

KUMIAI CHEMICAL INDUSTRY CO., LTD.
Consolidated Financial Results for the Second Quarter Ended April 30, 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 Filing of Quarterly Securities Report: June 13, 2017
 Scheduled Commencement of Dividend Payment: —
 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, 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	
Six months ended April 30, 2017	¥38,087	(7.6)%	¥2,915	(14.3)%	¥4,523	3.8%	¥3,345	8.9%
Six months ended April 30, 2016	41,213	6.5	3,401	(3.8)	4,359	(2.4)	3,073	(4.2)

Notes: 1. Comprehensive income: Six months ended April 30, 2017: ¥3,571 million [158.5%] Six months ended April 30, 2016: ¥1,382 million [(68.4)%]
 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, 2017	¥42.10	¥ —
Six months ended April 30, 2016	38.67	—

(2) Consolidated Financial Position

(Millions of yen, except percentages)

	Total Assets	Net Assets	Equity Ratio
As of April 30, 2017	¥97,378	¥60,150	58.1%
As of October 31, 2016	83,608	57,264	64.4

(Reference) Shareholders' equity: As of April 30, 2017: ¥56,612 million As of October 31, 2016: ¥53,845 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, 2016	¥ —	¥ —	¥ —	¥8.00	¥8.00
Year ending October 31, 2017	—	0.00	—	—	—
Year ending October 31, 2017 (Forecast)	—	—	—	—	—

Note: Most recently announced revisions to dividend forecast: Yes

The forecast for the year-end dividends of the fiscal year ending October 31, 2017 is yet to be determined because it is necessary to examine the impact on business performance from the management integration with Ihara Chemical Industry Co., Ltd. on May 1, 2017, after no interim dividend was paid.

3. Consolidated Earnings Forecast (for the fiscal year ending October 31, 2017)

(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, 2017	¥ —	—%	¥ —	—%	¥ —	—%	¥ —	—%	¥ —

Notes: 1. Most recently announced revisions to consolidated earnings forecast: No

Kumiai Chemical Industry is currently examining the impact on company performance from the business integration with Ihara Chemical Industry on May 1, 2017, so it will disclose the full-year earnings forecasts for the year ending October 31, 2017 (November 1, 2016 – October 31, 2017) as soon as the details are finalized.

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, 2017	As of October 31, 2016
a) Number of shares issued (including treasury stock)	86,977,709 shares	86,977,709 shares
b) Number of treasury stock	7,505,859 shares	7,505,990 shares
	Six months ended April 30, 2017	Six months ended April 30, 2016
c) Average number of shares issued in the period	79,472,283 shares	79,472,157 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) Qualitative Information Regarding Consolidated Operating Results

During the cumulative second quarter period under review (November 1, 2016 to April 30, 2017), the Japanese economy underwent a moderate recovery, experiencing an increase in capital expenditure with an improvement in corporate earnings and an upward trend in mining and industrial production. Meanwhile, the future outlook remained unpredictable, with uncertainties in U.S. economic policy and economic trends in emerging and resource-rich countries.

In agriculture, there have been initiatives to enhance the agricultural product export business based on the Japanese government's Strategy for Strengthening Export Capacity of Agriculture, Fishery and Forestry Industries and the Agriculture, Fishery and Forestry Industries Export Infrastructure Development Program. In addition, attempts at reform have been implemented aimed at turning the agriculture, fishery and forestry industries into growing, competitive industries and increasing the incomes of agricultural workers under the Policy Package for Enhancing Competitiveness of Japan's Agriculture. However, many issues remain, including the decline and aging of the agricultural workforce, and Japanese agriculture is facing significant changes in its business environment.

Under these circumstances, Kumiai Chemical Industry promoted its business based on five key policies. These policies are i) Maintain sustainable growth; ii) Strengthen the corporate structure; iii) Promote research and development; iv) Promote international business development; and v) Enhance the development of human resources and the organization.

Net sales fell by ¥3,126 million, or 7.6%, from the same period of the previous fiscal year to ¥38,087 million due to the impact of a decline in shipments of AXEEV, a core product. On the earnings front, operating income declined by ¥486 million, or 14.3%, from the same period of the previous fiscal year to ¥2,915 million as a result of the fall in net sales and the recording of expenses accompanying the merger with Ihara Chemical Industry Co., Ltd. On the other hand, ordinary income was up by ¥164 million, or 3.8%, from the same period of the previous fiscal year to ¥4,523 million due to foreign exchange gains. Net income attributable to owners of parent increased by ¥272 million, or 8.9%, year on year to ¥3,345 million due to an increase in ordinary income.

Business results by segment were as follows

(Millions of yen, except percentages)

Segment	Six months ended April 30, 2017		Six months ended April 30, 2016		YoY	
	Net sales	Composition ratio	Net sales	Composition ratio	Amount	Rate of change
Chemicals	¥35,846	94.1%	¥38,990	94.6%	¥(3,144)	(8.1)%
Leasing	117	0.3	116	0.3	2	1.3
Other	2,123	5.6	2,107	5.1	16	0.8
Total	38,087	100.0	41,213	100.0	(3,126)	(7.6)

1) Chemicals Segment

Sales of farmland products in the domestic market saw a decline in paddy herbicides overall from the previous fiscal year, impacted by a fall in the sales of existing mainstay products such as Topgun due to intensified competition with rivals, even though sales of paddy herbicide Fenoxasulfone and Fenoxasulfone and Pyrimisulfan compounds were favorable.

On the other hand, sales of paddy planting box processor were on par with the previous fiscal year because sales of existing products declined even though the sales of mainstay Isotianil and Isotianil and Cyazpyr compounds remained favorable. Sales of horticultural products exceeded the same period of the previous fiscal year because sales of mainstay products such as fungicides Fantasista and Propose and pesticide Supracide rose.

Sales in the non-farmland sector, such as to golf courses, exceeded the same period of the previous fiscal year and were favorable for turf herbicides, active ingredients developed in-house, and contracted production items.

Sales in overseas markets were lower than in the same period of the previous fiscal year, impacted by a decline in sales of Nominee herbicide for direct seeded rice due to competition with generic products and inventory adjustments for AXEEV, an upland herbicide, although sales of cotton herbicide STAPLE recovered in the United States.

As a result, net sales in the Chemicals segment declined by ¥3,144 million, or 8.1%, from the same period of the previous fiscal year to ¥35,846 million. Operating income in the segment fell by ¥250 million, or 7.3%, from the same period of the previous fiscal year to ¥3,182 million.

2) Leasing Segment

Net sales in the Leasing segment increased by ¥2 million, or 1.3%, from the same period of the previous fiscal year to ¥117 million (net sales including internal inter-segment sales were ¥209 million) as a result of ongoing efforts to effectively utilize owned assets. Operating income in the segment declined by ¥0 million, or 0.3%, from the same period of the previous fiscal year to ¥133 million.

3) Others Segment

The Others segment is composed of the logistics business, the printing business, the information services business, the environmental chemical substances measurement business, and electricity sales from mega solar power, and both sales and income of this segment exceeded the same period of the previous fiscal year. Although sales in the logistics business rose due to an increase in new transactions, income was lower than in the same period of the previous fiscal year, impacted by such factors as an increase in vehicle chartering costs. Sales and income in the printing business both exceeded those in the same period of the previous fiscal year due to an expansion in sales to existing customers. Both revenue and income of the mega solar power business exceeded the same period of the previous fiscal year thanks to good weather.

As a result, net sales in the Others segment increased by ¥16 million, or 0.8%, from the same period of the previous fiscal year to ¥2,123 million, and operating income was up by ¥9 million, or 4.8%, to ¥196 million.

(2) Qualitative Information Regarding Consolidated Financial Position

Changes in Financial Position

Total assets on a consolidation basis as of April 30, 2017 stood at ¥97,378 million, up by ¥13,770 million from the end of the previous fiscal year. This was primarily due to increases in cash and deposits and notes and accounts receivable-trade, which exceeded a decrease in merchandise and finished products.

Liabilities stood at ¥37,228 million, up by ¥10,884 million from the end of the previous fiscal year. This was primarily due to increases in notes and accounts payable-trade and short-term loans payable, which exceeded a decrease in long-term loans payable.

Net assets totaled ¥60,150 million as of April 30, 2017 with an equity ratio of 58.1% and net assets per share of ¥712.36.

(3) Qualitative Information Regarding Consolidated Earnings Forecast

Kumiai Chemical Industry is currently examining the impact on company performance from the management integration with Ihara Chemical Industry on May 1, 2017 and will disclose the full-year earnings forecasts for the fiscal year ending October 31, 2017 (November 1, 2016 – October 31, 2017) as soon as the details are finalized.

2. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of October 31, 2016	As of April 30, 2017
ASSETS		
Current assets:		
Cash and deposits	5,789	6,788
Notes and accounts receivable-trade	10,666	25,739
Merchandise and finished products	8,967	6,541
Work in process	3,195	3,077
Raw materials and supplies	1,442	1,698
Deferred tax assets	681	680
Other current assets	3,323	2,661
Allowance for doubtful accounts	(3)	(3)
Total current assets	34,060	47,182
Fixed assets:		
Property, plant and equipment:		
Buildings and structures, net	4,046	3,974
Machinery, equipment and vehicles, net	1,915	1,827
Land	6,418	6,425
Construction in progress	8	195
Other property, plant and equipment, net	491	485
Total property and equipment	12,878	12,906
Intangible fixed assets	301	278
Investments and other assets:		
Investments securities	35,413	36,092
Deferred tax assets	304	296
Net defined benefit asset	1	—
Other	651	624
Total investments and other assets	36,369	37,013
Total fixed assets	49,548	50,196
Total assets	83,608	97,378

	Millions of yen	
	As of October 31, 2016	As of April 30, 2017
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	9,026	12,804
Short-term loan payable	5,570	14,520
Accounts payable-other	1,614	925
Income taxes payable	98	831
Provision for bonuses	655	533
Provision for loss on contract research	70	70
Other current liabilities	488	685
Total current liabilities	17,521	30,368
Long-term liabilities:		
Long-term loan payable	4,250	2,550
Deferred tax liabilities	1,487	1,452
Provision for directors' retirement benefits	330	167
Net defined benefit liability	2,463	2,392
Asset retirement obligations	37	38
Other long-term liabilities	255	261
Total long-term liabilities	8,822	6,859
Total liabilities	26,344	37,228
NET ASSETS		
Shareholders' equity:		
Capital stock	4,534	4,534
Capital surplus	5,029	5,029
Retained earnings	44,805	47,541
Less treasury stocks, at cost	(1,566)	(1,566)
Total shareholders' equity	52,802	55,538
Accumulated other comprehensive income:		
Valuation differences on available-for-sale securities	3,407	3,282
Foreign currency translation adjustments	(2,034)	(1,917)
Remeasurements of defined benefit plans	(331)	(290)
Total accumulated other comprehensive income	1,042	1,075
Non-controlling interests	3,419	3,538
Total net assets	57,264	60,150
Total liabilities and net assets	83,608	97,378

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

	Millions of yen	
	Six months ended April 30, 2016	Six months ended April 30, 2017
Net sales	41,213	38,087
Cost of sales	32,527	29,608
Gross profits	8,686	8,479
Selling, general and administrative expenses	5,285	5,564
Operating income	3,401	2,915
Non-operating income:		
Interest income	33	30
Dividend income	125	214
Equity in earnings of affiliates	1,119	1,332
Foreign exchange gains	—	75
Other	85	55
Total non-operating income	1,362	1,706
Non-operating expenses:		
Interest expenses	22	56
Sales discounts	28	27
Foreign exchange losses	329	—
Other	25	15
Total non-operating expenses	404	98
Ordinary income	4,359	4,523
Extraordinary income:		
Gain on sales of fixed assets	—	2
Gain on sales of investment securities	1	—
Gain on change in equity	—	11
Total extraordinary income	1	13
Extraordinary loss:		
Loss on disposal of fixed assets	13	31
Compensation expenses	—	77
Total extraordinary loss	13	108
Income before income taxes and non-controlling interests	4,347	4,429
Income taxes	1,122	923
Net income	3,226	3,505
Net income attributable to non-controlling interests	152	160
Net income attributable to owners of parent	3,073	3,345

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended April 30, 2016	Six months ended April 30, 2017
Net income	3,226	3,505
Other comprehensive income:		
Valuation difference on available-for-sale securities	(822)	(108)
Foreign currency translation adjustment	(94)	68
Remeasurements of defined benefit plans	21	23
Share of other comprehensive income of associates accounted for using equity method	(948)	83
Total other comprehensive income (loss)	(1,844)	66
Comprehensive income	1,382	3,571
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,273	3,378
Comprehensive income attributable to non-controlling interests	108	194

(Significant Subsequent Event)

(Business Combination through Acquisition)

The respective meetings of the Boards of Directors of Kumiai Chemical Industry Co., Ltd. and Ihara Chemical Co., Ltd. held on December 16, 2016 resolved on a merger between the two companies with Kumiai Chemical Industry as the surviving company and Ihara Chemical as the absorbed company (the "Merger") subject to the approval by the general meetings of shareholders of both companies and concluded a merger agreement between the companies.

The merger agreement was approved at the regular General Meeting of Shareholders of Kumiai Chemical Industry held on January 27, 2017 and that of Ihara Chemical Industry held on January 24, 2017, and the merger was implemented on May 1, 2017.

1. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

Name: IHARA CHEMICAL INDUSTRY CO., LTD.

Business description: Manufacture and sale of agricultural chemical active ingredients and fine chemicals

(2) Main reasons for the business combination

Kumiai Chemical Industry and Ihara Chemical Industry have conducted business in a cooperative and complimentary way. While new agricultural chemicals were created and developed jointly, Ihara Chemical Industry manufactured the active ingredients and Kumiai Chemical Industry handled commercialization and sales, in what was a separation of manufacturing and sales.

The agricultural chemical business, which is the core business of both companies, is currently undergoing major changes in its business environment in Japan. Meanwhile, worldwide, against a backdrop of population increases and economic growth in developing countries, the importance of agricultural production has been on the rise. Given the perpetually changing business environment surrounding the agriculture and agricultural chemical business both in Japan and worldwide, we have concluded that by deploying the following growth strategy, the integration of our companies will provide the best opportunity to win out over the competition and maximize corporate value.

- 1) Unify processes, ranging from the creation of agricultural chemicals to active ingredient procurement, formulation and sales, which thus far have been handled separately, so as to consolidate and maximally leverage management resources and thereby enhance competitiveness.
- 2) In the core agricultural chemical business, utilize the strong relationships of trust with customers, technologies, and know-how that we have cultivated thus far to raise our capacity to develop innovative agricultural chemicals, and to enhance and promote business in Japan as well as in countries and regions worldwide, and in Asia in particular, thereby achieving continued growth.
- 3) In the fine chemicals business, utilize the technologies, global procurement capabilities and strong relationships of trust with customers that we have cultivated thus far in order to maximize business value.
- 4) Through information centralization, make decisions quickly and precisely so as to minimize business risks; build a stable business foundation and expand our corporate scale through the appropriate allocation and effective use of integrated management resources.
- 5) Increase profitability using various cost-reduction measures.

(3) Date of the business combination

May 1, 2017

(4) Legal form of business combination

An absorption-type merger, with Kumiai Chemical Industry as the surviving company and Ihara Chemical Industry as the absorbed company

(5) Name of company after the business combination

KUMIAI CHEMICAL INDUSTRY CO., LTD.

Going forward, we will consider and decide on a new trade name that is suitable for the image of the new company.

(6) Percentage of voting rights acquired

Percentage of voting rights acquired following the acquisition: 100%

(7) Main grounds leading determination of acquired company

Kumiai Chemical Industry acquired the shares of Ihara Chemical Industry with delivery of shares and treasury stock as consideration.

2 Details of the Merger

(1) Merger ratio and number of shares delivered in the Merger

	KUMIAI CHEMICAL INDUSTRY CO., LTD. (Surviving company)	IHARA CHEMICAL INDUSTRY CO., LTD. (Absorbed company)
Merger ratio	Common stock: 1	Common stock: 1.57
Delivery of shares due to Merger	Common stock: 52,206,903 shares (6,000,000 of which are shares of treasury stock owned by Kumiai Chemical Industry)	

(2) Method of calculation of merger ratio

In order to ensure the fairness of the merger ratio, each company individually contracted an independent third-party appraiser to calculate the merger ratio. Kumiai Chemical Industry selected Nomura Securities Co., Ltd. and Ihara Chemical Industry selected Daiwa Securities Co., Ltd. as third-party appraisers.

Kumiai Chemical Industry and Ihara Chemical Industry Co., Ltd. carefully reviewed the results of analysis and advice on the merger ratio submitted from each of the third-party appraisers on December 15, 2016. Each of them considered the financial position, earnings trends, share price trends and other factors at both companies and both companies engaged in sincere negotiation and consultation concerning the merger ratio. As a result, both companies judged, agreed and determined that the aforementioned merger ratio was appropriate and would contribute to the interests of their respective shareholders.

(3) Amount of goodwill, reason for occurrence of goodwill, and method and period of amortization

The impact on the consolidated financial statements including the aforementioned items is currently being calculated and is yet to be finalized.