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August 9, 2019

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 31, 2019 <under Japanese GAAP>

Company name: **OAT Agrio Co., Ltd.**
Listing: Tokyo Stock Exchange
Securities code: 4979
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Scheduled date to file Quarterly Securities Report: August 14, 2019
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: None
Holding of quarterly financial results presentation meeting: None

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the first six months of the fiscal year ending December 31, 2019 (from January 1, 2019 to June 30, 2019)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

Six months ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2019	12,901	35.5	1,834	(17.1)	1,673	(24.7)	1,074	(30.0)
June 30, 2018	9,518	8.5	2,212	4.7	2,221	7.0	1,535	9.1

Note: Comprehensive income Six months ended June 30, 2019: ¥601 million [(56.3)%]
Six months ended June 30, 2018: ¥1,378 million [(2.3)%]

Six months ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
June 30, 2019	198.47	—
June 30, 2018	283.66	—

Note: Diluted earnings per share is not presented because there are no potential shares.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2019	31,655	7,889	22.5	1,317.16
December 31, 2018	29,980	7,518	22.5	1,244.79

Reference: Equity As of June 30, 2019: ¥7,128 million
As of December 31, 2018: ¥6,737 million

Note: During the first six months of the fiscal year ending December 31, 2019, finalization of provisional accounting treatment relating to business combination was carried out, and each of the figures for the fiscal year ended December 31, 2018, reflects the result of the finalization of provisional accounting treatment.

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2018	—	0.00	—	40.00	40.00
Fiscal year ending December 31, 2019	—	0.00			
Fiscal year ending December 31, 2019 (Forecast)			—	40.00	40.00

Note: Revisions to the dividends forecasts most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending December 31, 2019	22,995	50.5	1,869	6.0	1,676	(4.6)	1,007	(19.9)	186.06

Note: Revisions to the earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting for preparing quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- a. Changes in accounting policies in accordance with changes in accounting standards, etc.: Yes
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement: None

Note: For more details, please refer to the section of “2. Quarterly consolidated financial statements and significant notes thereto, (4) Notes to quarterly consolidated financial statements, Change in accounting policy” on page 10 of the attached materials.

(4) Number of shares issued (common shares)

- a. Number of shares issued at the end of the period (including treasury shares)

As of June 30, 2019	5,536,000 shares
As of December 31, 2018	5,536,000 shares

- b. Number of treasury shares at the end of the period

As of June 30, 2019	123,863 shares
As of December 31, 2018	123,817 shares

- c. Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended June 30, 2019	5,412,145 shares
Six months ended June 30, 2018	5,412,261 shares

*** Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

*** Proper use of earnings forecasts, and other special matters**

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, the statements herein do not constitute assurances regarding the Company’s actual results. Actual financial and other results may differ substantially from the statements herein due to various factors.

Attached Materials

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1. Qualitative information regarding financial results for the first six months

(1) Information regarding operating results

In the first six months of the fiscal year ending December 31, 2019, the Japanese economy continued to follow a trend of moderate recovery owing to the continuation of improvements in the employment and income environments due to the government's economic policy. However, the economic slowdown is intensifying and we expect a decrease in exports, primarily to China, and sluggish production activities due to the impact of trade friction between the U.S. and China.

Under these conditions, in the first six months under review, net sales was ¥12,901 million, up ¥3,383 million or 35.5% year on year, operating profit was ¥1,834 million, down ¥377 million or 17.1% year on year, ordinary profit was ¥1,673 million, down ¥548 million or 24.7% year on year and profit attributable to owners of parent was ¥1,074 million, down ¥461 million or 30.0% year on year.

As described above, net sales of OAT Agrio Group (the "Group") in the first six months under review increased year on year, due to the consolidation of LIDA Plant Research, S.L. (including CAPA Ecosystems, S.L.) of Spain, and Chrysal International B.V. (Blue Wave Holding B.V.) of the Netherlands, acquired in 2018, despite a decrease in sales of agricultural chemicals in domestic market.

On the other hand, operating profit decreased year on year due to expenses related to the acquisition of the above two companies and an increase in non-consolidated R&D expenses.

The Group has a single business segment, the AgriTechno Business. The status of operating results by business fields in this segment are as follows.

In the agrichemicals field, net sales decreased as the progress of the full switchover from the fungicide *Gatten* to the new fungicide *Shochinosuke* for Japan saw delays, in addition to trade inventory adjustments in the U.S. of the fungicide *Kaligreen* for overseas. As a result, overall net sales in the agrichemicals field decreased by ¥295 million, or 4.1% year on year, to ¥6,977 million.

In the fertilizer and biostimulant field, net sales increased due to the consolidation of two overseas subsidiaries despite a year-on-year decrease in *ATONIK*-related net sales due to a drought in Indonesia and registration delays in India, both of which are the main sales territories in Asia. As a result, overall net sales in the fertilizer and biostimulant field increased by ¥3,679 million, or 163.9% year on year, to ¥5,924 million.

(2) Information regarding financial position

a. Position of assets, liabilities, and net assets

Total assets as of June 30, 2019, was ¥31,655 million, an increase of ¥1,675 million compared to December 31, 2018. This was mainly the result of increases of ¥377 million in cash and deposits and ¥2,251 million in notes and accounts receivable - trade.

Total liabilities was ¥23,766 million, an increase of ¥1,305 million compared to December 31, 2018. This was mainly the result of a decrease of ¥5,336 million in short-term loans payable and increases of ¥418 million in income taxes payable and ¥5,935 million in long-term loans payable.

Net assets was ¥7,889 million, an increase of ¥370 million compared to December 31, 2018. This was mainly the result of an increase of ¥857 million in retained earnings and a decrease of ¥491 million in foreign currency translation adjustment.

b. Cash flows

Cash and cash equivalents as of June 30, 2019, was ¥2,676 million, an increase of ¥381 million compared to December 31, 2018.

Net cash provided by operating activities was ¥334 million (¥1,356 million was used in the same period of the previous fiscal year). The main sources of cash were profit before income taxes of ¥1,658 million, depreciation of ¥389 million, decrease in inventories of ¥523 million. The main use of cash was an increase in notes and accounts receivable - trade of ¥2,311 million.

Net cash used in investing activities was ¥280 million (¥110 million was used in the same period of the previous fiscal year). The main use of cash was purchase of property, plant and equipment of ¥208 million.

Net cash provided by financing activities was ¥329 million (¥4,279 million was provided in the same period of the previous fiscal year). The main source of cash was proceeds from long-term loans payable of ¥6,944 million. The main uses of cash were decrease in short-term loans payable of ¥5,115 million, repayments of long-term loans payable of ¥1,202 million and cash dividends paid of ¥216 million.

(3) Information regarding consolidated earnings forecasts and other forward-looking statements

The consolidated earnings forecasts for the fiscal year ending December 31, 2019, announced in “Consolidated Financial Results for the Fiscal Year Ended December 31, 2018” on February 14, 2019, have not been changed.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Millions of yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	2,474	2,852
Notes and accounts receivable - trade	5,135	7,387
Merchandise and finished goods	3,629	3,069
Work in process	552	606
Raw materials and supplies	1,469	1,410
Other	663	881
Allowance for doubtful accounts	(65)	(31)
Total current assets	13,859	16,174
Non-current assets		
Property, plant and equipment	3,219	3,502
Intangible assets		
Goodwill	9,965	9,105
Other	1,961	1,828
Total intangible assets	11,927	10,934
Investments and other assets	974	1,043
Total non-current assets	16,120	15,480
Total assets	29,980	31,655
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,489	2,502
Short-term loans payable	13,782	8,446
Income taxes payable	216	635
Provision for sales returns	15	17
Provision for sales rebates	38	143
Provision for bonuses	33	39
Other	1,884	1,838
Total current liabilities	18,461	13,622
Non-current liabilities		
Long-term loans payable	2,860	8,795
Net defined benefit liability	219	237
Deferred tax liabilities	518	449
Other	402	660
Total non-current liabilities	3,999	10,143
Total liabilities	22,461	23,766

(Millions of yen)

	As of December 31, 2018	As of June 30, 2019
Net assets		
Shareholders' equity		
Capital stock	461	461
Capital surplus	2,410	2,410
Retained earnings	4,281	5,139
Treasury shares	(161)	(161)
Total shareholders' equity	6,991	7,849
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(56)	(29)
Foreign currency translation adjustment	(179)	(671)
Remeasurements of defined benefit plans	(18)	(20)
Total accumulated other comprehensive income	(254)	(720)
Non-controlling interests	781	760
Total net assets	7,518	7,889
Total liabilities and net assets	29,980	31,655

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income (cumulative)

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Net sales	9,518	12,901
Cost of sales	5,047	6,967
Gross profit	4,470	5,933
Selling, general and administrative expenses	2,258	4,099
Operating profit	2,212	1,834
Non-operating income		
Interest income	8	8
Dividend income	3	4
Technical support fee	–	41
Foreign exchange gains	11	–
Other	3	27
Total non-operating income	26	82
Non-operating expenses		
Interest expenses	16	140
Commission fee	–	76
Foreign exchange losses	–	23
Other	0	3
Total non-operating expenses	17	243
Ordinary profit	2,221	1,673
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Loss on valuation of shares of subsidiaries and associates	1	15
Total extraordinary losses	1	15
Profit before income taxes	2,220	1,658
Income taxes - current	676	644
Income taxes - deferred	13	(72)
Total income taxes	690	571
Profit	1,530	1,086
Profit (loss) attributable to non-controlling interests	(4)	12
Profit attributable to owners of parent	1,535	1,074

Consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Profit	1,530	1,086
Other comprehensive income		
Valuation difference on available-for-sale securities	(27)	26
Foreign currency translation adjustment	(126)	(510)
Remeasurements of defined benefit plans, net of tax	1	(1)
Total other comprehensive income	(152)	(484)
Comprehensive income	1,378	601
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,414	608
Comprehensive income attributable to non-controlling interests	(36)	(6)

(3) Consolidated statement of cash flows

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	2,220	1,658
Depreciation	115	389
Amortization of goodwill	15	360
Increase (decrease) in provision for directors' retirement benefits	(1)	–
Increase (decrease) in net defined benefit liability	3	19
Increase (decrease) in allowance for doubtful accounts	(3)	(28)
Increase (decrease) in provision for sales returns	(2)	1
Increase (decrease) in provision for sales rebates	122	104
Increase (decrease) in provision for bonuses	3	5
Interest and dividend income	(11)	(13)
Interest expenses	16	140
Commission fee	–	76
Foreign exchange losses (gains)	(10)	(13)
Loss (gain) on sales and retirement of non-current assets	(0)	(0)
Loss on valuation of shares of subsidiaries and associates	1	15
Decrease (increase) in notes and accounts receivable - trade	(3,153)	(2,311)
Decrease (increase) in inventories	(476)	523
Increase (decrease) in notes and accounts payable - trade	393	62
Other, net	(257)	(280)
Subtotal	(1,024)	708
Interest and dividend income received	11	13
Interest expenses paid	(14)	(140)
Income taxes paid	(329)	(247)
Net cash provided by (used in) operating activities	(1,356)	334
Cash flows from investing activities		
Net decrease (increase) in time deposits	181	2
Purchase of property, plant and equipment	(175)	(208)
Purchase of intangible assets	(4)	(63)
Purchase of investment securities	(102)	–
Purchase of shares of subsidiaries and associates	(15)	–
Payments for lease deposits	(3)	(0)
Other, net	9	(10)
Net cash provided by (used in) investing activities	(110)	(280)

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	4,507	(5,115)
Repayments of long-term loans payable	(17)	(1,202)
Proceeds from long-term loans payable	–	6,944
Repayments of lease obligations	(3)	(69)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(194)	(216)
Dividends paid to non-controlling interests	(12)	(11)
Net cash provided by (used in) financing activities	4,279	329
Effect of exchange rate change on cash and cash equivalents	(6)	(1)
Net increase (decrease) in cash and cash equivalents	2,806	381
Cash and cash equivalents at beginning of period	1,632	2,294
Cash and cash equivalents at end of period	4,439	2,676

(4) Notes to quarterly consolidated financial statements

Notes on premise of going concern

No items to report.

Notes on substantial changes in the amount of shareholders' equity

No items to report.

Change in accounting policy

The Group's subsidiaries that apply IFRS have adopted IFRS 16 "Leases" (released January 2016) effective from the first quarter of the fiscal year ending December 31, 2019. With the adoption of IFRS 16, the said subsidiaries have adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application, which is the approved approach for the transitional adoption period.

As the effect of the adoption of this standard, property, plant and equipment increased by ¥387 million, other under current liabilities increased by ¥126 million and other under non-current liabilities increased by ¥287 million in the quarterly consolidated balance sheet.

The impact of this change on profit and loss for the first six months of the fiscal year ending December 31, 2019 was immaterial.

Segment information, etc.

[Segment information]

As the Group consists of a single business segment, the AgriTechno Business, this information is omitted.