KUMIAI CHEMICAL INDUSTRY CO., LTD.

December 14, 2018

FASF MEMBERSHIP

KUMIAI CHEMICAL INDUSTRY CO., LTD.
Consolidated Financial Results for the Fiscal Year Ended October 31, 2018
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.

Head Office: 4-26, Ikenohata 1-chome, Taito-ku, Tokyo 110-0008, Japan
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 Affairs Department (Telephone: 81-3-3822- 5036)
Scheduled Annual General Meeting of Shareholders: January 25, 2019
Scheduled Commencement of Dividend Payment: January 28, 2019
Scheduled Filing of Securities Report: January 30, 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 fiscal year ended October 31, 2018)

(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	
Year ended October 31, 2018	¥96,846	24.5%	¥5,582	48.3%	¥8,074	8.5%	¥4,706	(35.1)%
Year ended October 31, 2017	77,817	24.4	3,764	66.0	7,441	66.2	7,252	111.9

Notes: 1. Comprehensive income: Year ended October 31, 2018: ¥747 million [(92.7)%] Year ended October 31, 2017: ¥10,278 million [751.2%]
2. Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

	Net Income per Share	Net Income per Share (Diluted)	Return on Equity	Ordinary Income / Total Assets	Operating Margin
Year ended October 31, 2018	¥37.46	¥ —	5.1%	5.9%	5.8%
Year ended October 31, 2017	70.40	—	9.9	6.7	4.8

(Reference) Equity in earnings of affiliates: Year ended October 31, 2018: ¥1,925 million Year ended October 31, 2017: ¥2,985 million

(2) Consolidated Financial Position

(Millions of yen, except percentages)

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of October 31, 2018	¥133,756	¥97,739	67.3%	¥718.67
As of October 31, 2017	139,168	99,365	66.7	734.72

(Reference) Shareholders' equity: As of October 31, 2018: ¥90,022 million As of October 31, 2017: ¥92,859 million

Note: Kumiai Chemical Industry integrated its business with the former Ihara Chemical Industry on May 1, 2017. The amounts of the consolidated financial results for the previous fiscal year have been calculated by adding the results for the first half of the fiscal year (November 1, 2016 to April 30, 2017) for Kumiai Chemical Industry before the business integration to the results for the second half of the fiscal year (May 1, 2017 to October 31, 2017) for the Company after the business integration.

(3) Consolidated Cash Flows

(Millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Year
Year ended October 31, 2018	¥8,458	¥(1,584)	¥(5,016)	¥16,719
Year ended October 31, 2017	5,660	(1,092)	(10,329)	12,656

2. Cash Dividends for Shareholders of Common Stock

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

	Cash Dividends per Share					Total Dividends (Annual)	Consolidated Basis	
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-End	Annual		Dividend Payout Ratio	Ratio of Dividends to Net Assets
Year ended October 31, 2017	¥ —	¥0.00	¥ —	¥8.00	¥8.00	¥1,041	11.4%	1.1%
Year ended October 31, 2018	—	3.00	—	7.00	10.00	1,253	26.7	1.4
Year ending October 31, 2019 (Forecast)	—	3.00	—	6.00	9.00		20.1	

Note: Breakdown of the dividends for the year ended October 31, 2018: Ordinary Dividend: ¥5.00 Commemorative dividend: ¥2.00

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
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

Note: 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): Yes

Newly added 1 company (company name): Iharanikkei Chemical (Thailand) Co., Ltd. (Thailand)

(2) 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

(3) Number of shares issued (common stock)

	As of October 31, 2018	As of October 31, 2017
a) Number of shares issued (including treasury stock)	133,184,612 shares	133,184,612 shares
b) Number of treasury stock	7,921,665 shares	6,798,218 shares

	Year ended October 31, 2018	Year ended October 31, 2017
c) Average number of shares issued in the period	125,637,846 shares	103,022,940 shares

Note: The number of shares of treasury stock increased by 1,123,447 shares in the fiscal year under review due to the purchase of the Company's own stock and the acquisition of the Company's ordinary shares from a subsidiary, based on a resolution of the meeting of the Board of Directors held on March 8, 2018.

****The 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. Overview of Operating Results

(1) Overview of Operating Results for the Fiscal Year Ended October 31, 2018

Effective from May 1, 2017, Kumiai Chemical Industry Co., Ltd. and the former Ihara Chemical Industry Co., Ltd. conducted a business merger (hereafter, “the Merger”), with Kumiai Chemical Industry remaining as the surviving company and Ihara Chemical Industry dissolved as the absorbed company.

As a result of the Merger, the amounts of the consolidated financial results for previous fiscal year have been calculated by adding the results for the first half of the fiscal year (November 1, 2016 to April 30, 2017) for Kumiai Chemical Industry before the business integration to the results for the second half of the fiscal year (May 1, 2017 to October 31, 2017) for the Company after the business integration.

During the fiscal year under review (November 1, 2017 to October 31, 2018), the Japanese economy expanded moderately as corporate earnings continued to improve, capital expenditure rose, and personal consumption increased on the back of improvements in the hiring and wages environment.

The conditions surrounding Japanese agriculture remained harsh, as seen in a decline in agricultural production, the aging of farmers, and an increase in agricultural land that is no longer cultivated. In this situation, a variety of measures have been promoted in the Japanese government-led Agricultural Competiveness Enhancement Program. Moreover, there has been an increase in large-scale farmers and corporations owning 5 hectares or more of land due to a consolidation of arable land under management in recent years, and it is forecast that there will be 50,000 such corporations by 2020. Thus, there have been major changes in the form of agriculture in Japan.

Over the past few years, the Japanese agricultural chemicals market has continued its downward trend after peaking in the first half of the 1990s, and it has remained at around ¥330.0 billion each year over the past five years. Going forward, it is likely that the market will be steered in the direction of lower costs and greater efficiency, as seen from price reduction measures for farming materials listed in the above Enhancement Program as one of the key elements. Also, the Law to Partially Revise the Agricultural Chemicals Control Act also came into force in December 2018, so further enhancements in the safety of agricultural chemicals are expected.

On the other hand, while the global agricultural chemicals market continued to expand for some years since 2009, it has been sluggish in recent years, This is due to such factors as slowing demand in emerging nations such as Brazil due to grain price drops, the dollar’s appreciation and a downturn in biofuel crops due to lower crude oil prices. Moreover, demand in Asia and South America helped for some years to drive the global market demand, and in turn these regions are now responsible for the recent global business downturn. Nevertheless, the market is expected to expand over the medium to long term due to global population growth.

Against this backdrop, in order to swiftly demonstrate the maximum synergy from the Merger, Kumiai Chemical Industry Co., Ltd. has set out five priority policies. These policies are: (1) strengthen the business base through process integration; (2) strengthen the business base through concentration of management resources; (3) minimize business risk; (4) strengthen growth strategy; and (5) reinforce corporate governance. Kumiai Chemical Industry has been working to overcome the challenges in each company department.

In the period under review, net sales increased by ¥19,029 million (24.5%) year on year to ¥96,846 million, owing to the expansion of operations resulting from the Merger. Operating income amounted to ¥5,582 million, up ¥1,818 million (48.3%) from the previous fiscal year, due to an increase in net sales, among other factors. Ordinary income came to ¥8,074 million, an increase of ¥633 million (8.5%), despite a decrease in equity in earnings of affiliates due to the Merger and other factors. Net income attributable to owners of the parent amounted to ¥4,706 million, decreasing ¥2,546 million (35.1%) compared with the previous fiscal year. This was partly attributable to a ¥1,013 million loss on sales of investment securities and a ¥966 million loss on valuation of investment securities recorded in extraordinary loss, in addition to the impact of extraordinary income recorded in the previous fiscal year.

The percentage of overseas net sales in the fiscal year under review was 42.2%.

Business results by segment were as follows

(Millions of yen, except percentages)

Segment	Fiscal Year Ended October 31, 2017			Fiscal Year Ended October 31, 2018			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	¥60,636	77.9%	¥3,554	¥68,147	70.4%	¥4,992	¥7,511 [12.4]	¥1,438 [40.5]
Fine Chemicals Business	10,937	14.1	858	19,466	20.1	1,249	8,528 [78.0]	391 [45.6]
Other Businesses	6,243	8.0	552	9,233	9.5	599	2,990 [47.9]	48 [8.6]
Total	77,817	100.0	3,764	96,846	100.0	5,582	19,029 [24.5]	1,818 [48.3]

Notes: 1. Segment operating income for the previous fiscal year includes corporate expenses that were not distributed to any reportable segment (general and administrative expenses not attributable to any reportable segment) as adjustments of -¥1,200 million..
2. Segment operating income for the previous fiscal year includes corporate expenses that were not distributed to any reportable segment (general and administrative expenses not attributable to any reportable segment) as adjustments of -¥1,259 million.

1) Agricultural Chemicals and Agriculture-Related Businesses segment

For farmland products in the Japanese market, compound agents made from Fenoxasulfone and Pyrimisulfan, which are herbicides for rice paddy fields, posted healthy sales. However, sales of established products such as Top Gun declined due to competition from rivals. As a result, sales of herbicide for rice paddy fields declined slightly year on year. Moreover, sales of insecticide for rice pest management increased year on year because shipments of compound agents containing Cyazypyr expanded, even though sales of compound agents containing Isotianyl declined. Thus, the sales of agents for rice paddy fields overall were almost in line with the previous fiscal year.

Sales of horticulture products were in line with the previous fiscal year as fungicide sales remained strong, while sales of pesticides declined.

Sales of specialty products overall increased year on year. Although sales and consigned production of active ingredients developed in house declined year on year, sales to golf courses and other non-agricultural facilities were in line with the previous fiscal year. Furthermore, the active ingredients development consigned from other companies was newly added to the specialty products area in conjunction with the Merger.

Sales to markets outside Japan were strong as a whole. Although shipments of Nominee, a herbicide for direct seeded rice, declined due to the impact of competition from generic products, shipments of new compound products based on Axeev, a herbicide for dry field farming, remained strong in North America. Moreover, sales in Argentina made a full-scale contribution, and sales of Prohexadione-calcium increased in Europe.

As a result of the factors above, along with the impact of the expansion in business due to the Merger, net sales in the Agricultural Chemicals and Agriculture-related Business segment came to ¥68,147 million, up ¥7,511 million (12.4%) compared with the previous fiscal year. Operating income jumped ¥1,438 million (40.5%) year on year to ¥4,992 million.

2) Fine Chemicals Business segment

Most of the operations in the Fine Chemicals Business segment have been acquired from the former Ihara Chemical Industry Co., Ltd. and its consolidated subsidiaries. The main business consists of the development and sales of the following products: chlorotoluene- and chloroxylene-based chemical products; fine chemicals, including various bismaleimides used in electronic materials and high-heat-resistant resins; polyurethane curing agents, which are raw materials for waterproof materials; fungicides and anti-mold agents; and industrial chemicals, including cleaning agents.

During the fiscal year under review, the Fine Chemicals Business segment experienced a decline in sales volume and prices for chlorotoluene-based products in the chlorination business due to tougher competition. However, 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 i) the fine chemicals business, which includes various bismaleimides used in electronic materials and high-heat-resistant resins, and will become another mainstay business; ii) the industrial chemicals business for environmental sanitation and paper manufacturing; and iii) the expanded polystyrene business, which meets diverse needs including packaging materials for agricultural and marine products, electric appliances, home electronics components, and insulating material for buildings that provides excellent insulation, cushioning, and lightweight properties.

As a result of the factors above, net sales in the Fine Chemicals Business segment came to ¥19,466 million, up ¥8,528 million (78.0%) compared with the previous fiscal year. Operating income jumped ¥391 million (45.6%%) year on year to ¥1,249 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 maintained sales and income on par with the same period of the previous fiscal year, mainly due to ongoing efforts to effectively utilize owned properties. Both sales and income in the electricity generating and service business declined year on year because power generation was interrupted for some time due to facility malfunctions caused by a typhoon. In addition, sales and income from the construction business were included since the new construction business was added due to the Merger. Although sales in the printing business were in line with the previous fiscal year, income declined due to an increase in the variable cost ratio. Meanwhile, in the logistics business, sales and income increased from the previous fiscal year due to the acquisition of new customers through aggressive sales activities.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥9,233 million, up ¥2,990 million (47.9%) compared with the previous fiscal year. Operating income increased by ¥48 million (8.6%) year on year to ¥599 million.

Since the previous fiscal year, the Company has reviewed its classification of business segments and transferred the operations of the former Leasing Segment to the Other Businesses segment.

(2) Overview of Financial Position in the Fiscal Year Ended October 31, 2018

As of October 31, 2018, total assets amounted to ¥133,756 million, a decrease of ¥5,412 million compared with the end of the previous fiscal year. Current assets increased by ¥3,967 million, and fixed assets decreased by ¥9,379 million. The increase in current assets was mainly because the increase in cash and deposits exceeded the decrease in merchandise and finished products. The decrease in fixed assets was mainly due to the decrease in investment securities.

Liabilities decreased by ¥3,786 million compared with the end of the previous fiscal year to ¥36,017 million. Current liabilities increased by ¥791 million, and long-term liabilities decreased by ¥4,577 million. The increase in current liabilities was mainly due to the increase in notes and accounts payable-trade, which exceeded the decrease in short-term loans payable. The decrease in long-term liabilities was mainly due to declines in long-term loans payable and deferred tax liabilities.

Total net assets amounted to ¥97,739 million, a decrease of ¥1,626 million compared with the end of the previous fiscal year.

As a result, the equity ratio stood at 67.3%, and net assets per share were ¥718.67.

(3) Overview of Cash Flows for the Year Ended October 31, 2018

Cash flows from operating activities provided net cash of ¥8,458 million, compared with net cash provided of ¥5,660 million in the previous fiscal year. Major factors included inflows of ¥5,805 million in income before income taxes and non-controlling interests, ¥479 million from a decrease in inventories, and ¥1,128 million from an increase in notes and accounts payable.

Cash flows from investing activities used net cash of ¥1,584 million, compared with net cash used of ¥1,092million in the previous fiscal year. Major factors included inflows of ¥2,072 million in proceeds from sales of investments in securities and ¥783 million in collection of loans receivable as well as outflows of ¥2,757 million in acquisitions of property, plant and equipment and ¥1,751 million in payments of loans receivable.

Cash flows from financing activities used net cash of ¥5,016 million, compared with net cash used of ¥10,329 million in the previous fiscal year. Major factors included outflows of ¥2,878 million in repayment of long-term loans payable, ¥739 million in net increase in treasury stock, and ¥1,382 million in cash dividends paid.

As a result, cash and cash equivalents at the end of the fiscal year stood at ¥16,719 million, an increase of ¥4,063 million from the previous fiscal year end. This figure includes an increase in cash and cash equivalents of ¥958 million due to the Merger, along with an increase of ¥1,082 million due to newly consolidated subsidiaries.

(Reference) Changes in Cash Flow-Related Indicators

	Year ended October 31, 2016	Year ended October 31, 2017	Year ended October 31, 2018
Equity ratio (%)	64.4	66.7	67.3
Equity ratio based on market value (%)	56.6	69.9	65.7
Ratio of interest-bearing liabilities to cash flows (%)	—	148.4	63.7
Interest coverage ratio (times)	—	96.5	85.7

(Notes) Equity ratio: equity capital / total assets
Equity ratio based on market value: gross market capitalization / total assets
Ratio of interest-bearing liabilities to cash flows: interest-bearing liabilities / cash flows
Interest coverage ratio: cash flows / interest payment
* *Indicators are all calculated based on consolidated financial data.*
* *Gross market capitalization calculated using fiscal year-end closing price multiplied by total number of shares issued at fiscal year-end (excluding treasury stock)*
* *Cash flows used are those from operating activities shown in the Consolidated Statements of Cash Flows. Interest-bearing liabilities covers all liabilities recorded on the Consolidated Balance Sheets on which interest is paid. The amount of interest paid is that shown in the Consolidated Statements of Cash Flows.*
* *As operating cash flow was negative in the fiscal year ended October 31, 2016, the ratio of interest-bearing liabilities to cash flows and the interest coverage ratio are omitted.*

(4) Future Outlook

The Kumiai Chemical Industry Group is pushing ahead with business activities under a basic policy of ensuring the generation of synergies from the Merger with the aim of becoming a strong corporate group that can grow sustainably into the future as an R&D-driven company that solves the challenges of agricultural production as its core.

In the Agricultural Chemicals and Agriculture-Related Business segment, the Group will address the following challenges.

In the Japanese market, the Group will engage in sales activities that are more closely directed at farmers, the final customers, through selection and concentration based on the marketing strategy. The Group will also take active and strategic initiatives in anticipation of changes in Japanese agriculture. In particular, these initiatives include establishing a new Core-Farmers Promotion Section at the Domestic Sales Division in July 2018 in order to strengthen the Group's promotion to core farmers, such as agricultural corporations.

In the herbicide for rice paddy fields sector, the Group will focus on promoting Efida, a major new agent to be launched in 2019, and it will implement initiatives aimed at the early maximization of the Efida brand promotion. The Group will put further efforts into recapturing and expanding the market share of established products, including the promotion and expansion of mainstay Fenoxasulfone and Pyrimisulfan.

In the insecticide for rice pest management sector, the Group will work to expand sales with a focus on the mainstay products Isotianyl and Cyazpyr as well as the new product Pyraxalt, to be launched in 2019. The Group will also make preparations for the development and early launch of dichlobentiazox, a new fungicide for which it is planning to obtain registration in 2020.

In the area of horticulture products, the Group will roll out specialized promotion activities for Propose and Frupica, which contain active ingredients developed in house. It will also promote and increase sales of Fantasista by expanding its crop applications.

The Group will also continue to expand sales of the Mametsubu series of granular pea-sized agents for use with agricultural drones in collaboration with agricultural equipment manufacturers.

In the special sales market, the Group will make maximum use of active ingredients developed in house and proprietary technology as resources in addition to working to optimize costs. In sectors other than agricultural farmland, such as golf courses, the Group will collaborate with Rikengreen Co., Ltd., a consolidated subsidiary, to expand its product portfolio. In sales of active ingredients developed in house, the Group will also work to expand the market by offering active ingredient technologies for use by other companies. In the consigned development of active ingredients, the Group will emphasize its outstanding technology to expand its contract business.

In the overseas market, the Group will pursue its top priority initiative of expanding the number of countries for crop applications and sales of Axeev, a herbicide for dry field farming that is a core product in the agricultural chemical business. In addition to developing the soy bean market and looking into measures to increase its share in the corn market in the United States, the Group will implement sales promotion activities aimed at the further expansion and growth of Axeev businesses and local support for the development of compound agents in Argentina.

For Nominee, a mainstay herbicide for direct seeded rice, the Group aims to maintain sales volume by rebuilding its price strategy. The Group will also implement sales support and local production and formulation at PI Kumiai Private Ltd., an Indian joint venture company established in 2017.

In addition, the Group has commenced development in Europe as a new overseas expansion area for Efida, which is a new herbicide. Going forward, the Group will make active efforts for the overseas expansion of agents developed in house.

In the Fine Chemicals Business segment, the Group will promote business with the major goals of "incorporating new technologies and functions and growing continuously from the customer's perspective." In the chlorination, fine chemicals, and industrial chemicals businesses, which are the core sectors, the Group will implement existing business steadily as well as explore new business areas and expand its business territory. The entire Group, including consolidated subsidiaries, will endeavor to develop the Fine Chemicals Business segment as the Group's second business pillar next to the Agricultural Chemicals and Agriculture-Related Businesses segment by pursuing a growth strategy based on the selection and concentration of management resources and the optimization of production.

In the area of production and materials, the Group will optimize the production systems of the entire Group based on safe production activities and the stable procurement of materials. The Group will also work to reduce the costs of Axeev, Efida and other agents developed in house by reinforcing its global procurement system. In addition, the Group will promote the supply of high-quality products and environmentally friendly production activities through the appropriate implementation of ISO systems.

In the area of research and development, the Group will make the continuous creation of new agricultural chemicals, development of new products, and invention of new technologies top-priority issues and strive to enhance its value as an R&D-driven company. In the area of creating new agricultural chemicals, the Group will construct a development system that facilitates flexible support aimed at the achievement of goals in order to accelerate the commercial production of new agents. At the same time, to produce synergies, the Group will focus its efforts on reducing active ingredient costs and clarify cost targets from the initial development stage as well as promoting efficient investment in R&D.

Furthermore, the Group will upgrade its planning, technical, and comprehensive capabilities in efforts to strengthen its R&D in order to develop attractive products. The Group will continue seeking to maximize earnings through the strategic licensing of active ingredients developed in house while striving to improve profitability. In addition, the Group will promote product development by closely considering of market trends and then consolidating product lines as necessary for the enhancement of product appeal.

The Group will also put efforts into smart agriculture using robot technologies and ICT and the utilization of agricultural drones in order to satisfy the needs of the times and of customers.

In the development of chemicals, the Group will effectively leverage its proprietary technology in addition to nurturing a high-value-added chemical business and promoting the commercialization of new technologies.

In the Other Business segment, the Group will address the following issues in each business.

In the leasing business, the Group will continue to utilize owned assets effectively. In the construction business, the Group will continue working to speed up technical innovation in addition to strengthening cost competitiveness through appropriate process management and shortening of construction periods. In the printing business, the Group will put particular focus on acquiring new customers and strengthening support for existing customers. Moreover, the Group will expand its business territory into the online and equipment-related areas and work to strengthen sales activities in these areas. In the Logistics business, the Group will continue to pursue safety and engage actively in sales activities to gain the trust of customers, and it will work to further strengthen price competitiveness by reducing costs through efficient utilization of in-house warehouses and improvement and streamlining of operations.

In the area of workstyle reform initiatives, the Group will build a workplace environment where employees will feel that they are working at one of the happiest companies in Japan, and it will take other initiatives from the perspective of workers to realize an optimum work-life balance. To this end, measures to be taken will include proper management of working hours and efforts for working hour reductions by lowering the prescribed annual working hours and regulating long overtime hours.

In the area of social contribution activities, the Group will continue to actively take initiatives based on the philosophy that social contribution is a company’s reason for being. The Donguri (Acorn) Project that aims to contribute to the restoration of coastal forests for disaster prevention in Miyagi Prefecture is in its seventh year, and seedlings that the Company had raised were once again planted on the coast in the prefecture this year. The essay contest for students, which aims to contribute to environmental education, was also held for a seventh time, and many enthusiastic essays were entered in the contest by students. In addition, the Company will endeavor to contribute to society by continuing these activities as well as by making further new initiatives.

Starting in the current fiscal year, the Company will also prepare a CSR Report to summarize its approach to social contribution activities, challenges, the target directions, and the progress of its initiatives.

Kumiai Chemical Industry forecasts net sales of ¥107,000 million, operating income of ¥6,100 million, ordinary income of ¥8,100 million, and net income attributable to owners of the parent of ¥5,600 million in the earnings forecast for next fiscal year, ending October 31, 2019.

(5) Basic Policy on Profit Distribution and Dividends for the Fiscal Year Ended October 31, 2018 and Fiscal Year Ending October 31, 2019

The Company's dividend policy is to maintain stable dividends by giving comprehensive consideration to such factors as returns to shareholders based on earnings, while securing internal reserves in order to strengthen its business structure and provide for future business expansion.

The Company's ultimate decision-making body for dividends from surplus is the General Meeting of Shareholders. However, the Articles of Incorporation stipulate that an interim dividend may be paid by resolution of the Board of Directors, and the Company paid an interim dividend of ¥3 in July 2018. Based on the aforementioned policy, and in consideration of a comprehensive assessment of earnings in the fiscal year under review (the fiscal year ended October 31, 2018), the Company plans a year-end dividend of ¥7 per share (ordinary dividend of ¥5 and commemorative dividend for the 70th anniversary since its establishment of ¥2). As a result, the annual dividend for the fiscal year under review comes to ¥10 per share, including the ¥3 per share interim dividend.

As for the dividend for the fiscal year ending October 31, 2019, the Company plans a dividend of ¥9 per share (interim dividend of ¥3 and year-end dividend of ¥6) in view of the earnings forecasts.

2. Basic Policy Regarding Selection of Accounting Standards

The Kumiai Chemical Industry Group will prepare its consolidated financial statements based on Japanese standards for the foreseeable future, as this enables a comparison of fiscal years in the consolidated financial statements as well as a comparison of companies.

The Group will take the appropriate response to the application of IFRS, taking into consideration circumstances in Japan and overseas.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2017	As of October 31, 2018
ASSETS		
Current assets:		
Cash and deposits	14,283	17,729
Notes and accounts receivable-trade	21,006	21,769
Marketable securities	20	30
Merchandise and finished products	19,644	18,405
Work in process	9,220	10,032
Raw materials and supplies	4,404	4,494
Deferred tax assets	1,429	1,366
Other current assets	1,801	1,942
Allowance for doubtful accounts	(73)	(67)
Total current assets	71,733	75,700
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	9,273	9,720
Machinery, equipment and vehicles, net	5,422	5,327
Land	11,495	12,061
Construction in progress	118	1,932
Other property, plant and equipment, net	999	1,397
Total property and equipment	27,306	30,438
Intangible fixed assets	386	603
Investments and other assets:		
Investments securities	35,484	24,377
Long-term loans	2,082	309
Deferred tax assets	569	595
Net defined benefit asset	147	124
Other	1,607	1,765
Allowance for doubtful accounts	(145)	(154)
Total investments and other assets	39,743	27,015
Total fixed assets	67,435	58,056
Total assets	139,168	133,756

	Millions of yen	
	As of October 31, 2017	As of October 31, 2018
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	13,838	15,052
Short-term loan payable	3,627	2,759
Accounts payable-other	3,897	4,377
Income taxes payable	772	788
Provision for bonuses	1,311	1,475
Deferred tax liabilities	210	76
Other current liabilities	728	648
Total current liabilities	24,384	25,175
Long-term liabilities:		
Long-term loan payable	2,828	970
Deferred tax liabilities	7,456	4,548
Provision for directors' retirement benefits	575	579
Net defined benefit liability	4,159	4,358
Asset retirement obligations	38	39
Other long-term liabilities	362	348
Total long-term liabilities	15,419	10,842
Total liabilities	39,803	36,017
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	35,907	35,735
Retained earnings	51,502	54,660
Less treasury stocks, at cost	(2,653)	(4,113)
Total shareholders' equity	89,290	90,817
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	4,808	795
Foreign currency translation adjustments	(1,094)	(1,438)
Remeasurements of defined benefit plans	(145)	(152)
Total accumulated other comprehensive income (loss)	3,569	(794)
Non-controlling interests	6,506	7,717
Total net assets	99,365	97,739
Total liabilities and net assets	139,168	133,756

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

Consolidated Statements of Income

	Millions of yen	
	Year ended October 31, 2017	Year ended October 31, 2018
Net sales	77,817	96,846
Cost of sales	58,954	73,234
Gross profits	18,863	23,611
Selling, general and administrative expenses	15,099	18,030
Operating income	3,764	5,582
Non-operating income:		
Interest income	76	96
Dividend income	354	340
Reversal of allowance for doubtful accounts	2	5
Equity in earnings of affiliates	2,985	1,925
Foreign exchange gains	299	53
Other	141	215
Total non-operating income	3,857	2,634
Non-operating expenses:		
Interest expenses	58	42
Sales discounts	39	39
Other	84	61
Total non-operating expenses	180	142
Ordinary income	7,441	8,074
Extraordinary income:		
Gain on sales of fixed assets	5	13
Gain on sales of investment securities	36	11
Compensation income	18	—
Insurance income	—	71
Gain on extinguishment of tie-in shares	—	45
Gain on change in equity	11	—
Gain on negative goodwill	2,813	—
Total extraordinary income	2,883	140
Extraordinary loss:		
Loss on disposal of fixed assets	195	209
Loss on sales of investment securities	166	1,013
Loss on valuation of investment securities	0	966
Compensation expenses	77	—
Loss associated with gradual acquisitions	841	—
Loss on sales of golf club membership	—	1
Loss on valuation of golf club membership	5	5
Loss on disaster	—	187
Office transfer expenses	—	27
Total extraordinary loss	1,283	2,409
Income before income taxes and non-controlling interests	9,041	5,805
Current	1,325	1,887
Deferred	5	(1,222)
Total income taxes	1,330	666
Net income	7,711	5,139
Net income attributable to non-controlling interests	458	433
Net income attributable to owners of parent	7,252	4,706

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Year ended October 31, 2017	Year ended October 31, 2018
Net income	7,711	5,139
Other comprehensive income:		
Valuation difference on available-for-sale securities	1,204	(4,026)
Foreign currency translation adjustment	135	(76)
Remesurements of defined benefit plans	143	(7)
Share of other comprehensive income of associates accounted for using equity method	1,085	(283)
Total other comprehensive income (loss)	2,567	(4,392)
Comprehensive income	10,278	747
(Breakdown)		
Comprehensive income attributable to owners of the parent	9,779	343
Comprehensive income attributable to non-controlling interests	498	404

(3) Consolidated Statements of Changes in Net Assets

	Millions of yen				
	Shareholders' equity				
Year ended October 31, 2017	Common stock	Capital surplus	Retained earnings	Treasury stock,at cost	Total Shareholders' equity
Balance at the end of the previous period	4,534	5,029	44,805	(1,566)	52,802
Changes during the period					
Cash dividends			(642)		(642)
Net income attributable to owners of parent			7,252		7,252
Purchase of treasury stock				(2,361)	(2,361)
Disposal of treasury stock		0		0	0
Increase by merger		31,461			31,461
Delivery of treasury stock by merger				1,273	1,273
Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries		(558)			(558)
Increase (decrease) in surplus due to purchase of treasury stock from consolidated subsidiaries		(25)			(25)
Increase (decrease) in retained earnings due to the merger of consolidated subsidiaries with non-consolidated subsidiaries			54		54
Changes of scope of consolidation			32		32
Net changes during the period except for shareholders' equity					
Total changes during the period	—	30,878	6,697	(1,087)	36,488
Balance at the end of the period	4,534	35,907	51,502	(2,653)	89,290

	Millions of yen					
	Accumulated other comprehensive income					
Year ended October 31, 2017	Valuation differences on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the end of the previous period	3,407	(2,034)	(331)	1,042	3,419	57,264
Changes during the period						
Cash dividends						(642)
Net income attributable to owners of parent						7,252
Purchase of treasury stock						(2,361)
Disposal of treasury stock						0
Increase by merger						31,461
Delivery of treasury stock by merger						1,273
Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries						(558)
Increase (decrease) in surplus due to purchase of treasury stock from consolidated subsidiaries						(25)
Increase (decrease) in retained earnings due to the merger of consolidated subsidiaries with non-consolidated subsidiaries						54
Changes of scope of consolidation						32
Net changes during the period except for shareholders' equity	1,400	941	186	2,527	3,086	5,613
Total changes during the period	1,400	941	186	2,527	3,086	42,101
Balance at the end of the period	4,808	(1,094)	(145)	3,569	6,506	99,365

** Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries*

Pursuant to Article 156, Paragraph 1 and Article 163 of the Companies Act, the Company acquired treasury stock held by consolidated subsidiaries through a resolution at a meeting of the Company's Board of Directors held on September 13, 2017. The capital surplus increased due to an adjustment of tax expense associated with the acquisition.

Year ended October 31, 2018	Millions of yen Shareholders' equity Common stock	Capital surplus	Retained earnings	Treasury stock,at cost	Total Shareholders' equity
Balance at the end of the previous period	4,534	35,907	51,502	(2,653)	89,290
Changes during the period					
Cash dividends			(1,387)		(1,387)
Net income attributable to owners of parent			4,706		4,706
Purchase of treasury stock				(1,460)	(1,460)
Disposal of treasury stock		0		0	0
Increase by merger					—
Delivery of treasury stock by merger					—
Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries		(4)			(4)
Increase (decrease) in surplus due to purchase of treasury stock from consolidated subsidiaries		(168)			(168)
Increase (decrease) in retained earnings due to the merger of consolidated subsidiaries with non-consolidated subsidiaries					—
Changes of scope of consolidation			(162)		(162)
Net changes during the period except for shareholders' equity					
Total changes during the period	—	(171)	3,158	(1,460)	1,527
Balance at the end of the period	4,534	35,735	54,660	(4,113)	90,817

Year ended October 31, 2018	Millions of yen Accumulated other comprehensive income Valuation differences on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the end of the previous period	4,808	(1,094)	(145)	3,569	6,506	99,365
Changes during the period						
Cash dividends						(1,387)
Net income attributable to owners of parent						4,706
Purchase of treasury stock						(1,460)
Disposal of treasury stock						0
Increase by merger						—
Delivery of treasury stock by merger						—
Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries						(4)
Increase (decrease) in surplus due to purchase of treasury stock from consolidated subsidiaries						(168)
Increase (decrease) in retained earnings due to the merger of consolidated subsidiaries with non-consolidated subsidiaries						—
Changes of scope of consolidation						(162)
Net changes during the period except for shareholders' equity	(4,012)	(344)	(7)	(4,363)	1,211	(3,152)
Total changes during the period	(4,012)	(344)	(7)	(4,363)	1,211	(1,626)
Balance at the end of the period	795	(1,438)	(152)	(794)	7,717	97,739

** Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries*

Pursuant to Article 156, Paragraph 1 and Article 163 of the Companies Act, the Company acquired treasury stock held by consolidated subsidiaries through a resolution at a meeting of the Company's Board of Directors held on March 8, 2018. The capital surplus increased due to an adjustment of tax expense associated with the acquisition.

(4) Consolidated Statements of Cash Flows

	Millions of yen	
	Year ended October 31, 2017	Year ended October 31, 2018
Cash flows from operating activities:		
Income before income taxes and non-controlling interests	9,041	5,805
Depreciation and amortization	2,024	2,943
Increase (decrease) in allowance for doubtful accounts	(2)	3
Increase in provision for bonuses	104	114
Decrease in net defined benefit asset and liability	(169)	68
Increase (decrease) in provision for directors' retirement benefits	(116)	4
Increase (decrease) in provision for loss on contract research	(70)	—
Interest and dividend income	(431)	(436)
Equity in earnings of affiliates	(2,985)	(1,925)
Interest expenses	58	42
Foreign exchange gains	(362)	(157)
Loss on disposal of property, plant and equipment	190	196
Loss on sales of investment securities	130	1,002
Loss on valuation of investment securities	0	966
Loss (gain) on change in equity	(11)	—
Gain on negative goodwill	(2,813)	—
Loss on gradual acquisitions	841	—
Compensation expenses	77	—
Decrease (increase) in notes and accounts receivable	304	(850)
Decrease (increase) in inventories	(1,616)	479
Increase in notes and accounts payable	2,010	1,128
Increase in advance payments	(155)	(124)
Other, net	(3)	434
Sub total	6,044	9,690
Interest and dividend income received	1,035	1,155
Interest expenses paid	(59)	(99)
Income taxes paid	(1,490)	(2,288)
Income taxes refund	206	—
Compensation expenses paid	(77)	—
Net cash provided by operating activities	5,660	8,458
Cash flows from investing activities:		
Decrease (increase) in time deposits, net	15	616
Acquisitions of property, plant and equipment	(1,391)	(2,757)
Proceeds from sale of property, plant and equipment	41	61
Acquisitions of intangible assets	(26)	(204)
Acquisitions of investments in securities	(157)	(191)
Proceeds from redemption of investments in securities	(200)	20
Proceeds from sales of investments in securities	1,029	2,072
Payments of loans receivable	(803)	(1,751)
Collection of loans receivable	94	783
Purchase of insurance funds	(233)	(143)
Proceeds from maturity of insurance funds	185	19
Other, net	(46)	(108)
Net cash used in investing activities	(1,092)	(1,584)

	Millions of yen	
	Year ended October 31, 2017	Year ended October 31, 2018
Cash flows from financing activities:		
Increase (decrease) in short-term bank loans, net	(7,662)	150
Repayment of long-term loans payable	(1,776)	(2,878)
Net increase in treasury stock	(7)	(739)
Cash dividends paid	(648)	(1,382)
Proceeds from stock issuance to non-controlling interests	26	—
Cash dividends paid to non-controlling interests	(107)	(50)
Other, net	(154)	(118)
Net cash used in financing activities	(10,329)	(5,016)
Effect of exchange rate changes on cash and cash equivalents	370	164
Net increase **(decrease) in cash and cash equivalents**	(5,391)	2,023
Cash and cash equivalents at beginning of year	4,368	12,656
Increase in cash and cash equivalents due to merger	7,631	958
Increase in cash and cash equivalents due to newly consolidated subsidiaries	6,084	1,082
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	(37)	—
Cash and cash equivalents at end of year	12,656	16,719

(Segment Information, etc.)

[Segment Information]

1. Overview of the Reporting Segments

The reportable segments of the Group are those for which separate financial information is available and are subject to periodic review in order for the Company's Board of Directors to determine the allocation of management resources and evaluate performance.

The principal products and services in each reportable segment are as in the table below.

Agricultural Chemicals and Agriculture-Related	Manufacture and sale of agricultural chemicals (pesticide, fungicide, herbicide, etc.), import and export of agricultural chemicals, sale of greening materials, comprehensive golf course maintenance
Fine Chemicals	Manufacture and sale of toluene and xylene-based chemicals, fine chemicals, industrial chemicals, and expanded polystyrene

2. Method of Calculation of Amounts of Net Sales and Profit for Each Reportable Segment

The accounting methods for each of the reportable business segments are the same as those described in "Basis of Presentation of the Consolidated Financial Statements."

Profit for each reportable segment is the figure based on operating income. Internal revenues and inter-segment transfers are based on prevailing market prices.

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

For the fiscal year ended October 31, 2017 (From November 1, 2016 to October 31, 2017)

	Millions of yen						
	Reportable segments						
	Agricultural Chemicals and Agriculture-Related	Fine Chemicals	Total	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Net sales:							
Outside customers	60,636	10,937	71,574	6,243	77,817	—	77,817
Inter-segment	1	—	1	2,331	2,332	(2,332)	—
Total	60,637	10,937	71,575	8,574	80,149	(2,332)	77,817
Segment income/(loss)	3,554	858	4,412	552	4,964	(1,200)	3,764

(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 ¥1,200 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 fiscal year ended October 31, 2018 (From November 1, 2017 to October 31, 2018)

	Millions of yen						
	Reportable segments						
	Agricultural Chemicals and Agriculture-Related	Fine Chemicals	Total	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Net sales:							
Outside customers	68,147	19,466	87,613	9,233	96,846	—	96,846
Inter-segment	—	—	—	3,105	3,105	(3,105)	—
Total	68,147	19,466	87,613	12,338	99,951	(3,105)	96,846
Segment income/(loss)	4,992	1,249	6,242	599	6,841	(1,259)	5,582

(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 ¥1,259 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.*

(Significant Subsequent Event)

Not applicable.