

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Consolidated Financial Results for the Second Quarter Ended April 30, 2019 Under Japanese GAAP

This document is an English translation of the consolidated financial results (tanshin) prepared in Japanese. It is only for the reference of non-Japanese readers, and the Japanese version is the original.

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 Stock Exchange Listings: First Section of Tokyo Stock Exchange (Securities code: 4996)
 URL: <http://www.kumiai-chem.co.jp>
 Representative: Yoshitomo Koike, President and Representative Director
 For Inquiry: Takeshi Nakano, General Manager of General & Personnel Affairs Department (Telephone: 81-3-3822- 5036)
 Scheduled Filing of Quarterly Securities Report: June 13, 2019
 Scheduled Commencement of Dividend Payment: July 3, 2019
 Supplementary Materials on Financial Results: None
 IR Presentation on Financial Results: Scheduled (For Institutional Investors and Analysts)

Amounts less than one million yen have been omitted.

1. Consolidated Financial Results (for the six months ended April 30, 2019)

(1) Consolidated Operating Results

(Millions of yen, except per share data and percentages)

	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of parent	
Six months ended April 30, 2019	¥58,471	7.9%	¥5,607	17.0%	¥6,479	15.6%	¥4,663	4.7%
Six months ended April 30, 2018	54,179	42.3	4,792	64.4	5,604	23.9	4,454	33.1

Notes: 1. Comprehensive income: Six months ended April 30, 2019: ¥2,992 million [83.3%] Six months ended April 30, 2018: ¥1,632 million [(54.3%)]
 Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

	Net Income per Share	Net Income per Share (Diluted)
Six months ended April 30, 2019	¥37.22	¥ —
Six months ended April 30, 2018	35.34	—

Note: The Company merged with the former Ihara Chemical Industry Co., Ltd. on May 1, 2017. Since the financial results for the same period of the previous fiscal year are the results before the merger, there are substantial differences between the financial results for the second period of the previous fiscal year and the financial results for the second period of the current fiscal year.

(2) Consolidated Financial Position

(Millions of yen, except percentages)

	Total Assets	Net Assets	Equity Ratio
As of April 30, 2019	¥144,703	¥99,801	63.5%
As of October 31, 2018	132,680	97,739	67.9

(Reference) Shareholders' equity: As of April 30, 2019: ¥91,939 million As of October 31, 2018: ¥90,022 million

2. Cash Dividends for Shareholders of Common Stock

(Yen)

	Cash Dividends per Share over the Fiscal Year				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-End	Annual
Year ended October 31, 2018	¥ —	¥3.00	¥ —	¥7.00	¥10.00
Year ending October 31, 2019	—	3.00	—	—	—
Year ending October 31, 2019 (Forecast)	—	—	—	6.00	9.00

Notes: 1. Most recently announced revisions to dividend forecast: No

2. The year-end dividend for the fiscal year ended October 31, 2018 included a commemorative dividend of ¥2 for the 70th anniversary of the Company's founding.

3. Consolidated Earnings Forecast (for the fiscal year ending October 31, 2019)

(Millions of yen, except per share data and percentages)

	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of parent		Net Income per Share
Year ending October 31, 2019	¥107,000	10.5%	¥6,100	9.3%	¥8,100	0.3%	¥5,600	19.0%	¥44.71

Notes: 1. Most recently announced revisions to consolidated earnings forecast: No

2. For fiscal-year figures, percentages indicate the percentage change from the previous fiscal year.

***Notes:**

(1) Changes in significant subsidiaries during the period under review (changes to subsidiaries that would alter the scope of consolidation): No

(2) Adoption of accounting methods specific to quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements due to error correction

a) Changes in accounting policies due to revisions of accounting standards: No

b) Changes in accounting policies due to other reasons: No

c) Changes in accounting estimates: No

d) Restatements of prior period financial statements due to error correction: No

(4) Number of shares issued (common stock)

	As of April 30, 2019	As of October 31, 2018
a) Number of shares issued (including treasury stock)	133,184,612 shares	133,184,612 shares
b) Number of treasury stock	7,922,823 shares	7,921,665 shares
	Six months ended April 30, 2019	Six months ended April 30, 2018
c) Average number of shares issued in the period	125,262,354 shares	126,011,620 shares

**The Quarterly Financial Results Report has not been subjected to audit procedures by certified public accountants or an audit corporation.*

**Statement concerning the Proper Use of Business Results Forecasts and Other Relevant Specific Items*

Earnings forecasts contained in this document are based on information available to management and provisional assumptions made as of the date of publication regarding uncertain factors that may impact future earnings. Readers are advised that actual results may differ materially from the forecasts due to a variety of factors.

Accompanying Materials

1. Qualitative Information Regarding Consolidated Financial Results for the Period under Review

(1) Explanation of Operating Results

During the cumulative second-quarter period under review (November 1, 2018 to April 30, 2019), although a moderate upward trend was seen in the Japanese economy due to robust domestic demand, including personal consumption and capital expenditure, the outlook remained uncertain due to concerns over the negative impact on supply chains of prolonged trade friction between the United States and China and a slowdown in emerging economies, including China.

The conditions surrounding Japanese agriculture remained harsh, and this sector continues to face many problems and challenges, including the aging of farmers, and an increase in agricultural land that is no longer cultivated.

On the other hand, while the global agricultural chemicals market continued as upward trend from 2009, backed by rising demand in emerging countries in Asia and South America, demand has become sluggish with the economic slowdown in recent years. Nevertheless, with visible signs of recovery, potential food demand is expected to rise with future population growth, and the market is likely to expand over the medium to long term.

Against this backdrop, the Company formulated Create the Future, a new Medium-Term Business Plan, by consolidating its strengths as the newly born Kumiai Chemical Industry Co., Ltd. through a business merger with the former Ihara Chemical Industry Co., Ltd. in 2017. The Company achieved its initial fiscal year plans last fiscal year. Each department at Kumiai Chemical Industry will continue working toward the achievement of the five priority policies in order to ensure synergy from the Merger. These policies are: (1) strengthen the business base; (2) minimize business risk; (3) implement growth strategy (4) reinforce corporate governance; and (5) implement workstyle reform.

In the period under review, net sales increased by 4,292 million (7.9%) year on year to ¥58,471 million, due to an increase in sales of mainstay Axeev. Operating income increased by ¥815 million (17.0%) year on year to ¥5,607 million owing to the increase in net sales. Ordinary income increased by ¥875 million (15.6%) year on year to ¥6,479 million. Net income attributable to owners of the parent increased by ¥209 million (4.7%) year on year to ¥4,663 million.

The percentage of net sales to markets overseas in the second quarter period under review was 38.2%.

Business results by segment were as follows

(Millions of yen, except percentages)

Segment	Six months ended April 30, 2018			Six months ended April 30, 2019			YoY	
	Net sales	Composition ratio	Operating income	Net sales	Composition ratio	Operating income	Net sales [% change]	Operating income [% change]
Agricultural Chemicals and Agriculture-Related Businesses	¥40,608	75.0%	¥4,452	¥44,088	75.4%	¥5,122	¥3,480 [8.6]	¥670 [15.1]
Fine Chemicals Business	9,200	17.0	681	10,180	17.4	690	979 [10.6]	9 [1.4]
Other Businesses	4,370	8.1	292	4,204	7.2	426	(167) [(3.8)]	133 [45.6]
Total	54,179	100.0	4,792	58,471	100.0	5,607	4,292 [7.9]	815 [17.0]

Notes: 1. Consolidated segment operating income for the cumulative second quarter period of the previous fiscal year includes ¥634 million in adjustments, mainly corporate expenses that are not allocated to any reportable segment (general and administrative expenses not attributable to any reportable segment).

2. Consolidated segment operating income for the cumulative second quarter period of the current fiscal year includes ¥632 million in adjustments, mainly corporate expenses that are not allocated to any reportable segment (general and administrative expenses not attributable to any reportable segment).

1) Agricultural Chemicals and Agriculture-Related Businesses segment

Among farmland products for the Japanese market, overall sales of herbicides for rice paddy fields decreased year on year due to a decline in sales of established products such as Top Gun despite the full-scale sales launch of rice paddy field herbicide EFFEEDA. Sales of insecticide for rice pest management increased year on year because of the launch of new compound agents containing Pyraxalt and shipments of compound agents containing Isotianyl expanded. As a result, overall sales of agents for rice paddy fields increased year on year. Sales of horticulture products increased year on year as sales of insecticide such as Cyazypyr proceeded favorably.

Sales of specialty products overall increased year on year. Sales of fungicide for horticulture, etc., including Fantasista, remained steady in the sales of active ingredients developed in house. Consigned production of active ingredients developed in house and sales to golf courses and other non-agricultural facilities also exceeded the previous fiscal year.

Overall, sales to markets outside Japan increased significantly year on year. Shipments of Axeev, a mainstay herbicide for dry-field farming, continued to expand with rising demand in North America, and sales in Argentina also expanded steadily. Although sales of Nominee declined due to the impact of generic products in leading countries such as India, its use as a ripening accelerator for cane sugar in Brazil increased. All in all, the entire overseas business greatly increased from that of the previous fiscal year.

As a result of the factors above, net sales in the Agricultural Chemicals and Agriculture-Related Businesses segment came to ¥44,088 million, up ¥3,480 million (8.6%) compared with the same period of the previous fiscal year. Operating income jumped ¥670 million (15.1%) year on year to ¥5,122 million.

2) Fine Chemicals Business segment

In the Fine Chemicals Business segment, in the chlorination business, sales of chloroxylene-based chemical products for use as raw materials for aramid fiber and high-performance resin remained strong, promoted primarily through Iharanikkei Chemical (Thailand) Co., Ltd., a consolidated subsidiary.

In other key areas of the Fine Chemicals Business segment, sales became robust in conjunction with expansion in market demand for bismaleimides used in electronic materials and high-heat resistant resins. Sales of urethane curing agents, used in waterproofing agents and electronic materials, also remained steady overall.

Sales price revisions in addition to growth in demand led to an increase in sales in the expanded polystyrene business, which meets diverse needs including packaging materials for agricultural and marine products, electric appliances, home electronics components, and insulation material for buildings. However, sales in the industrial chemicals business for environmental sanitation and paper manufacturing were somewhat lower year on year.

Moreover, the consigned production business performed strongly due to the acquisition of new products for consigned production and an increase in consignment production sales volume.

As a result of the factors above, net sales in the Fine Chemicals Business segment came to ¥10,180 million, up ¥979 million (10.6%) compared with the same period of the previous fiscal year. Operating income increased by ¥690 million (1.4%) year on year to ¥9 million.

3) Other Businesses segment

The Other Businesses segment includes the leasing business, power-generating and electricity sales business, construction business, printing business, logistics business, and information services business.

The leasing business continued working to effectively utilize owned properties, and sales were on a par with the same period of the previous fiscal year. In the electricity generating and service business, sales increased year on year due to the recovery efforts made to repair damage from a typhoon. In the construction business, although orders received were steady, sales were somewhat lower than the same period of the previous fiscal year in the absence of completed projects. In the printing business and the logistics business, sales remained on a par with the same period of the previous fiscal year.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥4,204 million, down ¥167 million (3.8%) compared with the same period of the previous fiscal year. Operating income increased by ¥133 million (45.6%) year on year to ¥426 million.

(2) Explanation of Financial Position

Total assets on a consolidated basis as of April 30, 2019 stood at ¥144,703 million, up by ¥12,023 million from the end of the previous fiscal year. This was mainly because the increase in notes and accounts receivable-trade exceeded decreases in cash and deposits, merchandise and finished products and investment securities.

Liabilities increased ¥9,960 million compared with previous fiscal year-end to ¥44,902 million. This was mainly because increases in short-term loans payable exceeded the decrease in accounts payable-other.

Net assets totaled ¥99,801 million as of April 30, 2019, resulting in an equity ratio of 63.5% and net assets per share of ¥733.98.

(3) Explanation of Forecast Data, including Consolidated Results Forecasts

No changes have been made to the forecasts for the fiscal year ending October 31, 2019 published at the December 14, 2018 announcement of the financial results for the fiscal year ended October 31, 2018.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2018	As of April 30, 2019
ASSETS		
Current assets:		
Cash and deposits	17,729	16,656
Notes and accounts receivable-trade	21,769	36,867
Marketable securities	30	30
Merchandise and finished products	18,405	16,622
Work in process	10,032	11,185
Raw materials and supplies	4,494	5,315
Other current assets	1,942	1,311
Allowance for doubtful accounts	(67)	(73)
Total current assets	74,334	87,913
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	9,720	9,811
Machinery, equipment and vehicles, net	5,327	7,095
Land	12,061	12,097
Construction in progress	1,932	68
Other property, plant and equipment, net	1,397	1,531
Total property and equipment	30,438	30,603
Intangible fixed assets	603	733
Investments and other assets:		
Investments securities	24,377	22,820
Long-term loans	309	11
Deferred tax assets	885	878
Net defined benefit asset	124	145
Other	1,765	1,744
Allowance for doubtful accounts	(154)	(145)
Total investments and other assets	27,306	25,454
Total fixed assets	58,346	56,790
Total assets	132,680	144,703

	Millions of yen	
	As of October 31, 2018	As of April 30, 2019
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	15,052	15,908
Short-term loan payable	2,759	12,787
Accounts payable-other	4,377	3,254
Income taxes payable	788	1,969
Provision for bonuses	1,475	1,194
Other current liabilities	648	650
Total current liabilities	25,099	35,761
Long-term liabilities:		
Long-term loan payable	970	515
Deferred tax liabilities	3,548	3,319
Provision for directors' retirement benefits	579	560
Net defined benefit liability	4,358	4,284
Asset retirement obligations	39	39
Other long-term liabilities	348	424
Total long-term liabilities	9,843	9,141
Total liabilities	34,942	44,902
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	35,735	35,735
Retained earnings	54,660	58,446
Less treasury stocks, at cost	(4,113)	(4,114)
Total shareholders' equity	90,817	94,602
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	795	751
Foreign currency translation adjustments	(1,438)	(3,275)
Remeasurements of defined benefit plans	(152)	(138)
Total accumulated other comprehensive income	(794)	(2,663)
Non-controlling interests	7,717	7,862
Total net assets	97,739	99,801
Total liabilities and net assets	132,680	144,703

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 Consolidated Statements of Income

	Millions of yen	
	Six months ended April 30, 2018	Six months ended April 30, 2019
Net sales	54,179	58,471
Cost of sales	40,548	43,694
Gross profits	13,631	14,777
Selling, general and administrative expenses	8,840	9,171
Operating income	4,792	5,607
Non-operating income:		
Interest income	43	27
Dividend income	159	100
Equity in earnings of affiliates	710	716
Reversal of allowance for doubtful accounts	10	0
Other	149	90
Total non-operating income	1,071	935
Non-operating expenses:		
Interest expenses	21	13
Sales discounts	28	26
Foreign exchange losses	194	10
Other	16	13
Total non-operating expenses	259	63
Ordinary income	5,604	6,479
Extraordinary income:		
Gain on sales of fixed assets	0	144
Gain on sales of investment securities	11	—
Insurance income	6	83
Gain on extinguishment of tie-in shares	45	—
Total extraordinary income	63	227
Extraordinary loss:		
Loss on disposal of fixed assets	57	27
Loss on sales of investment securities	12	—
Loss on sales of golf club membership	1	—
Loss on valuation of golf club membership	4	0
Compensation expenses	—	23
Loss on disaster	—	45
Office transfer expenses	—	10
Total extraordinary loss	74	105
Income before income taxes and non-controlling interests	5,592	6,601
Income taxes	925	1,750
Net income	4,668	4,851
Net income attributable to non-controlling interests	214	188
Net income attributable to owners of parent	4,454	4,663

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended April 30, 2018	Six months ended April 30, 2019
Net income	4,668	4,851
Other comprehensive income:		
Valuation difference on available-for-sale securities	(2,579)	(45)
Foreign currency translation adjustment	(69)	(1)
Remeasurements of defined benefit plans	21	14
Share of other comprehensive income of associates accounted for using equity method	(408)	(1,827)
Total other comprehensive loss	(3,036)	(1,859)
Comprehensive income	1,632	2,992
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,425	2,794
Comprehensive income attributable to non-controlling interests	207	197

(Segment Information, etc.)

[Segment Information]

For the second quarter ended April 30, 2018 (From November 1, 2017 to April 30, 2018)

1. Information regarding sales and income or loss of reportable segments

	Millions of yen						
	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Agricultural Chemicals and Agriculture- Related	Fine Chemicals	Total				
Net sales:							
Outside customers	40,608	9,200	49,808	4,370	54,179	—	54,179
Inter-segment	—	—	—	1,393	1,393	(1,393)	—
Total	40,608	9,200	49,808	5,764	55,572	(1,393)	54,179
Segment income/(loss)	4,452	681	5,133	292	5,425	(634)	4,792

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity sales business, printing business, logistics business, and information services business, as well as a business involved in measuring chemicals and other substances in the environment.
2. The segment income adjustment of ¥634 million consists of corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general administrative expenses that are not attributable to reportable segments.
3. Segment income was reconciled to operating income in the quarterly consolidated statements of income.

For the second quarter ended April 30, 2019 (From November 1, 2018 to April 30, 2019)

1. Information regarding sales and income or loss of reportable segments

	Millions of yen						
	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Agricultural Chemicals and Agriculture- Related	Fine Chemicals	Total				
Net sales:							
Outside customers	44,088	10,180	54,267	4,204	58,471	—	58,471
Inter-segment	—	16	16	1,572	1,588	(1,588)	—
Total	44,088	10,195	54,283	5,776	60,059	(1,588)	58,471
Segment income/(loss)	5,122	690	5,813	426	6,238	(632)	5,607

(Notes)

1. The Other Businesses segment was not included under reportable segments. It is comprised of the leasing business, power generation and electricity sales business, construction business, printing business, logistics business, and information services business.
2. The segment income adjustment of ¥632 million consists of corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general administrative expenses that are not attributable to reportable segments.
3. Segment income was reconciled to operating income in the quarterly consolidated statements of income.