

Consolidated Financial Report for the First Half Ended September 30, 2020

October 30, 2020

Company name: Ube Industries, Ltd.
 Representative: Masato Izumihara,
 President and Representative Director
 Security code: 4208 (shares listed on First Section of Tokyo
 Stock Exchange and Fukuoka Stock
 Exchange)
 URL: <http://www.ube.co.jp/>
 Date of dividend payment: December 2, 2020
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(Amounts rounded to the nearest million yen)

1. Consolidated Financial Results for the First Half Ended September 30, 2020

(From April 1, 2020 to September 30, 2020)

(1) Consolidated Operating Results

(% indicates the rate of increase / decrease to the same period of previous year)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
April – September 2020	280,013 (16.4)%	3,410 (79.6)%	1,520 (90.9)%	272 (97.5)%
April – September 2019	335,062 (3.8)%	16,755 11.4%	16,642 (11.0)%	10,790 (12.6)%

(Note) Comprehensive Income: From April 1, 2020 to September 30, 2020: 1,527 Million Yen (83.3)%
 From April 1, 2019 to September 30, 2019: 9,123 Million Yen (42.7)%

	Net income per share (Yen)	Diluted net income per share (Yen)
April – September 2020	2.69	2.68
April – September 2019	106.77	106.44

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio (%)
September 30, 2020	706,071	351,138	46.8
March 31, 2020	727,269	354,447	45.7

(Reference) Shareholders' equity: As of September 30, 2020: 330,382 Million Yen
 As of March 31, 2020: 332,395 Million Yen

[Shareholders' equity = Net assets – Share acquisition rights – Non-controlling interests]

2. Cash Dividends

	Cash dividends per share (Yen)				
	First quarter	Second quarter	Third quarter	Year end	Annual
April 2019 – March 2020	-	45.00	-	45.00	90.00
April 2020 – March 2021	-	45.00			
April 2020 – March 2021 (Forecast)			-	45.00	90.00

(Note) Revision of the latest forecast of cash dividends: No

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2021

(From April 1, 2020 to March 31, 2021)

(% indicates the rate of increase / decrease to the same period of previous year)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share (Yen)
April 2020 – March 2021	592,000 (11.4)%	21,500 (36.8)%	17,500 (51.0)%	13,000 (43.4)%	128.54

(Note) Revision of the latest forecast of consolidated financial results: No

(Notes)

(1) Changes in significant subsidiaries during the first half ended September 30, 2020: No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first half ended September 30, 2020.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For more details, please refer to "5. Consolidated Financial Statements (4) Notes to Quarterly Consolidated Financial Statements (Application of the special accounting methods for preparing the quarterly consolidated financial statements)".

(3) Changes in accounting policies applied, changes in accounting estimates and retrospective restatement

Changes in accounting policies applied due to revisions of accounting standards: No

Changes in accounting policies other than the above: No

Changes in accounting estimates: No

Retrospective restatement: No

(4) Number of shares outstanding (common stock)

	September 30, 2020	March 31, 2020
Numbers of shares outstanding at period end	106,200,107	106,200,107
Numbers of shares of treasury stock at period end	5,064,128	5,098,529
	April – September 2020	April – September 2019
Weighted-average number of shares outstanding during period	101,131,400	101,059,831

(Information regarding quarterly review procedures)

The financial information contained in this report is not subject to quarterly review procedures by independent auditors.

(Cautionary statement on forward-looking statements)

The performance forecast and other forward-looking statements contained in this material have been prepared on the basis of information available at this point and certain assumptions which are judged to be rational. It may be substantially different from the actual performance because of various factors such as economic conditions in key markets, supply and demand of products, the prices of raw material and fuel, interest rates, and exchange rates.

4. Qualitative Information on Operating Results

(1) Overview of Operating Results

During the current term, net sales of the Company Group decreased because the outbreak of COVID-19 greatly affected its overall business performance, especially in the Chemical Segment. For example, sales volume of products for auto such as the synthetic rubbers and battery materials decreased and pricing of products such as nylon and caprolactam declined as well. Although the impact of the COVID-19 outbreak intensified from the beginning of the term to the middle of the second quarter, the business performance of the Corporate Group began gradually recovering thereafter.

Operating profit decreased despite the impact of falling coal prices because declines in product pricing such as nylon, caprolactam greatly affected overall business performance. In addition, non-operating income shrank due to worsening share of profit of entities accounted for using equity method and reduced dividend income, causing a decrease in both ordinary profit and profit attributable to owners of parent.

As a result, the Company Group reports its consolidated results during the current term as follows:

(Billions of yen)				
Item	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
April – September 2020 ①	280.0	3.4	1.5	0.2
April – September 2019 ②	335.0	16.7	16.6	10.7
Difference ① - ②	(55.0)	(13.3)	(15.1)	(10.5)
Percentage change	(16.4)%	(79.6)%	(90.9)%	(97.5)%

(2) Overview by Segment

Net sales (Billions of yen)				
Segment	April – September 2020 ①	April – September 2019 ②	Difference ① – ②	Percentage change
Chemicals	112.3	146.4	(34.1)	(23.3)%
Construction Materials	139.1	152.7	(13.5)	(8.9)%
Machinery	34.9	42.0	(7.0)	(16.8)%
Others	1.4	2.3	(0.8)	(37.0)%
Adjustment	(7.8)	(8.4)	0.5	-
Total	280.0	335.0	(55.0)	(16.4)%

Operating profit (Billions of yen)				
Segment	April – September 2020 ①	April – September 2019 ②	Difference ① – ②	Percentage change
Chemicals	(2.5)	8.3	(10.8)	-
Construction Materials	5.6	6.7	(1.0)	(16.2)%
Machinery	0.2	1.6	(1.4)	(85.0)%
Others	0.1	0.2	(0.0)	(32.5)%
Adjustment	(0.0)	(0.2)	0.1	-
Total	3.4	16.7	(13.3)	(79.6)%

Chemicals – Decreases in both net sales and operating profit

■ Engineering Plastics & Fine Chemicals

The Caprolactam Business recorded a decrease in net sales due to declines in product pricing after the outbreak of COVID-19, which caused market prices for ingredients such as benzene to decrease.

The Nylon Business recorded a decrease in net sales due to falling product pricing caused by weak market prices for caprolactam as well as weakened demand for products such as those used in the automobile industry after the outbreak of COVID-19.

The Industrial Chemicals Business recorded a sales decrease because both production and shipment volume decreased as a result of factors such as the biennial inspection of the ammonia product factory.

The Fine Chemicals Business recorded a decrease in net sales because sales volume of its products decreased, particularly the products for automobile, due to the outbreak of COVID-19.

Both net sales and operating profit decreased in the Engineering Plastics and Fine Chemicals Businesses as a whole because the biennial inspection of the ammonia product factory was conducted and effects of the outbreak of COVID-19 such as declines in pricing of the products.

■ The Synthetic Rubber Business recorded decreases in both net sales and operating profit due to drastically reduced shipment of the products mainly used for tires, as well as falling market prices.

■ Specialty Products

The Battery Materials Business recorded a net sales decrease due to reduced sale volume caused by harsher competition in the Chinese market and shrinking demand for products used in the automobile industry due to the outbreak of COVID-19.

The Polyimide Business recorded an increase in net sales, because sales volume of the COF films mainly used on displays remained stable and expansion of demand for varnish used for organic EL panels drove an increase in sale volume.

Both net sales and operating profit decreased in the Specialty Products Business as a whole because sluggish sales in the Battery Materials Business greatly affected it overall.

■ The Pharmaceutical Business recorded decreases in both net sales and operating profit because product shipment was sluggish in comparison with the same period of the previous fiscal year when sales of both drugs developed by UBE and those manufactured under contract were strong.

■ Both net sales and operating profit decreased in the Chemicals Segment as a whole due to both sales volume and product pricing decreasing, mainly due to the outbreak of COVID-19 and the biennial inspection of the ammonia product factory.

Construction Materials – Decreases in both net sales and operating profit

■ The Cement and Ready-Mixed Concrete Business recorded a decrease in net sales because product shipment decreased due to the outbreak of COVID-19, which caused delay of public construction projects as well as suspension of construction project orders from mainly major general contractors.

■ The Calcia and Magnesia Business recorded a decrease in net sales due to decreases in sales volume of the quicklime used in the steel industry and the magnesia used in the steel and electric power industries.

■ The Energy Business recorded a net sales decrease, due to decreases in sales volume and prices of coal.

■ Both net sales and operating profit decreased in the Construction Materials Segment as a whole. Although falling prices for the coal used as a raw material had some positive impact, the decline in calcia and magnesia sales volume greatly affected the overall business.

Machinery – Decreases in both net sales and operating profit

■ The Molding Machine Business recorded a decrease in net sales due to sluggish sales resulting from the severe business environment faced by the automobile industry.

■ The Industrial Machines Business recorded an increase in net sales thanks to the strong sales of products such as conveyors used in the electric power industry, as well as the effects of taking over the Chemical Equipment Business.

■ The Steel Products Business recorded a decrease in net sales because product pricing fell as raw material prices declined.

■ The Machinery Segment as a whole recorded decreases in both net sales and operating profit because it was strongly affected by sluggish sales of molding machines and steel products.

Others – Decreases in both net sales and operating profit

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	41,226	48,030
Notes and accounts receivable - trade	158,140	130,507
Merchandise and finished goods	43,171	38,900
Work in process	21,200	23,500
Raw materials and supplies	29,371	30,896
Other	11,353	12,941
Allowance for doubtful accounts	(505)	(488)
Total current assets	303,956	284,286
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	87,942	88,016
Machinery, equipment and vehicles, net	139,844	135,307
Land	76,059	75,897
Other, net	26,197	29,046
Total property, plant and equipment	330,042	328,266
Intangible assets		
Goodwill	524	532
Other	6,890	6,919
Total intangible assets	7,414	7,451
Investments and other assets		
Investment securities	53,326	54,395
Other	32,860	31,976
Allowance for doubtful accounts	(497)	(499)
Total investments and other assets	85,689	85,872
Total non-current assets	423,145	421,589
Deferred assets	168	196
Total assets	727,269	706,071

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	92,620	79,814
Short-term borrowings	43,484	44,956
Current portion of bonds payable	—	10,000
Income taxes payable	4,369	2,327
Provision for bonuses	7,049	7,228
Other provisions	1,134	1,306
Other	50,680	42,176
Total current liabilities	199,336	187,807
Non-current liabilities		
Bonds payable	60,000	60,000
Long-term borrowings	84,420	78,803
Provisions	3,738	1,203
Retirement benefit liability	7,442	7,608
Asset retirement obligations	1,916	1,933
Other	15,970	17,579
Total non-current liabilities	173,486	167,126
Total liabilities	372,822	354,933
Net assets		
Shareholders' equity		
Share capital	58,435	58,435
Capital surplus	40,300	40,577
Retained earnings	245,980	241,693
Treasury shares	(12,645)	(12,401)
Total shareholders' equity	332,070	328,304
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,984	2,604
Deferred gains or losses on hedges	9	(71)
Foreign currency translation adjustment	2,122	3,041
Remeasurements of defined benefit plans	(3,790)	(3,496)
Total accumulated other comprehensive income	325	2,078
Share acquisition rights	573	537
Non-controlling interests	21,479	20,219
Total net assets	354,447	351,138
Total liabilities and net assets	727,269	706,071

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

• Consolidated Statements of Income

For the first half ended September 30, 2019 and 2020

(Millions of yen)

	April 1, 2019 – September 30, 2019	April 1, 2020 – September 30, 2020
Net sales	335,062	280,013
Cost of sales	276,263	238,111
Gross profit	58,799	41,902
Selling, general and administrative expenses	42,044	38,492
Operating profit	16,755	3,410
Non-operating income		
Interest income	171	110
Dividend income	944	597
Rental income	540	524
Amortization of negative goodwill	13	19
Share of profit of entities accounted for using equity method	995	—
Subsidy income	—	548
Other	960	751
Total non-operating income	3,623	2,549
Non-operating expenses		
Interest expenses	506	465
Rental expenses	339	311
Share of loss of entities accounted for using equity method	—	226
Foreign exchange losses	182	400
Other	2,709	3,037
Total non-operating expenses	3,736	4,439
Ordinary profit	16,642	1,520
Extraordinary income		
Gain on sales of non-current assets	9	78
Gain on sales of investment securities	48	19
Gain on bargain purchase	—	145
Gain on extinguishment of tie-in shares	—	522
Total extraordinary income	57	764
Extraordinary losses		
Loss on disposal of non-current assets	442	421
Impairment loss	180	15
Loss on valuation of investment securities	291	31
Total extraordinary losses	913	467
Profit before income taxes	15,786	1,817
Income taxes	4,934	2,043
Profit (loss)	10,852	(226)
Profit (loss) attributable to non-controlling interests	62	(498)
Profit attributable to owners of parent	10,790	272

• Consolidated Statements of Comprehensive Income
For the first half ended September 30, 2019 and 2020

(Millions of yen)

	April 1, 2019 – September 30, 2019	April 1, 2020 – September 30, 2020
Profit (loss)	10,852	(226)
Other comprehensive income		
Valuation difference on available-for-sale securities	(55)	586
Deferred gains or losses on hedges	(340)	(80)
Foreign currency translation adjustment	(1,241)	1,066
Remeasurements of defined benefit plans, net of tax	110	294
Share of other comprehensive income of entities accounted for using equity method	(203)	(113)
Total other comprehensive income	(1,729)	1,753
Comprehensive income	9,123	1,527
Comprehensive income attributable to owners of parent	8,910	2,025
Comprehensive income attributable to non-controlling interests	213	(498)

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2019 – September 30, 2019	April 1, 2020 – September 30, 2020
Cash flows from operating activities		
Profit before income taxes	15,786	1,817
Depreciation and amortization	18,186	18,092
Impairment loss	180	15
Amortization of negative goodwill	(13)	(19)
Increase (decrease) in allowance for doubtful accounts	(126)	(19)
Interest and dividend income	(1,115)	(707)
Interest expenses	506	465
Share of loss (profit) of entities accounted for using equity method	(995)	226
Loss (gain) on sales of non-current assets	139	(33)
Decrease (increase) in trade receivables	24,757	28,393
Decrease (increase) in inventories	(5,800)	684
Increase (decrease) in trade payables	(10,106)	(14,133)
Other, net	(2,781)	(1,400)
Subtotal	38,618	33,381
Interest and dividends received	2,205	1,709
Interest paid	(505)	(426)
Income taxes paid	(3,567)	(4,931)
Net cash provided by (used in) operating activities	36,751	29,733
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(20,339)	(22,352)
Proceeds from sales of property, plant and equipment	438	378
Purchase of investment securities	(177)	(107)
Proceeds from sales of investment securities	88	58
Purchase of shares of subsidiaries and associates	(675)	(1,613)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	66
Decrease (increase) in short-term loans receivable	(31)	(257)
Other, net	(119)	(53)
Net cash provided by (used in) investing activities	(20,815)	(23,880)

(Millions of yen)

	April 1, 2019 – September 30, 2019	April 1, 2020– September 30, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,030)	1,434
Proceeds from long-term borrowings	4,994	1,369
Repayments of long-term borrowings	(9,879)	(6,952)
Proceeds from issuance of bonds	9,955	9,950
Redemption of bonds	(10,000)	—
Purchase of treasury shares	(3)	(2)
Dividends paid	(8,074)	(4,548)
Dividends paid to non-controlling interests	(770)	(269)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(41)
Other, net	(480)	(512)
Net cash provided by (used in) financing activities	(16,287)	429
Effect of exchange rate change on cash and cash equivalents	(303)	68
Net increase (decrease) in cash and cash equivalents	(654)	6,350
Cash and cash equivalents at beginning of period	32,295	40,609
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	471
Cash and cash equivalents at end of period	31,641	47,430

(4) Notes to Quarterly Consolidated Financial Statements

(Note to events and conditions which indicate there could be substantial doubt about going concern assumption)

None.

(Note to significant changes in shareholders' equity)

None.

(Application of the special accounting methods for preparing the quarterly consolidated financial statements)

Tax expenses are calculated by estimating an effective tax rate for net income based on reasonable assumptions of an effective tax rate after application of tax effect accounting for net income before tax for the consolidated fiscal year, including the current term, and by multiplying the quarterly net income before tax by the estimated tax rate of net income. However, for subsidiaries for which calculating tax expenses using the said estimation of the effective tax rate would significantly lack rationality, tax expenses are calculated by using the statutory effective tax rate.

Income taxes adjustment is included in income taxes.

6. Segment Information

(1) Information concerning Net Sales and Operating Profit by Reportable Business Segment

For the First Half Ended September 30, 2019 (April 1, 2019 to September 30, 2019) (Millions of yen)

	Reported segment					Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Construction Materials	Machinery	Others	Total		
Net sales							
External sales	146,025	146,651	40,827	1,559	335,062	-	335,062
Internal sales or transfers	405	6,097	1,188	779	8,469	(8,469)	-
Total	146,430	152,748	42,015	2,338	343,531	(8,469)	335,062
Segment profit (Operating profit)	8,314	6,768	1,682	212	16,976	(221)	16,755

Note 1: (221) million yen for adjustment for Segment profit includes (71) million yen for the elimination of transaction between the Segments and (150) million yen for company-wide cost that is not allocated to each reported Segment. Company-wide cost consists mainly of administration and general expense that is not attributed to each reported Segment.

Note 2: Segment profit is adjusted with operating profit recorded in the consolidated statements of income.

For the First Half Ended September 30, 2020 (April 1, 2020 to September 30, 2020) (Millions of yen)

	Reported segment					Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Construction Materials	Machinery	Others	Total		
Net sales							
External sales	110,924	134,110	34,167	812	280,013	-	280,013
Internal sales or transfers	1,393	5,063	771	660	7,887	(7,887)	-
Total	112,317	139,173	34,938	1,472	287,900	(7,887)	280,013
Segment profit (Operating profit or loss)	(2,572)	5,673	252	143	3,496	(86)	3,410

Note 1: (86) million yen for adjustment for Segment profit or loss includes (29) million yen for the elimination of transaction between the Segments and (57) million yen for company-wide cost that is not allocated to each reported Segment. Company-wide cost consists mainly of administration and general expense that is not attributed to each reported Segment.

Note 2: Segment profit or loss is adjusted with operating profit or loss recorded in the consolidated statements of income.

(Material subsequent events)

Business Divestiture

Ube Industries, Ltd. and Mitsubishi Chemical Corporation (hereinafter referred to as “Mitsubishi Chemical,” and the aforementioned two companies are hereinafter collectively referred to as “the Parties Concerned”) concluded a joint venture agreement on March 27, 2020 for establishment of a joint venture company using the joint incorporation-type company split method (hereinafter referred to “the Company Split”) that will take over the electrolyte business of both companies for applications such as lithium-ion rechargeable batteries (hereinafter referred to as “the Business”), and have promoted preparations for the establishment of said joint venture company. The Parties Concerned carried out the Company Split. Following the signing of the agreement for the joint incorporation-type split plan, the issued shares of the new joint venture company were allocated as follows on October 1, 2020: 80% to Mitsubishi Chemical and 20% to Ube Industries.

1. Overview of Business Divestiture

(1) Name of Divestiture Target Company

MU Ionic Solutions Corporation

(2) Content of Divestiture Business

Lithium-ion Rechargeable Batteries Business

(3) Main Reasons for Business Divestiture

The Parties Concerned have jointly operated the Business in China through Changshu UM Battery Materials Co., Ltd. as a joint venture since January 2018. The Parties Concerned have now agreed to expand the tie-up to further enhance competitiveness inside and outside of Japan in order to achieve long-term development of the Business. To this end, the Parties Concerned will enhance product development capabilities through synergistic effects and strengthen the management base by streamlining purchasing, production, and sales systems. The Parties Concerned will also integrate research and development capabilities and combine their intellectual assets and technical development capabilities. Specifically, the Parties Concerned will establish the new joint venture company in Japan and transfer the assets of both companies related to the business, including manufacturing sites in Japan, to the new joint venture company. In addition, Changshu UM Battery Materials Co., Ltd. will become a wholly-owned subsidiary of the new joint venture company.

(4) Business Divestiture Date

October 1, 2020

(5) Legal Form of Divestiture and Other Matters Related to This Transaction Overview

Business divestiture with only assets such as stocks received as compensation

2. Outline of Accounting Processes Implemented

(1) Amount of Transfer Profit/Loss

The amount of transfer profit/loss is currently being calculated.

(2) Appropriate Carrying Amount and Main Categories of Assets and Liabilities Related to the Transferred Business

The appropriate carrying amount and main categories of assets and liabilities related to the transferred business are currently being calculated.

(3) Accounting Processes

The company split has been processed as an operation of divestiture business to the “Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Statement No. 7, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Statement, Guidance No. 10, January 16, 2019).

3. Reporting Segments Which Included the Divested Business

Chemicals Segment

(Reference) Consolidated Key Indicators

(Billions of yen – except where noted)

	April – September 2019	April – September 2020	April 2020 – March 2021 (forecast)	April 2019 – March 2020
Capital investment	18.0	17.8	47.0	47.6
Depreciation and amortization	18.1	18.0	36.0	36.8
Research and development expenses	6.5	5.6	14.0	12.8
Adjusted operating profit *1	18.8	3.8	23.0	37.8
Interest-bearing debt	181.4	199.3	210.0	190.7
Shareholders' equity *2	330.3	330.3	336.0	332.3
Total assets	716.6	706.0	730.0	727.2
D/E ratio (times)	0.55	0.60	0.63	0.57
Shareholders' equity ratio (%)	46.1	46.8	46.0	45.7
Return on sales - ROS (%) *3	5.0	1.2	3.6	5.1
Return on assets - ROA (%) *4	—	—	3.2	5.2
Return on equity - ROE (%) *5	—	—	3.9	6.9
Number of employees	11,152	11,094	11,000	10,890

*1 Adjusted operating profit: Operating profit + Interest and dividend income + Share of profit of entities accounted for using equity method

*2 Shareholders' equity: Net assets – Share acquisition rights – Non-controlling interests

*3 ROS: Operating profit / Net sales

*4 ROA: Adjusted operating profit / Average total assets

*5 ROE: Profit attributable to owners of parent / Average shareholders' equity