

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Consolidated Financial Results for the First Quarter Ended January 31, 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: March 13, 2019
 Scheduled Commencement of Dividend Payment: —
 Supplementary Materials on Financial Results: None
 IR Presentation on Financial Results: None

Amounts less than one million yen have been omitted.

1. Consolidated Financial Results (for the three months ended January 31, 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 | |
|-------------------------------------|-----------|----------|------------------|----------|-----------------|----------|---|----------|
| | Amount | % Change | Amount | % Change | Amount | % Change | Amount | % Change |
| Three months ended January 31, 2019 | ¥24,269 | 27.3 | ¥2,127 | 143.8% | ¥2,480 | 80.9% | ¥1,839 | 63.5% |
| Three months ended January 31, 2018 | 19,058 | 52.9 | 872 | 421.3 | 1,371 | 2.9 | 1,125 | 10.6 |

Notes: 1. Comprehensive income: Three months ended January 31, 2019: ¥763 million [85.2%] Three months ended January 31, 2018: ¥412 million [(76.1)%]
 2. Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

| | Net Income per Share | Net Income per Share (Diluted) |
|-------------------------------------|----------------------|--------------------------------|
| Three months ended January 31, 2019 | ¥14.68 | ¥ — |
| Three months ended January 31, 2018 | 8.90 | — |

(2) Consolidated Financial Position

(Millions of yen, except percentages)

| | Total Assets | Net Assets | Equity Ratio |
|------------------------|--------------|------------|--------------|
| As of January 31, 2019 | ¥137,097 | ¥97,573 | 65.6% |
| As of October 31, 2018 | 132,680 | 97,739 | 67.9 |

(Reference) Shareholders' equity: As of January 31, 2019: ¥89,895 million As of October 31, 2018: ¥90,022 million

2. Cash Dividends for Shareholders of Common Stock

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

| | 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 | — | | | | |
| Year ending October 31, 2019 (Forecast) | | 3.00 | — | 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 |
|----------------------------------|-----------|----------|------------------|----------|-----------------|----------|---|----------|----------------------|
| | Amount | % Change | Amount | % Change | Amount | % Change | Amount | % Change | Amount |
| Six months ending April 30, 2019 | ¥59,700 | 10.2% | ¥5,000 | 4.3% | ¥5,600 | (0.1)% | ¥3,800 | (14.7)% | ¥30.34 |
| 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. For first-half figures, percentages indicate the percentage change from the corresponding half of 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 January 31, 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 | 7,922,103 shares | 7,921,665 shares |
| | <u>Three months ended January 31, 2019</u> | <u>Three months ended January 31, 2018</u> |
| c) Average number of shares issued in the period | 125,262,700 shares | 126,385,599 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 first-quarter period under review (November 1, 2018 to January 31, 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 exports from trade friction between the United States and China and a slowdown in emerging economies, including China.

The conditions surrounding Japanese agriculture are harsh, and this sector continues to face many problems and challenges, including a decline in agricultural production, 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 to expand for some years after 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, 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 5,211 million (27.3%) year on year to ¥24,269 million, due to an increase in sales of mainstay Axeev. Operating income increased by ¥1,255 million (143.8%) year on year to ¥2,127 million owing to the increase in net sales. Ordinary income increased by ¥1,109 million (80.9%) year on year to ¥2,480 million. Net income attributable to owners of the parent increased by ¥714 million (63.5%) year on year to ¥1,839 million.

The percentage of net sales to markets overseas in the first quarter period under review was 48.6%.

Business results by segment were as follows

(Millions of yen, except percentages)

| Segment | Three months ended January 31, 2018 | | | Three months ended January 31, 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 | ¥13,268 | 69.6% | ¥836 | ¥17,450 | 71.9% | ¥1,900 | ¥4,183 [31.5] | ¥1,064 [127.2] |
| Fine Chemicals Business | 4,119 | 21.6 | 319 | 5,136 | 21.2 | 411 | 1,016 [24.7] | 92 [28.7] |
| Other Businesses | 1,671 | 8.8 | 2 | 1,683 | 6.9 | 119 | 12 [0.7] | 117 [4,749.4] |
| Total | 19,058 | 100.0 | 872 | 24,269 | 100.0 | 2,127 | 5,211 [27.3] | 1,255 [143.8] |

- Notes: 1. Consolidated segment operating income for the cumulative first quarter period of the previous fiscal year includes ¥286 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 first quarter period of the current fiscal year includes ¥303 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 increased year on year as the full-scale sales launch of rice paddy field herbicide Efida and continued steady shipments of compound agents made from Fenoxasulfone and Pyrimisulfan offset the decline in sales of established products such as Top Gun. Sales of insecticide for rice pest management also increased year on year because sales of compound agents containing Isotianyl and shipments of compound agents containing Cyazypyr 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, fungicide, and herbicide remained strong.

Sales of specialty products overall increased year on year. While sales of fungicide for horticulture remained strong in the sales of active ingredients developed in-house, consigned production of active ingredients developed in-house fell year on year. Sales to golf courses and other non-agricultural facilities remained robust.

Sales to markets outside Japan increased significantly year on year overall. Shipments of Axeev, a mainstay herbicide for dry field farming, expanded dramatically with rising demand in North America, and with strong local sales in Australia in the previous fiscal year, advance orders for the 2019 season remained positive. Shipments of Nominee remained strong as 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 ¥17,450 million, up ¥4,183 million (31.5%) compared with the same period of the previous fiscal year. Operating income jumped ¥1,064 million (127.2%) year on year to ¥1,900 million.

2) Fine Chemicals Business segment

In the Fine Chemical Business segment, sales of chlorotoluene-based chemical products increased due to inventory reduction by customers last year. In addition, 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., established in Thailand through joint investment with Iharanikkei Chemical Industry Co., Ltd., a consolidated subsidiary. Sales were also robust in the fine chemicals business, which will become another mainstay business, 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, also remained steady both in Japan and for export. 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. Sales in the industrial chemicals business for environmental sanitation and paper manufacturing increased year on year. 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, sales price revisions in addition to growth in demand led to an increase in sales.

As a result of the factors above, net sales in the Fine Chemicals Business segment came to ¥5,136 million, up ¥1,016 million (24.7%) compared with the same period of the previous fiscal year. Operating income increased by ¥92 million (28.7%) year on year to ¥411 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 and the printing business, sales were on a par with the same period of the previous fiscal year. Meanwhile, in the logistics business, sales increased from the previous fiscal year due to the acquisition of new customers through the continuation of aggressive sales activities.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥1,683 million, up ¥12 million (0.7%) compared with the same period of the previous fiscal year. Operating income jumped ¥117 million (4,749.4%) year on year to ¥119 million.

(2) Explanation of Financial Position

Total assets on a consolidated basis as of January 31, 2019 stood at ¥137,097 million, up by ¥4,416 million from the end of the previous fiscal year. This was mainly because the increase in notes and accounts receivable – trade, merchandise and finished products exceeded decreases in cash and deposits and investment securities.

Liabilities increased ¥4,582 million compared with previous fiscal year-end to ¥39,524 million. This was mainly because increases in notes and accounts payable-trade and short-term loans payable exceeded the decrease in accounts payable-other.

Net assets totaled ¥97,573 million as of January 31, 2019, resulting in an equity ratio of 65.6% and net assets per share of ¥717.65.

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

No changes have been made to the forecasts for the interim and full-year results 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 January 31, 2019 |
| ASSETS | | |
| Current assets: | | |
| Cash and deposits | 17,729 | 15,741 |
| Notes and accounts receivable-trade | 21,769 | 26,041 |
| Marketable securities | 30 | 50 |
| Merchandise and finished products | 18,405 | 21,782 |
| Work in process | 10,032 | 9,750 |
| Raw materials and supplies | 4,494 | 4,814 |
| Other current assets | 1,942 | 1,592 |
| Allowance for doubtful accounts | (67) | (51) |
| Total current assets | 74,334 | 79,720 |
| Fixed assets: | | |
| Property, plant and equipment: | | |
| Buildings and structures, net | 9,720 | 9,736 |
| Machinery, equipment and vehicles, net | 5,327 | 6,889 |
| Land | 12,061 | 12,098 |
| Construction in progress | 1,932 | 302 |
| Other property, plant and equipment, net | 1,397 | 1,411 |
| Total property and equipment | 30,438 | 30,436 |
| Intangible fixed assets | 603 | 695 |
| Investments and other assets: | | |
| Investments securities | 24,377 | 23,598 |
| Long-term loans | 309 | 8 |
| Deferred tax assets | 885 | 947 |
| Net defined benefit asset | 124 | 129 |
| Other | 1,765 | 1,718 |
| Allowance for doubtful accounts | (154) | (154) |
| Total investments and other assets | 27,306 | 26,246 |
| Total fixed assets | 58,346 | 57,376 |
| Total assets | 132,680 | 137,097 |

| | Millions of yen | |
|--|------------------------|------------------------|
| | As of October 31, 2018 | As of January 31, 2019 |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes and accounts payable-trade | 15,052 | 16,132 |
| Short-term loan payable | 2,759 | 8,878 |
| Accounts payable-other | 4,377 | 2,641 |
| Income taxes payable | 788 | 753 |
| Provision for bonuses | 1,475 | 606 |
| Other current liabilities | 648 | 815 |
| Total current liabilities | 25,099 | 29,825 |
| Long-term liabilities: | | |
| Long-term loan payable | 970 | 870 |
| Deferred tax liabilities | 3,548 | 3,448 |
| Provision for directors' retirement benefits | 579 | 587 |
| Net defined benefit liability | 4,358 | 4,361 |
| Asset retirement obligations | 39 | 39 |
| Other long-term liabilities | 348 | 394 |
| Total long-term liabilities | 9,843 | 9,698 |
| Total liabilities | 34,942 | 39,524 |
| NET ASSETS | | |
| Shareholders' equity: | | |
| Capital stock | 4,534 | 4,534 |
| Capital surplus | 35,735 | 35,735 |
| Retained earnings | 54,660 | 55,622 |
| Less treasury stocks, at cost | (4,113) | (4,113) |
| Total shareholders' equity | 90,817 | 91,779 |
| Accumulated other comprehensive income: | | |
| Valuation differences on available-for-sale securities | 795 | 574 |
| Foreign currency translation adjustments | (1,438) | (2,312) |
| Remeasurements of defined benefit plans | (152) | (145) |
| Total accumulated other comprehensive income | (794) | (1,884) |
| Non-controlling interests | 7,717 | 7,678 |
| Total net assets | 97,739 | 97,573 |
| Total liabilities and net assets | 132,680 | 137,097 |

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

Consolidated Statements of Income

| | Millions of yen | |
|--|--|--|
| | Three months ended January 31, 2018 | Three months ended January 31, 2019 |
| Net sales | 19,058 | 24,269 |
| Cost of sales | 13,950 | 17,948 |
| Gross profits | 5,109 | 6,321 |
| Selling, general and administrative expenses | 4,236 | 4,195 |
| Operating income | 872 | 2,127 |
| Non-operating income: | | |
| Interest income | 22 | 14 |
| Dividend income | 139 | 98 |
| Equity in earnings of affiliates | 475 | 409 |
| Reversal of allowance for doubtful accounts | 19 | 17 |
| Other | 125 | 68 |
| Total non-operating income | 779 | 605 |
| Non-operating expenses: | | |
| Interest expenses | 8 | 5 |
| Sales discounts | 5 | 4 |
| Foreign exchange losses | 259 | 235 |
| Other | 9 | 8 |
| Total non-operating expenses | 281 | 252 |
| Ordinary income | 1,371 | 2,480 |
| Extraordinary income: | | |
| Gain on sales of fixed assets | 0 | 91 |
| Insurance income | — | 9 |
| Gain on extinguishment of tie-in shares | 45 | — |
| Total extraordinary income | 45 | 100 |
| Extraordinary loss: | | |
| Loss on disposal of fixed assets | 7 | 5 |
| Loss on sales of golf club membership | 0 | — |
| Loss on valuation of golf club membership | — | 0 |
| Loss on disaster | — | 10 |
| Office transfer expenses | — | 10 |
| Total extraordinary loss | 7 | 25 |
| Income before income taxes and non-controlling interests | 1,409 | 2,555 |
| Income taxes | 299 | 701 |
| Net income | 1,110 | 1,854 |
| Net income (loss) attributable to non-controlling interests | (15) | 15 |
| Net income attributable to owners of parent | 1,125 | 1,839 |

Consolidated Statements of Comprehensive Income

| | Millions of yen | |
|--|--|--|
| | Three months ended January 31, 2018 | Three months ended January 31, 2019 |
| Net income | 1,110 | 1,854 |
| Other comprehensive income: | | |
| Valuation difference on available-for-sale securities | (672) | (225) |
| Foreign currency translation adjustment | (47) | (84) |
| Remeasurements of defined benefit plans | 11 | 7 |
| Share of other comprehensive income of associates accounted for using equity method | 11 | (790) |
| Total other comprehensive loss | (698) | (1,091) |
| Comprehensive income | 412 | 763 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of the parent | 425 | 750 |
| Comprehensive income (loss) attributable to non-controlling interests | (13) | 13 |

(Segment Information, etc.)

[Segment Information]

For the first quarter ended January 31, 2018 (From November 1, 2017 to January 31, 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 | 13,268 | 4,119 | 17,387 | 1,671 | 19,058 | — | 19,058 |
| Inter-segment | — | — | — | 702 | 702 | (702) | — |
| Total | 13,268 | 4,119 | 17,387 | 2,373 | 19,760 | (702) | 19,058 |
| Segment income/(loss) | 836 | 319 | 1,155 | 2 | 1,158 | (286) | 872 |

(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 ¥286 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 first quarter ended January 31, 2019 (From November 1, 2018 to January 31, 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 | 17,450 | 5,136 | 22,586 | 1,683 | 24,269 | — | 24,269 |
| Inter-segment | — | — | — | 691 | 691 | (691) | — |
| Total | 17,450 | 5,136 | 22,586 | 2,374 | 24,960 | (691) | 24,269 |
| Segment income/(loss) | 1,900 | 411 | 2,311 | 119 | 2,430 | (303) | 2,127 |

(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 ¥303 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.