

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Consolidated Financial Results for the First Quarter Ended January 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.

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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, 2018
 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, 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	
	Amount	YoY Change (%)	Amount	YoY Change (%)	Amount	YoY Change (%)	Amount	YoY Change (%)
Three months ended January 31, 2018	¥19,058	52.9%	¥872	421.3%	¥1,371	2.9%	¥1,125	10.6%
Three months ended January 31, 2017	12,468	(24.0)	167	(85.9)	1,332	(21.3)	1,017	(16.9)

Notes: 1. Comprehensive income: Three months ended January 31, 2018: ¥412 million [(76.1)%] Three months ended January 31, 2017: ¥1,727 million [—%]
 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, 2018	¥ 8.90	¥ —
Three months ended January 31, 2017	12.80	—

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, the changes from the first quarter period of the previous fiscal year to the first quarter period of the current fiscal year may be quite substantial in some cases.

(2) Consolidated Financial Position

(Millions of yen, except percentages)

	Total Assets	Net Assets	Equity Ratio
As of January 31, 2018	¥141,756	¥98,682	65.1%
As of October 31, 2017	139,168	99,365	66.7

(Reference) Shareholders' equity: As of January 31, 2018: ¥92,238 million As of October 31, 2017: ¥92,859 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, 2017	¥ —	¥0.00	¥ —	¥8.00	¥8.00
Year ending October 31, 2018	—				
Year ending October 31, 2018 (Forecast)		0.00	—	8.00	8.00

Note: Most recently announced revisions to dividend forecast: No

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
	Amount	YoY Change (%)	Amount	YoY Change (%)	Amount	YoY Change (%)	Amount	YoY Change (%)	Amount
Six months ending April 30, 2018	¥50,500	32.6%	¥3,800	30.4%	¥4,600	1.7%	¥3,400	1.6%	26.90%
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. 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, 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	6,799,522 shares	6,798,218 shares
	<u>Three months ended January 31, 2018</u>	<u>Three months ended January 31, 2017</u>
c) Average number of shares issued in the period	126,385,599 shares	79,471,590 shares

Note: 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.

**The Quarterly Financial Results Report is not subject to quarterly review procedures.*

**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 first quarter period of the previous fiscal year are the amounts for that period (November 1, 2016–January 31, 2017) of Kumiai Chemical Industry Co., Ltd. prior to the Merger.

During the first quarter period of the current fiscal year, the Japanese economy expanded moderately as corporate earnings remained positive while capital expenditure and personal consumption also demonstrated an upward trend.

The conditions surrounding Japanese agriculture are harsh, and it continues to face many problems and challenges, including a significant decline in agricultural production and the aging of farmers. Moreover, from 2018, major developments in rice policies will be seen, with the abolition of the direct payment subsidy and government allocation of production volume targets.

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. Kumiai Chemical Industry also implemented major organizational restructuring effective February 8, 2018 with the aim of achieving further operational streamlining and even greater speed in the promotion of management strategy.

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 first quarter period under review, net sales increased by ¥6,590 million (52.9%) year on year to ¥19,058 million, owing to the expansion of operations resulting from the Merger. Operating income amounted to ¥872 million, up ¥705 million (421.3%) from the same period of the previous fiscal year, due to a decrease in the cost of sales ratio in addition to the increase in net sales. Ordinary income came to ¥1,371 million, an increase of ¥39 million (2.9%), affected by foreign exchange losses in addition to 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 first quarter of the previous fiscal year. Net income attributable to owners of the parent amounted to ¥1,125 million, increasing ¥108 million (10.6%) compared with the same period of the previous fiscal year.

The percentage of net sales to markets overseas in the first quarter period under review was 42.4%.

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	Three months ended January 31, 2017			Three months ended January 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	¥10,810	86.7%	¥401	¥13,268	69.6%	¥836	¥2,457 [22.7]	¥435 [108.4]
Fine Chemicals Business	556	4.5	21	4,119	21.6	319	3,564 [641.1]	298 [1,421.6]
Other Businesses	1,102	8.8	111	1,671	8.8	2	569 [51.6]	(109) [(97.8)]
Total	12,468	100.0	167	19,058	100.0	872	6,590 [52.9]	705 [421.3]

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

Among farmland products for the Japanese market, sales of compound agents made from herbicides for rice paddy fields, Fenoxasulfone and Pyrimisulfan, increased. However, this increase was not able to offset the decline in sales of existing products, and sales of herbicide for rice paddy fields overall declined year on year.

Sales of insecticide for rice pest management were largely in line with the same period of the previous fiscal year, as sales of Cyazpyr and other compound agents were steady.

Sales of horticulture products increased year on year as sales of existing mainstay products were robust.

Sales to golf courses and other non-agricultural facilities, as well as sales and consigned production revenue of active ingredients developed in house fell year on year, impacted by inventory adjustments and sales cutoff errors.

Sales to markets outside Japan declined from the same period of the previous fiscal year, as sales of Axeev, a herbicide for dry field farming, were slightly lower year on year, sales of Nominee, a herbicide for direct seeded rice, fell, affected by generic products, and sales of Staple, a cotton herbicide, declined, impacted by inventory adjustments.

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 ¥13,268 million, up ¥2,457 million (22.7%) compared with the same period of the previous fiscal year. Operating income jumped ¥435 million (108.4%) year on year to ¥836 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 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 ¥3,564 million (641.1%) to ¥4,119 million, while operating income jumped ¥298 million (1,421.6%) to ¥319 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.

Moreover, although sales increased in the construction business, which was newly included due to the Merger, an operating loss was recorded due to the seasonal nature of the business.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥1,671 million, up ¥569 million (51.6%) compared with the same period of the previous fiscal year. On the other hand, operating income decreased by ¥109 million (97.8%) year on year to ¥2 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 January 31, 2018 stood at ¥141,756 million, up by ¥2,588 million from the end of the previous fiscal year. This was mainly because the increase in merchandise and finished products exceeded decreases in cash and deposits and investment securities.

Liabilities increased ¥3,271 million compared with previous fiscal year-end to ¥43,074 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 ¥98,682 million as of January 31, 2018, resulting in an equity ratio of 65.1% and net assets per share of ¥729.82.

(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 January 31, 2018
ASSETS		
Current assets:		
Cash and deposits	14,283	13,158
Notes and accounts receivable-trade	21,006	20,589
Marketable securities	20	20
Merchandise and finished products	19,644	25,774
Work in process	9,220	9,316
Raw materials and supplies	4,404	3,995
Deferred tax assets	1,429	1,425
Other current assets	1,801	1,454
Allowance for doubtful accounts	(73)	(51)
Total current assets	71,733	75,679
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	9,273	9,389
Machinery, equipment and vehicles, net	5,422	5,156
Land	11,495	11,863
Construction in progress	118	88
Other property, plant and equipment, net	999	1,036
Total property and equipment	27,306	27,533
Intangible fixed assets	386	385
Investments and other assets:		
Investments securities	35,484	33,478
Long-term loans	2,082	2,509
Deferred tax assets	569	548
Net defined benefit asset	147	140
Other	1,607	1,629
Allowance for doubtful accounts	(145)	(145)
Total investments and other assets	39,743	38,159
Total fixed assets	67,435	66,077
Total assets	139,168	141,756

	Millions of yen	
	As of October 31, 2017	As of January 31, 2018
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	12,772	13,869
Short-term loan payable	3,627	9,522
Accounts payable-other	3,528	2,235
Income taxes payable	772	335
Provision for bonuses	1,311	580
Other current liabilities	2,373	1,644
Total current liabilities	24,384	28,185
Long-term liabilities:		
Long-term loan payable	2,828	2,648
Deferred tax liabilities	7,456	7,126
Provision for directors' retirement benefits	575	490
Net defined benefit liability	4,159	4,208
Asset retirement obligations	38	38
Other long-term liabilities	362	379
Total long-term liabilities	15,419	14,889
Total liabilities	39,803	43,074
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	35,907	35,903
Retained earnings	51,502	51,586
Less treasury stocks, at cost	(2,653)	(2,655)
Total shareholders' equity	89,290	89,369
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	4,808	4,134
Foreign currency translation adjustments	(1,094)	(1,131)
Remeasurements of defined benefit plans	(145)	(134)
Total accumulated other comprehensive income	3,569	2,869
Non-controlling interests	6,506	6,444
Total net assets	99,365	98,682
Total liabilities and net assets	139,168	141,756

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

Consolidated Statements of Income

	Millions of yen	
	Three months ended January 31, 2017	Three months ended January 31, 2018
Net sales	12,468	19,058
Cost of sales	9,787	13,950
Gross profits	2,681	5,109
Selling, general and administrative expenses	2,514	4,236
Operating income	167	872
Non-operating income:		
Interest income	15	22
Dividend income	165	139
Equity in earnings of affiliates	759	475
Foreign exchange gains	213	—
Reversal of allowance for doubtful accounts	—	19
Other	43	125
Total non-operating income	1,196	779
Non-operating expenses:		
Interest expenses	20	8
Sales discounts	5	5
Foreign exchange losses	—	259
Other	7	9
Total non-operating expenses	32	281
Ordinary income	1,332	1,371
Extraordinary income:		
Gain on sales of fixed assets	1	0
Gain on extinguishment of tie-in shares	—	45
Total extraordinary income	1	45
Extraordinary loss:		
Loss on disposal of fixed assets	10	7
Loss on sale of golf club membership	—	0
Total extraordinary loss	10	7
Income before income taxes and non-controlling interests	1,323	1,409
Income taxes	188	299
Net income	1,135	1,110
Net income (loss) attributable to non-controlling interests	118	(15)
Net income attributable to owners of parent	1,017	1,125

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended January 31, 2017	Three months ended January 31, 2018
Net income	1,135	1,110
Other comprehensive income:		
Valuation difference on available-for-sale securities	296	(672)
Foreign currency translation adjustment	139	(47)
Remeasurements of defined benefit plans	11	11
Share of other comprehensive income of associates accounted for using equity method	147	11
Total other comprehensive income (loss)	593	(698)
Comprehensive income	1,727	412
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,555	425
Comprehensive income (loss) attributable to non-controlling interests	172	(13)

(Segment Information, etc.)

[Segment Information]

For the first quarter ended January 31, 2017 (From November 1, 2016 to January 31, 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	10,810	556	11,366	1,102	12,468	—	12,468
Inter-segment	—	—	—	429	429	(429)	—
Total	10,810	556	11,366	1,531	12,897	(429)	12,468
Segment income/(loss)	401	21	422	111	533	(366)	167

(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 ¥366 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, 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.

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 first 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).