

FOR IMMEDIATE RELEASE

Kurita Water Industries Reports Earnings for the Three Months Ended June 30, 2020

Tokyo, Japan, August 6, 2020 - Kurita Water Industries Ltd. (TSE Securities Code 6370) announced net sales of 60,980 million yen and profit attributable to owners of parent of 4,028 million yen, or 35.87 yen per share, for the three months ended June 30, 2020 (April 1, 2020 - June 30, 2020).

Results of Operations

Total consolidated orders for the Kurita Group in the three months ended June 30, 2020 fell 10.0% from the level of the year-ago period, to 65,426 million yen, and net sales decreased 5.2%, to 60,980 million yen. Business profit* was increased 3.8%, to 5,897 million yen, operating profit was 6,128 million yen, down 40.1% versus the year-ago period, profit before tax was 5,964 million yen, declined 42.8%, and profit attributable to owners of parent amounted to 4,028 million yen, down 44.9%. Operating profit, profit before tax and profit attributable to owners of parent declined due to the posting of a gain on the sale of fixed assets of 4,764 million yen in other income in the same period of the previous fiscal year.

Operating results of Pentagon Technologies Group, Inc. (water treatment facilities business) in the United States, which had been an equity method affiliate, were newly consolidated due to acquisition of its additional shares by the Group to make it a consolidated subsidiary in the first quarter under review.

With regard to the market conditions surrounding the Group, exports sharply fell and the production activities of the manufacturing industry declined significantly in Japan, reflecting the spread of coronavirus worldwide. Companies also strengthened their cautious stance on capital expenditures following their deteriorated corporate earnings. Overseas, while the economy was under harsh conditions overall in Europe, the United States and Asia, there were signs of improvement as economic activities were resumed in stages.

In this environment, the Group consistently provided products and services essential for the continuation of business activities of customers and accelerated the development of total solutions by focusing on proposal activities that would help solve customer issues such as the reduction of the environmental impact, energy saving and an improvement in productivity based on deep insight into social and customer issues.

*Business profit is the Group's own indicator that measures constant business performance. It is net sales less cost of sales and selling, general and administrative expenses. Although business profit is not defined by IFRS, the Group voluntarily discloses it, believing that it is beneficial for users of its financial statements.

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 25,723 million yen, down 11.1% versus the same period of the fiscal year ended March 31, 2020, while net sales fell 12.5%, to 24,512 million yen.

In terms of profits, business profit amounted to 2,798 million yen, an increase of 7.9% year on year, and operating profit rose to 2,770 million yen, up 14.1% year on year, because the Group offset a reduction in sales by its efforts to improve the cost of sales ratio and reduce expenses.

Both orders and net sales declined in Japan due to a fall in capacity utilization at plants of customers, except for some customers such as the electronics industry, affected by stagnant economic activities due to the spread of coronavirus.

Overseas, both orders and net sales decreased partly due to the effect of a reduction in sales at

overseas subsidiaries in yen equivalent because of a stronger yen, in addition to the impact of the spreading coronavirus, despite the new consolidation of operating results (for two months) of U.S.-based Avista Technologies, Inc. and U.K.-based Avista Technologies (UK) Ltd., which were acquired in the previous fiscal year.

Water Treatment Facilities

Total Group orders for the Water Treatment Facilities segment were 39,703 million yen, down 9.3% versus the same period of the previous fiscal year. Net sales increased 0.5%, to 36,467 million yen.

Business profit fell to 3,111 million yen, down 1.6% year on year, affected by a fall in sales of existing businesses excluding new consolidation, and operating profit decreased to 3,362 million yen, a fall of 57.5% year on year, reflecting the absence of a gain on the sale of fixed assets of 4,746 million yen (posted in other income) posted in the same period of the previous fiscal year.

In Japan, while orders for water treatment facilities for the electronics industry increased, net sales declined significantly due to the completion of large projects. While orders for maintenance services decreased sharply in reaction to orders for large projects posted in the same period of the previous fiscal year, net sales remained almost flat due to progress in the construction of projects for which orders were posted in the previous fiscal year.

For water treatment facilities for general industries, although orders declined in reaction to the posting of orders for large projects in the same period of the previous fiscal year, net sales increased with progress in the construction of large projects. Orders for maintenance services fell significantly, reflecting customers' move to postpone the implementation of maintenance of their facilities due to the spread of the coronavirus, but net sales rose slightly thanks to progress in the construction of projects for order backlog. Both orders for and net sales from water treatment facilities for the electric power industry and soil remediation services decreased because orders for and net sales from large projects had run their courses.

Overseas, both orders and net sales increased mainly due to the new consolidation of operating results (for three months) of Pentagon Technologies Group, Inc., although the posting of orders for and net sales from large projects for the electronics industry in East Asia had concluded.

Total net sales in the ultrapure water supply business in Japan and overseas increased partly due to a contract that began in the previous fiscal year.

Financial Condition

Condition of assets, liabilities and equity

1) Total assets: 380,449 million yen, a decrease of 7,300 million yen from the end of the previous fiscal year)

Current assets totaled 147,761 million yen at the end of the first quarter (June 30, 2020), a decrease of 15,086 million yen from the end of the previous fiscal year (March 31, 2020). This was mainly attributable to a decrease in cash and cash equivalents of 8,653 million yen, chiefly reflecting the partial repayment of the commitment line contracts, and in trade and other receivables of 7,610 million yen due to the smooth collection of accounts receivable - trade.

Non-current assets totaled 232,688 million yen at the end of the first quarter, an increase of 7,786 million yen from the end of the previous fiscal year. Goodwill increased 9,408 million yen while investments accounted for using equity method decreased 4,958 million yen due to the conversion of Pentagon Technologies Group, Inc. (water treatment facilities business), which had been an equity method affiliate, to a consolidated subsidiary in the first quarter under review. Other financial assets rose 4,690 million yen owing to an increase in unrealized gains mainly caused by a rise in the market value of shares held.

2) Liabilities: 142,432 million yen, a decrease of 1,208 million yen from the end of the previous fiscal year.

Current liabilities totaled 82,153 million yen at the end of the period, a decrease of 12,255 million yen from the end of the previous fiscal year. This was mainly due to a decrease in borrowings of 9,938 million yen resulting from the partial repayment of the commitment line contracts.

Non-current liabilities totaled 60,278 million yen at the end of the period, an increase of 11,046 million yen from the end of the previous fiscal year. This was chiefly attributable to an increase in other financial liabilities of 10,918 million yen mainly resulting from the initial recognition of the present value of the expected value of shares to be transferred in the future based on the forward contract concluded between Kurita America Holdings Inc., a wholly owned subsidiary of the Company and non-controlling shareholders of Pentagon Technologies Group, Inc.

3) Equity: 238,017 million yen, a decrease of 6,091 million yen from the end of the previous fiscal year

This mainly reflected a fall in capital surplus of 10,605 million yen, mainly as a result of initial recognition related to the aforementioned forward contract for shares in Pentagon Technologies Group, Inc., while other components of equity increased 2,768 million yen due to a rise in fair value measured through other comprehensive income associated with a rise in the market value of shares held.

Cash Flows

Consolidated net cash and cash equivalents at the end of the first quarter (June 30, 2020) totaled 41,561 million yen, a decrease of 8,653 million yen from the end of the previous fiscal year (March 31, 2020).

The various cash flows and related factors are outlined below.

1) Cash Flows from Operating Activities

Net cash provided by operating activities during the first quarter ended June 30, 2020 totaled 13,713 million yen, an increase of 9,882 million yen from the same period of the previous fiscal year. This was chiefly due to inflows from a decrease in trade and other receivables of 9,386 million yen, profit before tax of 5,964 million yen and depreciation and amortization of 4,945 million yen.

2) Cash Flows from Investing Activities

Net cash used in investing activities totaled 7,088 million yen, a decrease of 15,570 million yen from the same period of the previous fiscal year. Cash was used mainly for the acquisition of subsidiaries of 4,605 million yen (after deducting cash and cash equivalents included in acquired assets) and purchases of property, plant and equipment of 1,699 million yen.

3) Cash Flows from Financing Activities

Net cash used in financing activities totaled 15,454 million yen, an increase of 31,156 million yen from the same period of the previous fiscal year. Cash was used mainly for a net decrease in short-term borrowings of 10,001 million yen and dividends paid of 4,007 million yen.

The Group's basic policy is to constantly secure the liquidity necessary for business operations and establish a stable funds-raising system. Short-term working capital is basically supplied by the Group's own funds. Capital investment and other investments in growth fields depend chiefly on the Group's own funds, but the Group considers financing through bank loans as needed. As of the end of the first quarter under review, the Group has concluded commitment line contracts with four financial institutions (executed and unexecuted borrowings within the commitment line were 25,000 million yen and 45,600 million yen, respectively).

4) Forecasts for the Fiscal Year Ending March 31, 2021

Regarding the impact of the COVID-19 coronavirus, while the scale of infection and projections on when it will be resolved are still uncertain, the Company assumes that the economy will head moderately recover toward the end of the current fiscal year, given that economic activities have been resumed in stages around the world.

Therefore, the Group considers that consolidated earnings forecasts for the fiscal year ending March 31, 2021 will be consistent with the forecast for the first half of the fiscal year ending March 31, 2021 and for the full fiscal year stated in the “Fourth Quarter Financial Results of the Fiscal Year Ended March 31, 2020” released on May 18, 2021.

Condensed quarterly consolidated financial statements

(1) Condensed quarterly consolidated statement of financial position

(Million yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and cash equivalents	50,215	41,561
Trade and other receivables	96,974	89,364
Other financial assets	2,562	2,608
Inventories	9,247	10,651
Other current assets	3,847	3,575
Total current assets	162,847	147,761
Non-current assets		
Property, plant and equipment	106,358	106,498
Right-of-use assets	17,784	17,906
Goodwill	47,033	56,441
Intangible assets	13,381	13,106
Investments accounted for using equity method	7,469	2,511
Other financial assets	28,465	33,155
Deferred tax assets	4,295	2,956
Other non-current assets	113	111
Total non-current assets	224,902	232,688
Total assets	387,749	380,449

(Million yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities and equity		
Current liabilities		
Trade and other payables	35,680	35,779
Borrowings	35,371	25,433
Lease liabilities	4,234	4,406
Other financial liabilities	219	216
Income taxes payable	1,998	2,374
Provisions	1,557	1,455
Other current liabilities	15,345	12,487
Total current liabilities	94,408	82,153
Non-current liabilities		
Borrowings	1,305	1,672
Lease liabilities	13,701	13,824
Other financial liabilities	2,562	13,480
Retirement benefit liability	16,913	17,306
Provisions	499	499
Deferred tax liabilities	1,346	1,283
Other non-current liabilities	12,903	12,212
Total non-current liabilities	49,232	60,278
Total liabilities	143,640	142,432
Equity		
Share capital	13,450	13,450
Capital surplus	8,212	(2,393)
Treasury shares	(10,893)	(10,894)
Other components of equity	216	2,984
Retained earnings	231,456	232,027
Total equity attributable to owners of parent	242,442	235,175
Non-controlling interests	1,666	2,842
Total equity	244,108	238,017
Total liabilities and equity	387,749	380,449

(2) Condensed quarterly consolidated statement of profit or loss

(Million yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	64,305	60,980
Cost of sales	42,156	39,321
Gross profit	22,149	21,659
Selling, general and administrative expenses	16,469	15,762
Other income	4,855	714
Other expenses	298	483
Operating profit	10,236	6,128
Finance income	258	297
Finance costs	94	459
Share of profit (loss) of investments accounted for using equity method	31	(2)
Profit before tax	10,431	5,964
Income tax expense	3,135	1,774
Profit for the period	7,296	4,189
Profit attributable to		
Owners of parent	7,305	4,028
Non-controlling interests	(9)	161
Profit for the period	7,296	4,189
Earnings per share		
Basic earnings per share (yen)	65.07	35.87
Diluted earnings per share (yen)	—	—

(3) Condensed quarterly consolidated statement of comprehensive income

(Million yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit for the period	7,296	4,189
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in the fair value of financial assets measured through other comprehensive income	(359)	3,031
Remeasurements of defined benefit plans	(20)	(24)
Total of items that will not be reclassified to profit or loss	(379)	3,007
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(3,358)	(129)
Cash flow hedges	104	(65)
Share of other comprehensive income of investments accounted for using equity method	55	(39)
Total of items that may be reclassified to profit or loss	(3,198)	(234)
Other comprehensive income, net of tax	(3,578)	2,772
Comprehensive income for the period	3,717	6,962
Comprehensive income attributable to		
Owners of parent	3,746	6,772
Non-controlling interests	(29)	189
Comprehensive income	3,717	6,962

(4) Condensed quarterly consolidated statement of changes in equity

Three months ended June 30, 2019 (April 1, 2019 - June 30, 2019)

(Million yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	13,450	10,265	(10,932)	(4,671)	310	9,199
Profit for the period	-	-	-	-	-	-
Other comprehensive income	-	-	-	(3,284)	104	(359)
Total comprehensive income for the period	-	-	-	(3,284)	104	(359)
Purchase of treasury shares	-	-	(0)	-	-	-
Dividends	-	-	-	-	-	-
Share-based payment transactions	-	29	-	-	-	-
Changes in ownership interests in subsidiaries	-	(4)	-	-	-	-
Increase (decrease) by business combination	-	-	-	-	-	-
Liabilities pertaining to forward contracts concluded with non-controlling shareholders	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	(227)
Other	-	-	-	-	-	-
Total transactions with owners	-	24	(0)	-	-	(227)
Balance as of June 30, 2019	13,450	10,290	(10,933)	(7,955)	415	8,611

(Million yen)

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
Balance as of April 1, 2019	-	4,838	219,660	237,282	1,902	239,184
Profit for the period	-	-	7,305	7,305	(9)	7,296
Other comprehensive income	(18)	(3,558)	-	(3,558)	(19)	(3,578)
Total comprehensive income for the period	(18)	(3,558)	7,305	3,746	(29)	3,717
Purchase of treasury shares	-	-	-	(0)	-	(0)
Dividends	-	-	(3,040)	(3,040)	(9)	(3,049)
Share-based payment transactions	-	-	-	29	2	31
Changes in ownership interests in subsidiaries	-	-	-	(4)	(56)	(60)
Increase (decrease) by business combination	-	-	-	-	-	-
Liabilities pertaining to forward contracts concluded with non-controlling shareholders	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	18	(208)	208	-	-	-
Other	-	-	5	5	-	5
Total transactions with owners	18	(208)	(2,826)	(3,010)	(63)	(3,074)
Balance as of June 30, 2019	-	1,071	224,139	238,018	1,809	239,828

Three months ended June 30, 2020 (April 1, 2020 - June 30, 2020)

(Million yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2020	13,450	8,212	(10,893)	(9,033)	503	8,747
Profit for the period	-	-	-	-	-	-
Other comprehensive income	-	-	-	(197)	(65)	3,031
Total comprehensive income for the period	-	-	-	(197)	(65)	3,031
Purchase of treasury shares	-	-	(0)	-	-	-
Dividends	-	-	-	-	-	-
Share-based payment transactions	-	28	-	-	-	-
Changes in ownership interests in subsidiaries	-	-	-	-	-	-
Increase (decrease) by business combination	-	-	-	-	-	-
Liabilities pertaining to forward contracts concluded with non-controlling shareholders	-	(10,578)	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-
Other	-	(55)	-	-	-	-
Total transactions with owners	-	(10,605)	(0)	-	-	-
Balance as of June 30, 2020	13,450	(2,393)	(10,894)	(9,231)	437	11,778

(Million yen)

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
Balance as of April 1, 2020	-	216	231,456	242,442	1,666	244,108
Profit for the period	-	-	4,028	4,028	161	4,189
Other comprehensive income	(23)	2,744	-	2,744	28	2,772
Total comprehensive income for the period	(23)	2,744	4,028	6,772	189	6,962
Purchase of treasury shares	-	-	-	(0)	-	(0)
Dividends	-	-	(3,481)	(3,481)	(532)	(4,013)
Share-based payment transactions	-	-	-	28	0	28
Changes in ownership interests in subsidiaries	-	-	-	-	-	-
Increase (decrease) by business combination	-	-	-	-	1,517	1,517
Liabilities pertaining to forward contracts concluded with non-controlling shareholders	-	-	-	(10,578)	-	(10,578)
Transfer from other components of equity to retained earnings	23	23	(23)	-	-	-
Other	-	-	47	(7)	-	(7)
Total transactions with owners	23	23	(3,457)	(14,039)	985	(13,053)
Balance as of June 30, 2020	-	2,984	232,027	235,175	2,842	238,017

(5) Condensed quarterly consolidated statement of cash flows

(Million yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Cash flows from operating activities		
Profit before tax	10,431	5,964
Depreciation and amortization	3,919	4,945
Share of loss (profit) of investments accounted for using equity method	(31)	2
Loss (gain) on sale of fixed assets	(4,762)	(2)
Decrease (increase) in inventories	(925)	(963)
Decrease (increase) in trade and other receivables	1,655	9,386
Increase (decrease) in trade and other payables	(1,055)	(2,317)
Other	83	(1,832)
Subtotal	9,316	15,183
Interest received	1	32
Dividends received	197	169
Interest paid	(6)	(15)
Income taxes paid	(5,677)	(1,655)
Net cash provided by (used in) operating activities	3,831	13,713
Cash flows from investing activities		
Payments into time deposits	(604)	(450)
Proceeds from withdrawal of time deposits	295	282
Purchase of property, plant and equipment	(6,904)	(1,699)
Proceeds from sale of property, plant and equipment	496	3
Purchase of intangible assets	(325)	(318)
Payments for acquisition of a subsidiary (after deduction of cash and cash equivalents included in acquired assets)	(8,326)	(4,605)
Purchase of investments in associates	(5,799)	–
Other	(1,490)	(299)
Net cash provided by (used in) investing activities	(22,658)	(7,088)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	19,999	(10,001)
Repayments of long-term borrowings	(216)	(260)
Repayments of lease liabilities	(1,110)	(1,189)
Dividends paid	(2,910)	(4,007)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(60)	–
Other	–	4
Net cash provided by (used in) financing activities	15,702	(15,454)
Effect of exchange rate changes on cash and cash equivalents	(620)	175
Net increase (decrease) in cash and cash equivalents	(3,745)	(8,653)
Cash and cash equivalents at beginning of period	35,547	50,215
Cash and cash equivalents at end of period	31,801	41,561

Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Three months ended June 30, 2020 (April 1, 2020 - June 30, 2020)

Not applicable

(Segment Information)

(1) Overview of reportable segments

The Company's reportable segments are components of the Group about which separate financial information is available. These segments are subject to periodic review to enable the Company's board of directors to decide how to allocate resources and assess performance.

The Group plans comprehensive strategies for the products that it handles in Japan and overseas, and develops a business. The Group's operations are therefore classified into two reportable segments, the Water Treatment Chemicals segment and the Water Treatment Facilities segment.

The Water Treatment Chemicals segment manufactures and sells water treatment chemicals and equipment and provides maintenance services. The Water Treatment Facilities segment manufactures and sells water treatment system and facilities, supplies ultrapure water, chemical cleaning, tool cleaning, soil and groundwater remediation services, and provides maintenance services that encompass operation, maintenance, and management of water treatment facilities.

(2) Information of reportable segments

Three months ended June 30, 2019 (April 1, 2019 - June 30, 2019)

(Million yen)

	Reportable Segments		Total	Adjustments (note 1)	Amounts reported on the condensed quarterly consolidated statement of profit or loss (note 2)
	Water Treatment Chemicals	Water Treatment Facilities			
Sales					
Sales to outside customers	28,023	36,281	64,305	–	64,305
Inter-segment sales and transfers	174	356	531	(531)	–
Total	28,198	36,638	64,836	(531)	64,305
Segment income	2,427	7,903	10,331	(94)	10,236
Finance income					258
Finance costs					94
Share of profit (loss) of investments accounted for using equity method					31
Profit before tax					10,431

(Notes) 1. Segment income: Amount resulting from eliminations of inter-segment transactions.

2. Segment income is shown at the operating profit level.

Three months ended June 30, 2020 (April 1, 2020 - June 30, 2020)

(Million yen)

	Reportable Segments		Total	Adjustments (note 1)	Amounts reported on the condensed quarterly consolidated statement of profit or loss (note 2)
	Water Treatment Chemicals	Water Treatment Facilities			
Sales					
Sales to outside customers	24,512	36,467	60,980	–	60,980
Inter-segment sales and transfers	81	435	517	(517)	–
Total	24,594	36,903	61,498	(517)	60,980
Segment income	2,770	3,362	6,132	(4)	6,128
Finance income					297
Finance costs					459
Share of profit (loss) of investments accounted for using equity method					(2)
Profit before tax					5,964

- (Notes) 1. Segment income: Amount resulting from eliminations of inter-segment transactions.
2. Segment income is shown at the operating profit level.

(Business Combination and Acquisition of Non-Controlling Interests)

(Acquisition of Pentagon Technologies Group, Inc.)

On April 1, 2020, Kurita America Holdings Inc., a wholly owned subsidiary of the Company, acquired an additional 26% stake in Pentagon Technologies Group, Inc. (“Pentagon Technologies”), a tool cleaning company operating in the United States in which Kurita America Holdings Inc. held a 25% stake as of the end of the previous fiscal year. As a result, the proportion of equity interest Kurita America Holdings Inc. has in Pentagon Technologies increased to a total of 51%, and Pentagon Technologies became a consolidated subsidiary of the Company.

The Company will make Pentagon Technologies its subsidiary to have a base for overseas service in the electronics industry, which the Company positions as one of its key business fields, and to further strengthen its competitiveness in the market. The Company also aims to accelerate its growth and offer new value by acquiring the cutting-edge tool cleaning technologies and expertise of Pentagon Technologies and creating synergies with the tool cleaning business that the Kurita Group has been developing in Japan.

(1) Acquisition cost and a breakdown

Consideration for acquisition

Fair value on the date of acquisition of the shares in the acquired company held immediately before the date of acquisition	5,379 million yen
Fair value of the additional shares in the acquired company acquired on the date of acquisition	5,594 million yen
Total	10,974 million yen

(2) Gain on remeasurement relating to business combinations

As a result of remeasuring equity interest in the acquired company held immediately before the date of acquisition at fair value, the Company has recognized gain on remeasurement relating to business combinations of 463 million yen due to the business combination. The gain is recorded in “Other income” in the condensed quarterly consolidated statement of profit or loss.

(3) Assets acquired and liabilities assumed

The fair value of identifiable assets acquired and liabilities assumed of Pentagon Technologies Group, Inc. on the date of acquisition are shown below.

(Million yen)	
Fair value of consideration	10,974
Fair value of assets acquired and liabilities assumed	
Cash and cash equivalents	989
Trade receivables	1,707
Other current assets	433
Non-current assets	2,152
Trade payables and other payables	(1,351)
Non-current liabilities	(992)
Fair value of assets acquired and liabilities assumed (net)	2,938
Non-controlling interests	1,517
Goodwill	9,554

The amount of goodwill that occurred was 9,554 million yen, which reflects expected excess earning power.

We do not expect any amounts related to recognized goodwill to be deductible expenses from tax perspective.

Net sales and profit for the period of Pentagon Technologies included in the condensed quarterly consolidated statement of profit or loss for the first quarter under review are 2,695 million yen and 361 million yen respectively.

The amount of goodwill is provisionally determined because the allocation of the acquisition cost is still ongoing as the identification of identifiable assets and liabilities as of the time of business combination and the estimation of their market values have yet to be completed given that the period from the date of business combination to the closing date is short. Non-controlling interests are measured using the proportion of non-controlling interests to the fair value of identifiable net assets of the acquired company.

(4) Transactions that are accounted for separately from business combination

Expenses related to the acquisition for the business combination were 171 million yen. The amount is posted in “Other expenses” in the condensed quarterly consolidated statement of profit or loss.

(5) Forward contract concluded with non-controlling shareholders

With regard to the remaining 49% of shares in Pentagon Technologies, a forward contract has been concluded between Kurita America Holdings Inc. and non-controlling shareholders of Pentagon Technologies, and it has been agreed that Pentagon Technologies will become a wholly owned subsidiary of Kurita America Holdings Inc. with June 30, 2022 as the target date.

The present value of expected value of shares to be transferred based on the forward contract which is 10,578 million yen, is initially recognized as “Other financial liabilities,” and the same amount is deducted from “Capital surplus.” After the initial recognition, the present value is measured at amortized cost based on the effective interest method, in principle, and the amount of subsequent changes is recognized in profit or loss.