

FOR IMMEDIATE RELEASE

Kurita Water Industries Reports Earnings for the Three Months Ended June 30, 2017

Tokyo, Japan, July 31, 2017—Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 48,300 million yen and profit attributable to owners of parent of 2,483 million yen, or 22.10 yen per share, for the three months ended June 30, 2017 (April 1, 2017 – June 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 three months ended June 30, 2017 rose 20.8% from the level of the year-ago period, to 68,048 million yen, and net sales increased 4.1%, to 48,300 million yen. Operating income was 3,520 million yen, down 6.1% versus the same the year-ago period, and ordinary income was 3,598 million yen, down 5.4%. Profit attributable to owners of parent amounted to 2,483 million yen, down 6.1%.

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 was strong. The European economy and emerging economies, particularly the Chinese economy, continued to recover.

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 three months under review.

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 22,157 million yen, up 5.4% versus the same period of the fiscal year ended March 31, 2017, while sales rose 4.6%, to 21,061 million yen. Operating income was down 17.6% to 1,538 million yen, reflecting the effect of a decline in sales in Asia and an increase in selling, general and administrative expenses mainly due to the commencement of the amortization of intangible assets, including goodwill, which occurred in association with the acquisition in the United States.

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 which are boiler water treatment chemicals and cooling water treatment chemicals, and both orders and sales were increasing. Overseas, both orders and sales increased, reflecting the consolidation of results at the acquired subsidiary based in the United States, despite a decline in sales in Asia.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 45,891 million yen, up 30.0% versus the same period of the previous fiscal year. Sales rose 3.8%, to 27,238 million yen. Operating income climbed 5.3%, to 1,984 million yen due to the increase in sales.

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 remodeling of facilities at customers' plants. Orders and sales in the water treatment facilities for electric power and in soil remediation services rose.

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. 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 146,694 million yen at the end of the first quarter (June 30, 2017), a decrease of 9,236 million yen versus the end of the previous fiscal year (March 31, 2017). This was mainly a result of declines of 6,889 million yen in cash and deposits and 4,880 million yen in trade notes receivable and trade accounts receivable, which outweighed an increase of 2,205 million yen in work in process. The increase in work in process was chiefly the result of progress in the construction in the Water Treatment Facilities business. The decrease in cash and deposits was mainly the result of the acquisition of 5,586 million yen's worth of own shares, principally on the open market. The decline in trade accounts receivable was primarily the result of progress in collecting receivables and weaker sales in the first quarter under review than in the fourth quarter of the previous fiscal year.

Non-current assets totaled 143,775 million yen at the end of the three-month period (June 30, 2017), an increase of 457 million yen versus the end of the previous fiscal year. The increase reflected increases of 563 million yen in property, plant and equipment and 907 million yen in investments and other assets, which outweighed a decrease of 1,011 million yen in intangible fixed assets. The increase in investments and other assets was primarily due to an increase in unrealized gains on investment securities due to rises in the market prices of the shares held by the Group. The decline in intangible assets was mainly attributable to the amortization of goodwill and technology-related assets and a decrease in the value of assets in foreign currencies because of the stronger yen.

Current liabilities totaled 41,267 million yen at the end of the period, a decline of 3,143 million yen versus the end of the previous fiscal year. The decrease mainly reflected declines of 3,862 million yen in trade accounts payable, 1,743 million yen in income taxes payable, and 1,074 million yen in provisions, which outweighed an

increase of 2,824 million yen in “other” current liabilities.

Non-current liabilities totaled 26,109 million yen at the end of the period, an increase of 29 million yen versus the end of the previous fiscal year.

Net assets totaled 223,094 million yen at the end of the period, a decrease of 5,664 million yen versus the end of the previous fiscal year primarily due to a fall of 5,965 million yen in shareholders’ equity, which outweighed an increase of 300 million yen in accumulated other comprehensive income. The decrease in shareholders’ equity was attributable mainly to a decline of 8,907 million yen in retained earnings, which outweighed a decrease of 2,942 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 2,483 million yen for the first three-month period under review. The decrease in treasury stock (an increase in net assets) was attributable to an increase of 5,586 million yen mainly through market purchases and a decrease of 8,528 million yen mainly due to retirement.

Outlook for the Fiscal Year Ending March 31, 2018

The Group’s current outlook for the six months ending September 30, 2017, and the full year ending March 31, 2018 is consistent with the targets disclosed in “Earnings Report for the Full Year Ended March 31, 2017,” which was announced on April 28, 2017.

Financial Statements — Consolidated

Balance Sheet — Consolidated

	As of March 31, 2017	(Million yen) As of June 30, 2017
	Amount	Amount
Assets		
Current assets		
Cash and deposits	72,750	65,861
Notes receivable – trade	7,843	8,998
Accounts receivable – trade	60,439	54,404
Marketable securities	603	586
Finished products	3,114	3,340
Work in process	4,181	6,386
Raw materials and supplies	2,229	2,242
Other	5,016	5,113
Allowance for doubtful accounts	(246)	(238)
Total current assets	<u>155,930</u>	<u>146,694</u>
Non-current assets		
Property, plant and equipment		
Buildings (net)	13,203	12,518
Machinery and equipment (net)	35,936	35,137
Other (net)	24,896	26,943
Total property, plant and equipment	<u>74,036</u>	<u>74,599</u>
Intangible fixed assets		
Goodwill	15,049	14,372
Other	10,259	9,925
Total intangible fixed assets	<u>25,308</u>	<u>24,297</u>
Investments and other assets		
Investment securities	34,844	36,691
Other	9,317	8,372
Allowance for doubtful accounts	(189)	(185)
Total investments and other assets	<u>43,972</u>	<u>44,879</u>
Total noncurrent assets	<u>143,318</u>	<u>143,775</u>
Total assets	<u>299,249</u>	<u>290,470</u>

	As of March 31, 2017	(Million yen) As of June 30, 2017
	Amount	Amount
Liabilities		
Current liabilities		
Notes payable – trade	1,710	2,423
Accounts payable – trade	21,715	17,853
Income taxes payable	2,875	1,132
Provision	3,244	2,170
Other	14,863	17,687
Total current liabilities	44,410	41,267
Non-current liabilities		
Net defined benefit liability	16,054	16,242
Provision	25	109
Other	9,999	9,757
Total noncurrent liabilities	26,080	26,109
Total liabilities	70,490	67,376
Net assets		
Shareholders' equity		
Common stock	13,450	13,450
Capital surplus	10,993	10,993
Retained earnings	205,586	196,679
Treasury stock	(13,891)	(10,949)
Total shareholders' equity	216,138	210,173
Accumulated other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	14,792	16,001
Deferred gains (losses) on hedges	670	192
Revaluation reserve for land	(380)	(380)
Foreign currency translation adjustments	(3,593)	(4,026)
Remeasurements of defined benefit plans	(3)	(2)
Total accumulated other comprehensive income	11,484	11,784
Non-controlling interests		
Total net assets	228,758	223,094
Total liabilities and net assets	299,249	290,470

Statements of Income and Comprehensive Income — Consolidated

Statement of Income

	(Million yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
	Amount	Amount
Net sales	46,386	48,300
Cost of sales	30,296	31,597
Gross profit	16,090	16,702
Selling, general and administrative expenses	12,342	13,181
Operating income	3,748	3,520
Non-operating income		
Interest income	55	48
Dividend income	244	267
Equity in earnings of unconsolidated subsidiaries and affiliates	44	31
Other	81	134
Total non-operating income	425	482
Non-operating expenses		
Interest expense	49	119
Foreign exchange losses	218	158
Other	100	127
Total non-operating expenses	369	405
Ordinary income	3,804	3,598
Income before income taxes	3,804	3,598
Income taxes	1,135	1,072
Net income	2,669	2,525
Profit attributable to non-controlling interests	24	42
Profit attributable to owners of parent	2,645	2,483

Statement of Comprehensive Income

	(Million yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
	Amount	Amount
Net income	2,669	2,525
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(1,119)	1,202
Deferred gains (losses) on hedges	912	(477)
Foreign currency translation adjustments	(1,455)	(805)
Remeasurements of defined benefit plans, net of tax	20	0
Share of other comprehensive income of associates accounted for using equity method	(63)	34
Total other comprehensive income	(1,705)	(45)
Comprehensive income	964	2,480
Components:		
Comprehensive income attributable to owners of parent	968	2,460
Comprehensive income attributable to non-controlling interests	(3)	20

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

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

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

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

(Significant change in subsidiaries in the three-month period under review)

There was no change in specified subsidiaries resulting in change in the scope of consolidation

(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

Three months ended June 30, 2016 (April 1, 2016 – June 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	20,137	26,249	46,386	–	46,386
Inter-segment sales or transfers	47	49	97	(97)	–
Total	20,185	26,298	46,484	(97)	46,386
Segment income	1,867	1,884	3,751	(3)	3,748

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, 2017 (April 1, 2017 – June 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	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.

Supplementary Information — Consolidated

(1) Order Intake

(Million yen)

Business segment	Three months ended June 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	21,016	37.3	22,157	32.6
Water Treatment Facilities	35,309	62.7	45,891	67.4
Total	56,326	100.0	68,048	100.0

(2) Net Sales

(Million yen)

Business segment	Three months ended June 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	20,137	43.4	21,061	43.6
Water Treatment Facilities	26,249	56.6	27,238	56.4
Total	46,386	100.0	48,300	100.0

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

(Million yen)

Business segment	Three months ended June 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	347	22.1	382	10.5
Water Treatment Facilities	1,224	77.9	3,269	89.5
Total	1,571	100.0	3,651	100.0

(4) Depreciation (Property, Plant and Equipment)

(Million yen)

Business segment	Three months ended June 30,			
	2016		2017	
	Amount	%	Amount	%
Water Treatment Chemicals	387	11.5	414	12.7
Water Treatment Facilities	2,987	88.5	2,841	87.3
Total	3,374	100.0	3,255	100.0