

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Consolidated Financial Results for the Second Quarter Ended April 30, 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 & Personnel Affairs Department (Telephone: 81-3-3822- 5036)
 Scheduled Filing of Quarterly Securities Report: June 13, 2018
 Scheduled Commencement of Dividend Payment: July 3, 2018
 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, 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	
Six months ended April 30, 2018	¥54,179	42.3%	¥4,792	64.4%	¥5,604	23.9%	¥4,454	33.1%
Six months ended April 30, 2017	38,087	(7.6)	2,915	(14.3)	4,523	3.8	3,345	8.9

Notes: 1. Comprehensive income: Six months ended April 30, 2018: ¥1,632 million [(54.3%)] Six months ended April 30, 2017: ¥3,571 million [158.5%]
 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, 2018	¥35.34	¥ —
Six months ended April 30, 2017	42.10	—

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, 2018	¥149,296	¥99,029	61.4%
As of October 31, 2017	139,168	99,365	66.7

(Reference) Shareholders' equity: As of April 30, 2018: ¥91,644 million As of October 31, 2017: ¥92,859 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, 2017	¥ —	¥0.00	¥ —	¥8.00	¥8.00
Year ending October 31, 2018	—	3.00	—	—	—
Year ending October 31, 2018 (Forecast)	—	—	—	5.00	8.00

Note: Most recently announced revisions to dividend forecast: Yes

3. Consolidated Earnings Forecast (for the fiscal year ending October 31, 2018)

(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, 2018	¥95,000	22.1%	¥4,600	22.2%	¥6,400	(14.0)%	¥4,500	(38.0)%	¥35.61

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, 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	7,918,181 shares	6,798,219 shares
	Six months ended April 30, 2018	Six months ended April 30, 2017
c) Average number of shares issued in the period	126,011,620 shares	79,472,283 shares

Note 1. The number of outstanding shares increased by 46,206,903 to 133,184,612 as a result of the business integration with Ihara Chemical Industry Co., Ltd. on May 1, 2017.

2. The number of shares of treasury stock increased by 1,119,962 shares in the second quarter period 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 the resolution of the meeting of the Board of Directors held on March 8, 2018.

**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

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, the amounts of consolidated financial results for the second quarter period of the previous fiscal year are the amounts for that period (November 1, 2016–April 30, 2017) of Kumiai Chemical Industry Co., Ltd. prior to the Merger.

During the cumulative second quarter period under review (November 1, 2017 to April 30, 2018), the Japanese economy expanded moderately as corporate earnings remained positive and capital expenditure and personal consumption rose.

In Japanese agriculture, the Vitality Creation Plan of Agriculture, Forestry, Fisheries and Regions was revised in December 2017, aiming to strengthen agricultural competitiveness such as reform of the food distribution structure, including wholesale markets, and revision of the agricultural land system. Nevertheless, Japanese agriculture remains in a challenging position, facing many problems and issues due to the drastic decline in agricultural production and the aging of farmers.

Against this backdrop, Kumiai Chemical Industry Co., Ltd. made a new start following its merger with the former Ihara Chemical Industry Co., Ltd. In order to swiftly demonstrate the maximum synergy from the merger, five priority policies have been set out. 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 is committed to overcoming the challenges in each department.

In addition, as a result of the Merger, the classifications of the Group’s business areas have been changed from the previous Chemicals, Leasing, and Other segments to the Agricultural Chemicals and Agriculture-Related Businesses, Fine Chemicals Business, and Other Business segments since the previous fiscal year.

In the second quarter period under review, net sales increased by ¥16,092 million (42.3%) year on year to ¥54,179 million, owing to the expansion of operations resulting from the Merger. Operating income amounted to ¥4,792 million, up ¥1,877 million (64.4%) from the same period of the previous fiscal year, due to the increase in net sales. Ordinary income came to ¥5,604 million, an increase of ¥1,081 million (23.9%), due to the increase in operating income, despite a decrease in equity in earnings of affiliates due to the merger with the former Ihara Chemical Industry Co., Ltd., which was an equity-method affiliate of Kumiai Chemical Industry in the second quarter of the previous fiscal year. Net income attributable to owners of the parent amounted to ¥4,454 million, increasing ¥1,108 million (33.1%) compared with the same period of the previous fiscal year. This was partly attributable to a decrease in income taxes due to a change in the estimated effective tax rate.

The percentage of net sales to markets overseas in the second quarter period under review was 36.1%.

Business results by segment were as follows

Consolidated financial results by segment for the previous fiscal year have been recalculated in accordance with the newly classified business segments.

(Millions of yen, except percentages)

Segment	Six months ended April 30, 2017			Six months ended April 30, 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	¥34,703	91.1%	¥3,094	¥40,608	75.0%	¥4,452	¥5,905 [17.0]	¥1,358 [43.9]
Fine Chemicals Business	1,094	2.9	40	9,200	17.0	681	8,107 [741.2]	641 [1,594.3]
Other Businesses	2,290	6.0	377	4,370	8.1	292	2,081 [90.9]	(85) [(22.5)]
Total	38,087	100.0	2,915	54,179	100.0	4,792	16,092 [42.3]	1,877 [64.4]

Notes: Segment operating income mainly includes corporate expenses that are not distributed to each reportable segment (general and administrative expenses not attributable to each reportable segment) as adjustments.

1) Agricultural Chemicals and Agriculture-Related Businesses segment

For farmland products in the Japanese market, sales of compound agents made from herbicides for rice paddy fields, Fenoxasulfone and Pyrimisulfan, increased. However, sales of established agents such as Top Gun declined, and sales of insecticide for rice pest management were flat year on year. As a result, sales of agents for rice paddy fields overall were in line with the previous fiscal year. Sales of horticulture products were higher than in the previous fiscal year due to the impact of advance shipments for some products. Sales to golf courses and other non-agricultural facilities, along with ingredients developed in-house, decreased year on year due to such factors as inventory adjustments and the shipment cut-off errors.

Sales to markets outside Japan increased year on year. Despite the impact of generic products on Nominee (a herbicide for direct seeded rice), and a decline in shipments of Staple (a cotton herbicide), shipments of new compound products using Axeev (a herbicide for dry field farming) remained strong in North America. In addition, sales of Prohexadione-calcium, a plant growth regulator, remained healthy in Europe.

As a result of the factors above, in addition to the impact from the expansion in operations due to the Merger, net sales in the Agricultural Chemicals and Agriculture-Related Businesses segment came to ¥40,608 million, up ¥5,905 million (17.0%) compared with the same period of the previous fiscal year. Operating income jumped ¥1,358 million (43.9%) year on year to ¥4,452 million.

Registration for Efida, a new herbicide for rice paddy fields, was obtained on March 28, 2018. Application tests will be carried out around Japan with the aim of launching it on the market in the 2019 season.

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 Fine Chemicals Business mainly engages in 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; industrial chemicals, including cleaning agents; and expanded polystyrene products.

Compared with the same period of the previous fiscal year, net sales in the Fine Chemicals Business segment increased ¥8,107 million (741.2%) to ¥9,200 million, while operating income jumped ¥641 million (1,594.3%) to ¥681 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. In the electricity sales business including mega solar, however, both sales and income fell year on year, affected by breakdowns in generating facilities due to typhoons.

Despite the inclusion of net sales related to the construction business, since new construction business was added through the Merger, there was only a slight increase in operating income, with few completed construction projects in the second quarter period under review.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥4,370 million, up ¥2,081 million (90.9%) compared with the same period of the previous fiscal year. On the other hand, operating income decreased by ¥85 million (22.5%) year on year to ¥292 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) Explanation of Financial Position

Total assets on a consolidated basis as of April 30, 2018 stood at ¥149,296 million, up by ¥10,128 million from the end of the previous fiscal year. This was mainly because the increase in cash and deposits and notes and accounts receivable-trade exceeded the decrease in merchandise and finished products and investment securities.

Liabilities increased ¥10,463 million compared with previous fiscal year-end to ¥50,267 million. This was mainly because increases in notes and accounts payable-trade and short-term loans payable exceeded the decrease in accounts payable-other and deferred tax liabilities.

Net assets totaled ¥99,029 million as of April 30, 2018, resulting in an equity ratio of 61.4% and net assets per share of ¥731.60.

(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, 2018 published at the December 15, 2017 announcement of the financial results for the fiscal year ended October 31, 2017.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2017	As of April 30, 2018
ASSETS		
Current assets:		
Cash and deposits	14,283	17,428
Notes and accounts receivable-trade	21,006	37,009
Marketable securities	20	30
Merchandise and finished products	19,644	17,108
Work in process	9,220	10,015
Raw materials and supplies	4,404	4,255
Deferred tax assets	1,429	1,386
Other current assets	1,801	698
Allowance for doubtful accounts	(73)	(68)
Total current assets	71,733	87,860
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	9,273	9,239
Machinery, equipment and vehicles, net	5,422	5,002
Land	11,495	11,791
Construction in progress	118	371
Other property, plant and equipment, net	999	984
Total property and equipment	27,306	27,387
Intangible fixed assets	386	449
Investments and other assets:		
Investments securities	35,484	28,934
Long-term loans	2,082	2,497
Deferred tax assets	569	542
Net defined benefit asset	147	135
Other	1,607	1,643
Allowance for doubtful accounts	(145)	(152)
Total investments and other assets	39,743	33,599
Total fixed assets	67,435	61,435
Total assets	139,168	149,296

	Millions of yen	
	As of October 31, 2017	As of April 30, 2018
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	12,772	15,757
Short-term loan payable	3,627	15,054
Accounts payable-other	3,528	2,542
Income taxes payable	772	791
Provision for bonuses	1,311	1,197
Other current liabilities	2,373	1,405
Total current liabilities	24,384	36,747
Long-term liabilities:		
Long-term loan payable	2,828	2,102
Deferred tax liabilities	7,456	6,261
Provision for directors' retirement benefits	575	520
Net defined benefit liability	4,159	4,248
Asset retirement obligations	38	38
Other long-term liabilities	362	350
Total long-term liabilities	15,419	13,520
Total liabilities	39,803	50,267
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	35,907	35,735
Retained earnings	51,502	54,945
Less treasury stocks, at cost	(2,653)	(4,110)
Total shareholders' equity	89,290	91,105
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	4,808	2,235
Foreign currency translation adjustments	(1,094)	(1,572)
Remeasurements of defined benefit plans	(145)	(124)
Total accumulated other comprehensive income	3,569	540
Non-controlling interests	6,506	7,384
Total net assets	99,365	99,029
Total liabilities and net assets	139,168	149,296

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

	Millions of yen	
	Six months ended April 30, 2017	Six months ended April 30, 2018
Net sales	38,087	54,179
Cost of sales	29,608	40,548
Gross profits	8,479	13,631
Selling, general and administrative expenses	5,564	8,840
Operating income	2,915	4,792
Non-operating income:		
Interest income	30	43
Dividend income	214	159
Equity in earnings of affiliates	1,332	710
Foreign exchange gains	75	—
Reversal of allowance for doubtful accounts	—	10
Other	55	149
Total non-operating income	1,706	1,071
Non-operating expenses:		
Interest expenses	56	21
Sales discounts	27	28
Foreign exchange losses	—	194
Other	15	16
Total non-operating expenses	98	259
Ordinary income	4,523	5,604
Extraordinary income:		
Gain on sales of fixed assets	2	0
Gain on sales of investment securities	—	11
Insurance income	—	6
Gain on change in equity	11	—
Gain on extinguishment of tie-in shares	—	45
Total extraordinary income	13	63
Extraordinary loss:		
Loss on disposal of fixed assets	31	57
Loss on sales of investment securities	—	12
Loss on sales of golf club membership	—	1
Loss on valuation of golf club membership	—	4
Compensation expenses	77	—
Total extraordinary loss	108	74
Income before income taxes and non-controlling interests	4,429	5,592
Income taxes	923	925
Net income	3,505	4,668
Net income attributable to non-controlling interests	160	214
Net income attributable to owners of parent	3,345	4,454

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended April 30, 2017	Six months ended April 30, 2018
Net income	3,505	4,668
Other comprehensive income:		
Valuation difference on available-for-sale securities	(108)	(2,579)
Foreign currency translation adjustment	68	(69)
Remeasurements of defined benefit plans	23	21
Share of other comprehensive income of associates accounted for using equity method	83	(408)
Total other comprehensive income (loss)	66	(3,036)
Comprehensive income	3,571	1,632
(Breakdown)		
Comprehensive income attributable to owners of the parent	3,378	1,425
Comprehensive income attributable to non-controlling interests	194	207

(Segment Information, etc.)

[Segment Information]

For the second quarter ended April 30, 2017 (From November 1, 2016 to April 30, 2017)

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	34,703	1,094	35,797	2,290	38,087	—	38,087
Inter-segment	—	—	—	918	918	(918)	—
Total	34,703	1,094	35,797	3,208	39,005	(918)	38,087
Segment income/(loss)	3,094	40	3,134	377	3,512	(597)	2,915

(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 ¥597 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, 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, construction business, printing business, logistics business, and information services business.
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.

2. Matters Concerning the Reclassification of Reportable Segments

Following the merger with the former Ihara Chemical Industry Co., Ltd., effective from May 1, 2017, Kumiai Chemical Industry has reviewed its classification of business segments from the previous fiscal year. Consequently, the former Chemicals segment together with agriculture chemical-related businesses newly acquired through the merger were reclassified as the Agricultural Chemicals and Agriculture-Related Businesses segment. Furthermore, the Company's fine chemicals business, which was previously included in the former Chemicals segment, expanded in scale following the merger, and due to its increased importance, was classified as an independent segment, the Fine Chemicals Business segment. Both of these new segments are reportable segments. In addition, the former Leasing segment had become comparatively less important in scale, and therefore was included in the Other Businesses segment.

Consolidated financial results by segment for the cumulative second quarter period of the previous fiscal year have been recalculated in accordance with the reclassified business segments.

(Matters Related to Business Combinations)

(Transaction under Common Control)

The meeting of Company's Board of Directors held on June 8, 2017 resolved to implement an absorption-type merger with K-I CHEMICAL RESEARCH INSTITUTE CO., LTD., a wholly owned subsidiary of the Company, and the Company implemented the merger on November 1, 2017.

1. Overview of Business Combination

(1) Name and Business Content of the Merging Companies

Name: K-I CHEMICAL RESEARCH INSTITUTE CO., LTD. (Non-consolidated subsidiary)

Business content: Investigation into structure of new compounds with biological activity and research into their synthesis

(2) Date of the business combination

November 1, 2017

(3) Legal form of business combination

An absorption-type merger, with Kumiai Chemical Industry as the surviving company and K-I Chemical Research Institute as the absorbed company

(4) Name of company after the business combination

KUMIAI CHEMICAL INDUSTRY CO., LTD.

(5) Other Matters Concerning Overview of the Transaction

The business combination is implemented with the objectives of streamlining organizational management and strengthening capabilities for the discovery and research of new agricultural chemicals in the Agricultural Chemicals Business, which is the core of the Company's business, through the further integration of processes spanning from the discovery of agricultural chemicals through to research and development, the manufacture and procurement of raw materials, product formulation, and marketing.

2. Overview of Accounting Treatment

The business combination was treated as a transaction under common control in accordance with the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013).