

## KUMIAI CHEMICAL INDUSTRY CO., LTD.

### Consolidated Financial Results for the Fiscal Year Ended October 31, 2017 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 Affairs Department (Telephone: 81-3-3822-5036)  
 Scheduled Annual General Meeting of Shareholders: January 26, 2018  
 Scheduled Commencement of Dividend Payment: January 29, 2018  
 Scheduled Filing of Securities Report: January 30, 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 fiscal year ended October 31, 2017)

##### (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, 2017	¥77,817	24.4%	¥3,764	66.0%	¥7,441	66.2%	¥7,252	111.9%
Year ended October 31, 2016	62,549	2.3	2,267	(39.1)	4,478	(44.5)	3,423	(47.9)

Notes: 1. Comprehensive income: Year ended October 31, 2017: ¥10,278 million [751.2%] Year ended October 31, 2016: ¥1,207 million [(84.1)%]  
 2. Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

	Net Income per Share	Net Income per Share (Diluted)	Return on Equity	Ordinary Income / Total Assets	Operating Margin
Year ended October 31, 2017	¥70.40	¥ —	9.9%	6.7%	4.8%
Year ended October 31, 2016	43.07	—	6.4	5.3	3.6

(Reference) Equity in earnings of affiliates: Year ended October 31, 2017: ¥2,985 million Year ended October 31, 2016: ¥2,222 million

Note: The Company merged with the former Ihara Chemical Industry Co., Ltd. on May 1, 2017. Since the financial results for the previous fiscal year are the results before the merger, the changes from the previous to 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	Net Assets per Share
As of October 31, 2017	¥139,168	¥99,365	66.7%	¥734.72
As of October 31, 2016	83,608	57,264	64.4	677.53

(Reference) Shareholders' equity: As of October 31, 2017: ¥92,859 million As of October 31, 2016: ¥53,845 million

##### (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, 2017	¥5,660	¥(1,092)	¥(10,329)	¥12,656
Year ended October 31, 2016	(2,551)	(1,089)	(231)	4,368

#### 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, 2016	¥ —	¥ —	¥ —	¥8.00	¥8.00	¥642	18.6%	1.2%
Year ended October 31, 2017	—	0.00	—	8.00	8.00	1,041	11.4	1.1
Year ending October 31, 2018 (Forecast)	—	0.00	—	8.00	8.00		22.5	

#### 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
	¥	%	¥	%	¥	%	¥	%	
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

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 Four companies: Rikengreen Co., Ltd., Ihara Nikkei Chemical Industry Co., Ltd.,  
K-I Chemical Industry Co., Ltd., Ihara Construction Industry Co., Ltd.

**(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, 2017	As of October 31, 2016
a) Number of shares issued (including treasury stock)	133,184,612 shares	86,977,709 shares
b) Number of treasury stock	6,798,219 shares	7,505,990 shares
	Year ended October 31, 2017	Year ended October 31, 2016
c) Average number of shares issued in the period	103,022,940 shares	79,472,115 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.*

**(Reference) Summary of Non-Consolidated Financial Results**

**1. Non-Consolidated Financial Results (for the fiscal year ended October 31, 2017)**

**(1) Non-Consolidated Operating Results**

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
Year ended October 31, 2017	¥60,175	7.3%	¥2,780	36.3%	¥4,000	76.4%	¥7,101	347.1%
Year ended October 31, 2016	56,062	4.4	2,040	(35.8)	2,268	(45.0)	1,588	(47.0)

Note: Percentages indicate the percentage change from the corresponding period of the previous fiscal year.

	Net Income per Share	Net Income per Share (Diluted)
Year ended October 31, 2017	¥67.32	¥—
Year ended October 31, 2016	19.80	—

**(2) Non-Consolidated Financial Position**

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

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of October 31, 2017	¥108,457	¥80,981	74.7%	¥622.33
As of October 31, 2016	66,565	42,107	63.3	524.78

(Reference) Shareholders' equity: As of October 31, 2017: ¥80,981 million As of October 31, 2016: ¥42,107 million

*\*The Financial Results Report is not subject to audit..*

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

1. 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.
2. The Company merged with the former Ihara Chemical Industry Co., Ltd. on May 1, 2017 and delivered 46,206,903 newly issued shares to the shareholders of the former Ihara Chemical Industry Co., Ltd. on the same date. This increase in the number of shares issued is reflected in the determination of "the average number of shares issued in the period" used in the denominator for the calculation of "net income per share" in the consolidated forecasts.

## *Accompanying Materials*

### **1. Overview of Operating Results**

#### ***(1) Overview of Operating Results for the Fiscal Year Ended October 31, 2017***

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 consolidated financial results for the fiscal year under review include both the consolidated financial results for the interim period (November 1, 2016 to April 30, 2017) prior to the merger and the consolidated financial results for the second half (May 1 to October 31, 2017) following the Merger. Consequently, for every accounting item, the consolidated financial results for the fiscal year under review changed substantially in comparison with the financial results for the previous fiscal year.

The conditions surrounding Japanese agriculture have become increasingly harsh, as seen in a significant decline in agricultural production, the aging of farmers, and an increase in agricultural land that is no longer cultivated. A variety of measures have been promoted to resolve such issues based on the Japanese government’s Agricultural Competiveness Enhancement Program.

The Japanese agricultural chemicals market has remained flat at around ¥330.0 billion in recent years. The trend toward reducing input costs in agriculture has accelerated due to government initiatives, including guidelines on the lowering of agricultural production material prices, and it is believed that the current challenging conditions will continue into the future. On the other hand, while the trend in the global agricultural chemicals market has shown expansion, it is showing some sluggish growth, including an increase in dealer stock due to a fall in the market price for grain and slowing demand in emerging nations such as Brazil. Nevertheless, the market is expected to expand over the medium to long term due to global population growth.

Against that backdrop, Kumiai Chemical Industry Co., Ltd. made a new start following its merger with the former Ihara Chemical Industry Co., Ltd., effective on May 1, 2017.

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

In its core business, the Agricultural Chemicals and Agriculture-Related Businesses segment, the Company is concentrating its operational resources and integrating processes spanning from the discovery of agricultural chemicals through to research and development, raw material procurement, product formulation, and marketing, while minimizing business risks by ensuring prompt and accurate decision-making. Kumiai Chemical Industry is aiming to grow sustainably as a unique R&D-driven company by making effective use of operational resources following the merger as a means of raising business efficiency and strengthening its operational platform. Furthermore, through its supply of outstanding products and services, the Company will work to contribute to agricultural development together with its customers so that it can help make communities more prosperous.

At the same time, Kumiai Chemical Industry will strive to ensure the continuous growth of its Fine Chemicals Business segment and develop it into a core business alongside the Agricultural Chemicals Business by applying its organic chemical technologies to expand its business domains, thereby maximizing the value it offers to customers.

The Kumiai Chemical Industry Group will aim to generate the maximum synergies as soon as possible and increase corporate value.

In the period under review, net sales increased by ¥15,267 million (24.4%) to ¥77,817 million compared with the same period of the previous fiscal year, mainly owing to the expansion of operations resulting from the Merger. Operating income amounted to ¥3,764 million, up ¥1,497 million (66.0%) year on year, mainly due to the increase in net sales. Ordinary income came to ¥7,441 million, an increase of ¥2,963 million (66.2%) primarily as a result of posting ¥2,985 million in equity in earnings of affiliates under non-operating income. Meanwhile, net income attributable to owners of the parent amounted to ¥7,252 million, increasing ¥3,830 million (111.9%) compared with the same period of the previous fiscal year. The main factor underlying the increase was gain on negative goodwill amounting to ¥2,813 million, recorded under extraordinary income despite a loss of ¥841 million associated with the gradual acquisition of Ihara Chemical shares, recorded under extraordinary loss.

The percentage of overseas net sales in the fiscal year under review was 43.2%.

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	Fiscal Year Ended October 31, 2016			Fiscal Year Ended October 31, 2017			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	¥55,828	89.3%	¥2,421	¥60,636	77.9%	¥3,554	¥4,808 [8.6]	¥1,133 [46.8]
Fine Chemicals Business	2,243	3.6	38	10,937	14.1	858	8,694 [387.6]	820 [2,177.8]
Other Businesses	4,478	7.2	594	6,243	8.0	552	1,765 [39.4]	(42) [(7.2)]
Total	62,549	100.0	2,267	77,817	100.0	3,764	15,267 [24.4]	1,497 [66.0]

Notes: 1. Financial results by segment for the previous fiscal year have been recalculated in accordance with the newly classified business segments.

2. 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).

#### 1) Agricultural Chemicals and Agriculture-Related Businesses segment

Among farmland products for the Japanese market, compound agents made from herbicides for rice paddy fields, Fenoxasulfone and Pyrimisulfan, posted healthy sales. On the whole, however, sales of herbicide for rice paddy fields were down slightly year on year, impacted by falling sales of existing mainstay products due to intensified competition with rival products. Sales of insecticide for rice pest management were in line with the previous fiscal year, as sales of Isotianyl and other compound agents expanded. However, sales of established agents declined. As a result, sales of herbicide for rice paddy fields overall were in line with the previous fiscal year.

Sales of horticulture products increased year on year as sales of mainstay products remained robust, including the fungicide Fantasista, and the pesticides Supracide and Cyazpyr.

Moreover, sales to golf courses and other non-agricultural facilities, as well as sales and consigned production revenue of active ingredients developed in house were up year on year.

Sales to markets outside Japan were sluggish overall year on year, as low grain prices and inventory adjustments held back sales of Axeev, a herbicide for dry field farming which is a core product. In addition, competition from generic products in India, a major market, drove down sales of Nominee, a mainstay herbicide for direct seeded rice. As a result, sales to markets outside Japan overall declined from the previous fiscal year.

As a result of the factors above, net sales came to ¥60,636 million, up ¥4,808 million (8.6%) compared with the previous fiscal year. Operating income jumped ¥1,133 million (46.8%) year on year to ¥3,554 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. This business mainly develops and sells 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.

Compared with previous fiscal year, net sales in the Fine Chemicals Business segment increased ¥8,694 million (387.6%) to ¥10,937 million, while operating income jumped ¥820 million (2,177.8%) to ¥858 million.

### *3) Other Businesses segment*

The Other Businesses segment includes the leasing business, electricity sales business from mega solar power, construction business, printing business, logistics business, and information services business.

The leasing business maintained sales and income on par with the previous fiscal year, mainly due to ongoing efforts to effectively utilize owned properties. Both sales and income increased year on year in the electricity service business, as mega solar plants benefited from comparatively good weather. Sales and income also increased in the printing business as a result of strong orders from established customers and measures for cutting selling, general and administrative expenses. In the logistics business, revenue increased due to the acquisition of new customers, but income decreased year on year affected by an increase in selling, general and administrative expenses due to higher freight rates.

As a result of the factors above, net sales in the Other Businesses segment amounted to ¥6,243 million, up ¥1,765 million (39.4%) compared with the previous fiscal year. On the other hand, operating income decreased by ¥42 million (7.2%) year on year to ¥552 million.

Following the Merger, the Company 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, 2017***

### *Assets, Liabilities, and Net Assets*

As of October 31, 2017, total assets amounted to ¥139,168 million, an increase of ¥55,560 million compared with the end of the previous fiscal year, due to the merger with the former Ihara Chemical Industry Co., Ltd. Current assets increased by ¥37,673 million, and fixed assets increased by ¥17,886 million.

Similarly, liabilities increased by ¥13,459 million compared with the end of the previous fiscal year to ¥39,803 million. Current liabilities increased by ¥6,863 million, and long-term liabilities increased by ¥6,596 million.

Total net assets amounted to ¥99,365 million, an increase of ¥42,101 million compared with the end of the previous fiscal year.

As a result, the equity ratio stood at 66.7%, and net assets per share were ¥734.72.

### (3) Overview of Cash Flows for the Year Ended October 31, 2017

Cash flows from operating activities provided net cash of ¥5,660 million (compared with net cash used of ¥2,551 million in the previous fiscal year). Major factors included an inflow of ¥9,041 million in income before income taxes and non-controlling interests as well as outflows of ¥1,616 million from an increase in inventories and ¥1,490 million from income taxes paid.

Cash flows from investing activities used net cash of ¥1,092 million (compared with net cash used of ¥1,089 million in the previous fiscal year). Major factors included an inflow of ¥1,029 million in proceeds from sales of investments in securities and outflows of ¥1,391 million due to acquisitions of property, plant and equipment and ¥803 million in payments of loans receivable.

Cash flows from financing activities used net cash of ¥10,329 million (compared with net cash used of ¥231 million in the previous fiscal year). Major factors were a decrease of ¥7,662 million in short-term bank loans along with an outflow of ¥1,776 million in repayment of long-term payable.

As a result, cash and cash equivalents at the end of year stood at ¥12,656 million, an increase of ¥8,288 million from the previous fiscal year end. This figure includes an increase in cash and equivalents of ¥7,631 million due to the Merger and an increase in cash and cash equivalents of ¥6,084 million due to newly consolidated subsidiaries.

#### (Reference) Changes in Cash Flow-Related Indicators

	Year ended October 31, 2015	Year ended October 31, 2016	Year ended October 31, 2017
Equity ratio (%)	62.8	64.4	66.7
Equity ratio based on market value (%)	91.3	56.6	69.9
Ratio of interest-bearing liabilities to cash flows (%)	297.1	—	148.4
Interest coverage ratio (times)	165.5	—	96.5

(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 to generate synergies from the Merger as soon as possible 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.

The Group will strive to enhance its orientation toward speed, cost, and innovation from the discovery of agricultural chemicals through to research and development, the manufacture and procurement of raw materials, product formulation, and marketing in order to consolidate its business platform.

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

In the Japanese market, the Group will strengthen its marketing functions to respond swiftly to changes in agriculture and progress in distribution, as well as develop farm-based marketing activities. Moreover, the Group will increase its range of large-lot products for certified core farmers in addition to striving to reduce labor costs through labor-saving product formulation as part of efforts to reduce total input costs in agriculture.

In the herbicide for rice paddy fields sector, the Group will launch onsite testing in preparation for the full-scale market launch of the new large-scale agent Efida, which is expected to obtain registration in 2018. The Group will also strive to further promote sales of the Company's mainstay compound agents made from Fenoxasulfone and Pyrimisulfan with the aim of capturing and increasing market share.

In the insecticide for rice pest management sector, the Group will work to popularize and expand sales, mainly of the existing Isotianyl and Cyazpyr, in addition to preparing for the introduction and development of new agents.

In the horticulture products sector, the Group will develop promotion activities focused on Frupica, Propose, and Fantasista, which contain proprietary raw materials in an effort to further popularize and promote sales of these agents.

The Group will also focus efforts on new initiatives, including a tie-up with an agricultural drone manufacturer to promote sales of grain-sized herbicide.

In the special sales market, the Group will further strengthen marketing functions and work to establish new sales channels in addition to focusing efforts on sectors other than agricultural farmland, such as golf courses. In addition, the Group will expand its contract business, stressing high quality based on Kumiai Chemical Industry's outstanding manufacturing technology.

In the overseas market, the Group will rebuild its price strategy and strengthen cost competitiveness by working to cut costs that occur with the increase in sales volume. In addition, the Group will achieve efficient production and procurement by effecting more precise sales planning. The Group will strive to formulate and implement a sales strategy that prioritizes expanding sales of Axeev, the core of the overseas business, and it will achieve sustainable growth by strengthening and promoting the roll out of Nominee, which is a mainstay product, in the Asia region, primarily in India.

In the Fine Chemicals Business segment, the Group will endeavor to shift to a proposal-style business model based on the organic chemical technologies it has cultivated to date. It will also establish an evaluation system to reflect customer opinions of products as well as maximize the business by expanding into more downstream areas. The Group will make these efforts to grow the Fine Chemicals Business segment into a second core business alongside the Agricultural Chemicals Business segment.

In the production materials market, the Group will reorganize and optimize the production and procurement system for raw materials and intermediates, including the Group's affiliates. In addition, the Group will work to reduce costs for agents developed in house by developing and strengthening its global procurement system in an effort to improve its cost competitiveness and profitability. Moreover, the Group will promote safe operations as well as work to further enhance customer satisfaction through the appropriate operation of ISO systems.

In the research and development market, the Group will continually strengthen and promote its capabilities to develop innovative, high-value-added agricultural chemicals that meet customers' needs through the restructuring of its research and development framework and the acquisition of new functions. The Group will promote the gathering of information to accurately identify market needs and carry out field testing and research into agents developed in house based on a platform that guarantees registration functions. Going forward, we will work to expand in-house active ingredients by promoting development activities for the further creation of active ingredients and the market launch of those active ingredients ready in the pipeline.

Moreover, the Group will aim to further accelerate research and development by establishing flexible policies aimed at achieving the commercial production of new agents, build a global network in biological evaluation, and strategically utilize registration information and intellectual property information. The Group will also continue presenting proposals for new styles of agriculture through such means as the application of agricultural drones to spray agricultural chemicals and joint research with companies that possess crop growth diagnostic technology.

In the Other Businesses segment, the Group will work as follows in each business.

In the leasing business, the Group will continue to promote the effective utilization of owned real properties. In the construction business, the Group will continue working to increase its ability to gather technical information on construction methods and materials that meet customers' needs in an effort to speed up technical innovation. In the printing business, the Group will strengthen its initiatives to maintain and expand business from established customers and to regain orders from dormant customers. On the profit front, the Group will strive to strengthen cost competitiveness by raising internal productivity and promoting planned production based on close collaboration between production and sales. In the logistics business, the Group will develop proactive marketing activities, effectively utilize new warehouses, and work to expand special logistics, primarily for hazardous goods.

In addition to promoting the aforementioned business activities, the Kumiai Chemical Industry Group will build a workplace environment where employees can work in "Japan's happiest company," implementing initiatives from the viewpoint of working people by shortening total working hours and introducing more proactive benefits to support parenting and nursing care, staggered working hours systems and telecommuting systems aimed at the realization of a healthy work-life balance.

Kumiai Chemical Industry forecasts net sales of ¥95,000 million, operating income of ¥4,600 million, ordinary income of ¥6,400 million, and net income attributable to owners of the parent of ¥4,500 million in the earnings forecast for next fiscal year, ending October 31, 2018.

***(5) Basic Policy on Profit Distribution and Dividends for the Fiscal Year Ended October 31, 2017 and Fiscal Year Ending October 31, 2018***

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.

Based on this policy, and a comprehensive assessment of earnings in the fiscal year under review (the fiscal year ended October 31, 2017), the Company plans a year-end dividend of ¥8 per share.

As for the dividend for the fiscal year ending October 31, 2018, the Company plans a dividend of ¥8 per share in view of the earnings forecasts.



## 2. Quarterly Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2016	As of October 31, 2017
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits	5,789	14,283
Notes and accounts receivable-trade	10,666	21,006
Marketable securities	—	20
Merchandise and finished products	8,967	19,644
Work in process	3,195	9,220
Raw materials and supplies	1,442	4,404
Deferred tax assets	681	1,429
Other current assets	3,323	1,801
Allowance for doubtful accounts	(3)	(73)
<b>Total current assets</b>	<b>34,060</b>	<b>71,733</b>
<b>Fixed assets:</b>		
<b>Property, plant and equipment:</b>		
Buildings and structures, net	4,046	9,273
Machinery, equipment and vehicles, net	1,915	5,422
Land	6,418	11,495
Construction in progress	8	118
Other property, plant and equipment, net	491	999
<b>Total property and equipment</b>	<b>12,878</b>	<b>27,306</b>
Intangible fixed assets	301	386
<b>Investments and other assets:</b>		
Investments securities	35,413	35,484
Long-term loans	2	2,082
Deferred tax assets	304	569
Net defined benefit asset	1	147
Other	650	1,607
Allowance for doubtful accounts	—	(145)
<b>Total investments and other assets</b>	<b>36,369</b>	<b>39,743</b>
<b>Total fixed assets</b>	<b>49,548</b>	<b>67,435</b>
<b>Total assets</b>	<b>83,608</b>	<b>139,168</b>

	Millions of yen	
	As of October 31, 2016	As of October 31, 2017
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Notes and accounts payable-trade	9,026	12,772
Short-term loan payable	5,570	3,627
Accounts payable-other	1,614	3,528
Income taxes payable	98	772
Provision for bonuses	655	1,311
Provision for loss on contract research	70	—
Deferred tax liabilities	—	210
Other current liabilities	488	2,163
<b>Total current liabilities</b>	<b>17,521</b>	<b>24,384</b>
<b>Long-term liabilities:</b>		
Long-term loan payable	4,250	2,828
Deferred tax liabilities	1,487	7,456
Provision for directors' retirement benefits	330	575
Net defined benefit liability	2,463	4,159
Asset retirement obligations	37	38
Other long-term liabilities	255	362
<b>Total long-term liabilities</b>	<b>8,822</b>	<b>15,419</b>
<b>Total liabilities</b>	<b>26,344</b>	<b>39,803</b>
<b>NET ASSETS</b>		
<b>Shareholders' equity:</b>		
Capital stock	4,534	4,534
Capital surplus	5,029	35,907
Retained earnings	44,805	51,502
Less treasury stocks, at cost	(1,566)	(2,653)
<b>Total shareholders' equity</b>	<b>52,802</b>	<b>89,290</b>
<b>Accumulated other comprehensive income:</b>		
Valuation differences on available-for-sale securities	3,407	4,808
Foreign currency translation adjustments	(2,034)	(1,094)
Remeasurements of defined benefit plans	(331)	(145)
<b>Total accumulated other comprehensive income</b>	<b>1,042</b>	<b>3,569</b>
<b>Non-controlling interests</b>	<b>3,419</b>	<b>6,506</b>
<b>Total net assets</b>	<b>57,264</b>	<b>99,365</b>
<b>Total liabilities and net assets</b>	<b>83,608</b>	<b>139,168</b>

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

Consolidated Statements of Income

	Millions of yen	
	Year ended October 31, 2016	Year ended October 31, 2017
<b>Net sales</b>	62,549	77,817
<b>Cost of sales</b>	50,180	58,954
<b>Gross profits</b>	12,369	18,863
<b>Selling, general and administrative expenses</b>	10,102	15,099
<b>Operating income</b>	2,267	3,764
<b>Non-operating income:</b>		
Interest income	66	76
Dividend income	194	354
Reversal of allowance for doubtful accounts	—	2
Equity in earnings of affiliates	2,222	2,985
Foreign exchange gains	—	299
Other	151	141
<b>Total non-operating income</b>	2,634	3,857
<b>Non-operating expenses:</b>		
Interest expenses	49	58
Sales discounts	40	39
Foreign exchange losses	224	—
Other	110	84
<b>Total non-operating expenses</b>	423	180
<b>Ordinary income</b>	4,478	7,441
<b>Extraordinary income:</b>		
Gain on sales of fixed assets	—	5
Gain on sales of investment securities	1	36
Compensation income	—	18
Gain on change in equity	—	11
Gain on negative goodwill	—	2,813
<b>Total extraordinary income</b>	1	2,883
<b>Extraordinary loss:</b>		
Loss on disposal of fixed assets	37	195
Loss on sales of investment securities	—	166
Loss on valuation of investment securities	—	0
Compensation expenses	—	77
Loss associated with gradual acquisitions	—	841
Loss on valuation of golf club membership	—	5
Provision of allowance for loss on contract research	70	—
<b>Total extraordinary loss</b>	107	1,283
<b>Income before income taxes and non-controlling interests</b>	4,372	9,041
Current	665	1,325
Deferred	109	5
<b>Total income taxes</b>	775	1,330
<b>Net income</b>	3,597	7,711
<b>Net income attributable to non-controlling interests</b>	174	458
<b>Net income attributable to owners of parent</b>	3,423	7,252

## Consolidated Statements of Comprehensive Income

	Millions of yen	
	Year ended October 31, 2016	Year ended October 31, 2017
<b>Net income</b>	3,597	7,711
<b>Other comprehensive income:</b>		
Valuation difference on available-for-sale securities	(160)	1,204
Foreign currency translation adjustment	(100)	135
Remeasurements of defined benefit plans	19	143
Share of other comprehensive income of associates accounted for using equity method	(2,148)	1,085
<b>Total other comprehensive income (loss)</b>	<b>(2,390)</b>	<b>2,567</b>
<b>Comprehensive income</b>	<b>1,207</b>	<b>10,278</b>
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,091	9,779
Comprehensive income attributable to non-controlling interests	117	498

### (3) Consolidated Statements of Changes in Net Assets

Year ended October 31, 2016	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	5,033	42,024	(1,565)	50,026
Changes during the period					
Cash dividends			(642)		(642)
Net income attributable to owners of parent			3,423		3,423
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock					—
Increase by merger					—
Delivery of treasury stock by merger					—
Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries					—
Increase (decrease) in surplus due to purchase of treasury stock from consolidated subsidiaries					—
Increase (decrease) in retained earnings due to the merger of consolidated subsidiaries with non-consolidated subsidiaries					—
Purchase of shares of consolidated subsidiaries		(4)			(4)
Changes of scope of consolidation					—
Net changes during the period except for shareholders' equity					
Total changes during the period	—	(4)	2,781	(1)	2,776
Balance at the end of the period	4,534	5,029	44,805	(1,566)	52,802

Year ended October 31, 2016	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	3,770	(89)	(307)	3,374	3,386	56,787
Changes during the period						
Cash dividends						(642)
Net income attributable to owners of parent						3,423
Purchase of treasury stock						(1)
Disposal of treasury stock						—
Increase by merger						—
Delivery of treasury stock by merger						—
Increase (decrease) in capital surplus due to change in equity in consolidated subsidiaries						—
Increase (decrease) in surplus due to purchase of treasury stock from consolidated subsidiaries						—
Increase (decrease) in retained earnings due to the merger of consolidated subsidiaries with non-consolidated subsidiaries						—
Purchase of shares of consolidated subsidiaries						(4)
Changes of scope of consolidation						—
Net changes during the period except for shareholders' equity	(363)	(1,945)	(24)	(2,332)	33	(2,299)
Total changes during the period	(363)	(1,945)	(24)	(2,332)	33	477
Balance at the end of the period	3,407	(2,034)	(331)	1,042	3,419	57,264

Year ended October 31, 2017	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	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
Purchase of shares of consolidated subsidiaries					—
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

Year ended October 31, 2017	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	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
Purchase of shares of consolidated subsidiaries						—
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 Rikengreen Co., Ltd. and Ihara Construction Industry Co., Ltd., which are consolidated subsidiaries, by a resolution at a meeting of the Company's Board of Directors held on September 13, 2017. 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, 2016	Year ended October 31, 2017
<b>Cash flows from operating activities:</b>		
Income before income taxes and non-controlling interests	4,372	9,041
Depreciation and amortization	917	2,024
Decrease in allowance for doubtful accounts	(0)	(2)
Increase in provision for bonuses	18	104
Decrease in net defined benefit asset and liability	(42)	(169)
Decrease in provision for directors' retirement benefits	(61)	(116)
Increase (decrease) in provision for loss on contract research	70	(70)
Interest and dividend income	(260)	(431)
Equity in earnings of affiliates	(2,222)	(2,985)
Interest expenses	49	58
Foreign exchange losses (gains)	501	(362)
Loss on disposal of property, plant and equipment	37	190
Loss (gain) on sales of investment securities	(1)	130
Loss (gain) on change in equity	—	(11)
Gain on negative goodwill	—	(2,813)
Loss (gain) on gradual acquisitions	—	841
Compensation expenses	—	77
Decrease (increase) in notes and accounts receivable	(1,164)	304
Increase in inventories	(737)	(1,616)
Increase (decrease) in notes and accounts payable	(709)	2,010
Increase in advance payments	(2,316)	(155)
Other, net	(71)	(3)
<b>Sub total</b>	<b>(1,620)</b>	<b>6,044</b>
Interest and dividend income received	769	1,035
Interest expenses paid	(50)	(59)
Income taxes paid	(1,615)	(1,490)
Income taxes refund	—	206
Environmental countermeasure expenses paid	(35)	—
Compensation expenses paid	—	(77)
<b>Net cash provided by operating activities</b>	<b>(2,551)</b>	<b>5,660</b>
<b>Cash flows from investing activities:</b>		
Decrease (increase) in time deposits, net	(435)	15
Acquisitions of property, plant and equipment	(958)	(1,391)
Proceeds from sale of property, plant and equipment	—	41
Acquisitions of intangible assets	(85)	(26)
Acquisitions of investments in securities	(62)	(157)
Proceeds from redemption of investments in securities	(520)	(200)
Proceeds from sales of investments in securities	3	1,029
Payments of loans receivable	—	(803)
Collection of loans receivable	—	94
Purchase of insurance funds	(157)	(233)
Proceeds from maturity of insurance funds	111	185
Other, net	(26)	(46)
<b>Net cash used in investing activities</b>	<b>(1,089)</b>	<b>(1,092)</b>

	Millions of yen	
	Year ended October 31, 2016	Year ended October 31, 2017
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term bank loans, net	1,990	(7,662)
Repayment of long-term loans payable	(1,400)	(1,776)
Net increase in treasury stock	(1)	(7)
Cash dividends paid	(641)	(648)
Proceeds from stock issuance to non-controlling interests	—	26
Cash dividends paid to non-controlling interests	(77)	(107)
Purchase of investments in subsidiaries resulting in no change in scope of consolidation	(5)	—
Other, net	(98)	(154)
Net cash used in financing activities	(231)	(10,329)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(642)	370
<b>Net decrease in cash and cash equivalents</b>	(4,512)	(5,391)
<b>Cash and cash equivalents at beginning of year</b>	8,881	4,368
<b>Increase in cash and cash equivalents due to merger</b>	—	7,631
<b>Increase in cash and cash equivalents due to newly consolidated subsidiaries</b>	—	6,084
<b>Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation</b>	—	(37)
<b>Cash and cash equivalents at end of year</b>	4,368	12,656

(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.

As a result of the merger with the former Ihara Chemical Industry Co., Ltd. on May 1, 2017, the Company revised the methods of classification for its business segments. As a result, the former "Chemicals Segment" has been classified into the Agricultural Chemicals and Agriculture-Related Business segment in conjunction with the newly expanded scale of the agricultural chemical peripheral business. In addition, the fine chemicals business, which was previously included in the "Chemicals Segment," has been classified separately as the "Fine Chemicals Business" segment because of the increase in materiality due to an expansion in business scale, making these two segments new separately reportable segments. Furthermore, the previous "Leasing Segment" has been included in the "Other Businesses" segment due to a relative decline in its quantitative materiality.

Segment information for the previous fiscal year has been prepared and stated according to the post-change classification methods. 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, 2016 (From November 1, 2015 to October 31, 2016)

	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	55,828	2,243	58,071	4,478	62,549	—	62,549
Inter-segment	—	—	—	1,582	1,582	(1,582)	—
Total	55,828	2,243	58,071	6,060	64,131	(1,582)	62,549
Segment income/(loss)	2,421	38	2,458	594	3,053	(786)	2,267

(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 ¥786 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, 2017 (From November 1, 2016 to October 31, 2017)*

	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	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.
4. The assets of the Agricultural Chemicals and Agriculture-Related Businesses, Fine Chemicals Business, and Other Businesses segments increased in comparison with the period of the previous fiscal year as a result of the merger with the former Ihara Chemical Industry Co., Ltd.

(Substantial amount of negative goodwill recorded)

Effective from May 1, 2017, Kumiai Chemical Industry Co., Ltd. and the former Ihara Chemical Industry Co., Ltd. conducted a merger through absorption, with Kumiai Chemical Industry remaining as the surviving company and Ihara Chemical Industry dissolved as the absorbed company. As a result, Kumiai Chemical Industry recorded negative goodwill amounting to ¥2,813 million; however, this gain was not allotted to any of its business segments.

**(Significant Subsequent Event)**

**Transaction under Common Control**

*(Absorption-type Merger with a Subsidiary)*

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).