amortized by the straight-line method over the period when it is effective. The amortization period will be determined based on the results of allocation of the acquisition cost, etc.

(Segment Information)

1. Sales and income by reportable segment

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

Nine months ended December 31, 2017 (April 1, 2017 – December 31, 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	66,498	97,013	163,511	–	163,511
Inter-segment sales or transfers	301	192	493	(493)	–
Total	66,799	97,205	164,005	(493)	163,511
Segment income	5,602	9,260	14,863	(8)	14,854

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 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	61,246	37.8%	66,511	35.4%
Water Treatment Facilities	100,868	62.2	121,415	64.6
Total	162,115	100.0	187,926	100.0

(2) Net Sales

(Million yen)

Business segment	Nine months ended December 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	61,276	40.3%	66,498	40.7%
Water Treatment Facilities	90,810	59.7	97,013	59.3
Total	152,086	100.0	163,511	100.0

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

(Million yen)

Business segment	Nine months ended December 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	1,290	20.7%	1,534	10.2%
Water Treatment Facilities	4,932	79.3	13,466	89.8
Total	6,222	100.0	15,001	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Nine months ended December 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	1,192	11.9%	1,294	13.0%
Water Treatment Facilities	8,784	88.1	8,638	87.0
Total	9,976	100.0	9,933	100.0