

Consolidated Financial Report for the First Half Ended September 30, 2018

November 1, 2018

Company name: Ube Industries, Ltd.
 Representative: Yuzuru Yamamoto,
 President and Representative Director
 Security code: 4208 (shares listed on First Section of Tokyo
 Stock Exchange and Fukuoka Stock Exchange)
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(Amounts rounded to the nearest million yen)

1. Consolidated Financial Results for the First Half Ended September 30, 2018

(From April 1, 2018 to September 30, 2018)

(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 2018	348,268	6.5%	15,042	(33.5)%	18,696	(21.2)%	12,352	(21.7)%
April – September 2017	327,159	16.4%	22,617	96.4%	23,727	129.9%	15,781	122.1%

(Note) Comprehensive Income: From April 1, 2018 to September 30, 2018: 15,932 Million Yen (31.4)%
 From April 1, 2017 to September 30, 2017: 23,235 Million Yen — %

	Net income per share (Yen)	Diluted net income per share (Yen)
April – September 2018	117.60	117.22
April – September 2017	150.24	149.74

(Note) The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017. Net income per share and diluted net income per share have been calculated assuming that such consolidation was carried out at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio (%)
September 30, 2018	734,444	343,841	43.9
March 31, 2018	742,445	336,861	42.5

(Reference) Shareholders' equity: As of September 30, 2018: 322,547 Million Yen
 As of March 31, 2018: 315,352 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 2017 – March 2018	-	0.00	-	75.00	75.00
April 2018 – March 2019	-	0.00	-	-	-
April 2018 – March 2019 (Forecast)	-	-	-	75.00	75.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(% 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 2018 – March 2019	740,000 6.4%	44,000 (12.4)%	45,500 (10.3)%	30,500 (3.7)%	290.43

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

(Notes)

(1) Changes in significant subsidiaries during the first half ended September 30, 2018: No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first half ended September 30, 2018.

(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, 2018	March 31, 2018
Numbers of shares outstanding at period end	106,200,107	106,200,107
Numbers of shares of treasury stock at period end	1,149,229	1,182,884

	April – September 2018	April – September 2017
Weighted-average number of shares outstanding during period	105,036,651	105,040,659

(Note) The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017. Weighted-average number of shares outstanding during period have been calculated assuming that such consolidation was carried out at the beginning of the previous consolidated fiscal year.

(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 increased, thanks to price rises of the products represented by chemical products, which resulted from rises in raw material prices, and an increase in shipment of industrial machines backed by the continued strong demand in the Japanese market. On the other hand, operating profit of the Company Group was affected by a price rise of coal, the periodic inspection of the ammonia product factory, production problems at the factory, and a price decline in the synthetic rubber market. Non-operating income increased, mainly because of business integration of equity-method affiliates.

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 2018 ①	348.2	15.0	18.6	12.3
April – September 2017 ②	327.1	22.6	23.7	15.7
Difference ① - ②	21.1	(7.5)	(5.0)	(3.4)
Percentage change	6.5%	(33.5)%	(21.2)%	(21.7)%

(2) Overview by Segment

Net sales

(Billions of yen)

Segment	April – September 2018 ①	April – September 2017 ②	Difference ① – ②	Percentage change
Chemicals	151.6	146.3	5.3	3.6%
Pharmaceutical	3.3	5.1	(1.7)	(34.2)%
Cement & Construction Materials	119.4	115.9	3.5	3.0%
Machinery	43.2	35.7	7.4	20.8%
Energy & Environment	38.5	33.0	5.4	16.7%
Others	2.2	2.2	(0.0)	(0.7)%
Adjustment	(10.2)	(11.3)	1.1	—
Total	348.2	327.1	21.1	6.5%

Operating profit

(Billions of yen)

Segment	April – September 2018 ①	April – September 2017 ②	Difference ① – ②	Percentage change
Chemicals	8.2	13.3	(5.0)	(38.0)%
Pharmaceutical	(0.0)	1.6	(1.6)	—
Cement & Construction Materials	4.5	5.8	(1.2)	(21.7)%
Machinery	1.3	1.3	0.0	3.1%
Energy & Environment	1.0	0.6	0.3	61.0%
Others	0.2	0.2	(0.0)	(15.9)%
Adjustment	(0.3)	(0.4)	0.0	—
Total	15.0	22.6	(7.5)	(33.5)%

Chemicals – Increases in net sales and decrease in operating profit

■ Nylon, Caprolactam and Industrial Chemicals Businesses

The Caprolactam Business recorded a sales increase, thanks to price normalization of the products to offset the continued excessive supply capacity in the China market.

The Nylon Business recorded a sales increase, thanks to a sales volume increase resulted from a rise in production capacity in Spain.

The Industrial Chemicals Business recorded a sales decrease, due to decreases in production and shipment of the products as the result of the once-every-two-year inspection in the ammonia product factory and the subsequent production problems at the factory.

Net sales increased, but operating profit decreased in the Nylon, Caprolactam and Industrial Chemicals Businesses as a whole, due to implementation of periodic inspection of the ammonia product factory.

■ The Synthetic Rubber Business recorded decreases both in net sales and operating profit in spite of the continued stable shipment of the products mainly used for tires for reasons such as product prices fell whereas raw material price rose.

■ Battery Materials and Fine Chemicals Businesses

The Battery Materials Business recorded a sales increase, thanks to a sales volume increase resulted from a production capacity increase of separators supported by strong demand mainly for the products mounted on automobiles.

The Fine Chemicals Business recorded a sales increase, thanks to rises in overall sales prices.

Both net sales and operating profit increased in the Battery Materials and Fine Chemicals Businesses as a whole, thanks to sales expansion of separators.

■ Polyimide and Functional Products Businesses

The Polyimide Business recorded an increase in net sales, because increases in sales volume of the films mainly used on circuit boards remained stable and of varnish used for organic EL panels.

Net sales increased, but operating profit decreased in the Polyimide and Functional Products Businesses as a whole, due to operating profit decreases in consolidated subsidiaries.

Pharmaceutical – Decreases in both net sales and operating profit

■ The Pharmaceutical Business, as a whole, recorded decreases both in net sales and operating profit, due to decreases in the royalty revenues and sales volumes of the drugs developed by UBE.

Cement & Construction Materials – Increases in net sales and decrease in operating profit

■ The Cement and Ready-Mixed Concrete Business recorded a net sales increase, because the sales volume remained strong. On the other hand, the business was affected by a price rise of coal.

■ The Calcia and Magnesia Business recorded a sales increase, thanks to an increase in sales volume and rises of sales prices.

■ Net sales increased, but operating profit decreased in the Cement & Construction Materials Segment as a whole, due to strong impact of a price rise of coal.

Machinery – Increases in both net sales and operating profit

■ The Molding and Industrial Machines Business recorded a sales increase, thanks to strong product sales.

■ The Steel Products Business recorded a sales increase, thanks to rises in the sales prices for the reason that prices of raw materials remained high.

■ The Machinery Segment, as a whole, recorded increases both in net sales and operating profit, thanks to strong sales of the products.

Energy & Environment – Increases in both net sales and operating profit

■ The Coal Business recorded a net sales increase, thanks to rises of sales prices backed by favorable condition of coal market.

■ The Power Business recorded a sales increase, thanks to an increase in volume of selling electricity for the reason that the once-every-two-year inspection of the IPP power plant did not take place.

■ Both net sales and operating profit increased in the Energy & Environment Segment as a whole, mainly for the reason that the once-every-two-year inspection of the IPP power plant did not take place.

Others – Decreases in both net sales and operating profit

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and September 30, 2018

(Millions of yen)

	March 31, 2018	September 30, 2018
Assets		
Current assets		
Cash and deposits	49,059	36,403
Notes and accounts receivable - trade	162,739	154,969
Merchandise and finished goods	40,390	45,544
Work in process	20,084	25,508
Raw materials and supplies	30,455	31,478
Other	14,726	16,867
Allowance for doubtful accounts	(577)	(537)
Total current assets	316,876	310,232
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	85,063	83,740
Machinery, equipment and vehicles, net	143,779	140,364
Land	81,260	80,805
Other, net	24,160	24,462
Total property, plant and equipment	334,262	329,371
Intangible assets		
Other	5,006	6,447
Total intangible assets	5,006	6,447
Investments and other assets		
Investment securities	54,804	57,155
Other	31,947	31,707
Allowance for doubtful accounts	(606)	(605)
Total investments and other assets	86,145	88,257
Total non-current assets	425,413	424,075
Deferred assets	156	137
Total assets	742,445	734,444

(Millions of yen)

	March 31, 2018	September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	104,532	106,889
Short-term loans payable	69,802	66,250
Commercial papers	—	17,000
Current portion of bonds	10,010	10,000
Income taxes payable	6,027	4,081
Provision for bonuses	7,245	7,316
Other provision	1,062	1,251
Other	54,420	44,618
Total current liabilities	253,098	257,405
Non-current liabilities		
Bonds payable	50,000	40,000
Long-term loans payable	64,121	57,483
Provision	4,538	2,379
Net defined benefit liability	6,897	7,022
Negative goodwill	647	565
Asset retirement obligations	1,695	1,710
Other	24,588	24,039
Total non-current liabilities	152,486	133,198
Total liabilities	405,584	390,603
Net assets		
Shareholders' equity		
Capital stock	58,435	58,435
Capital surplus	38,291	38,367
Retained earnings	211,065	215,524
Treasury shares	(2,958)	(2,865)
Total shareholders' equity	304,833	309,461
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,691	6,000
Deferred gains or losses on hedges	(6)	114
Foreign currency translation adjustment	6,415	8,381
Remeasurements of defined benefit plans	(1,581)	(1,409)
Total accumulated other comprehensive income	10,519	13,086
Share acquisition rights	672	635
Non-controlling interests	20,837	20,659
Total net assets	336,861	343,841
Total liabilities and net assets	742,445	734,444

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

• Consolidated Statements of Income

For the first half ended September 30, 2017 and 2018

(Millions of yen)

	April 1, 2017 – September 30, 2017	April 1, 2018 – September 30, 2018
Net sales	327,159	348,268
Cost of sales	263,500	291,741
Gross profit	63,659	56,527
Selling, general and administrative expenses	41,042	41,485
Operating profit	22,617	15,042
Non-operating income		
Interest income	102	135
Dividend income	822	1,572
Rent income	575	539
Amortization of negative goodwill	65	64
Share of profit of entities accounted for using equity method	1,596	2,802
Foreign exchange gains	436	1,012
Other	789	1,201
Total non-operating income	4,385	7,325
Non-operating expenses		
Interest expenses	731	564
Rent expenses	286	295
Other	2,258	2,812
Total non-operating expenses	3,275	3,671
Ordinary profit	23,727	18,696
Extraordinary income		
Gain on sales of non-current assets	6	37
Gain on sales of investment securities	8	15
Subsidy income	30	—
Total extraordinary income	44	52
Extraordinary losses		
Loss on disposal of non-current assets	441	898
Impairment loss	71	154
Loss on valuation of investment securities	5	8
Total extraordinary losses	517	1,060
Profit before income taxes	23,254	17,688
Income taxes	7,028	4,803
Profit	16,226	12,885
Profit attributable to non-controlling interests	445	533
Profit attributable to owners of parent	15,781	12,352

• Consolidated Statements of Comprehensive Income
For the first half ended September 30, 2017 and 2018

(Millions of yen)

	April 1, 2017 – September 30, 2017	April 1, 2018 – September 30, 2018
Profit	16,226	12,885
Other comprehensive income		
Valuation difference on available-for-sale securities	1,896	294
Deferred gains or losses on hedges	(1)	120
Foreign currency translation adjustment	4,873	2,607
Remeasurements of defined benefit plans, net of tax	262	200
Share of other comprehensive income of entities accounted for using equity method	(21)	(174)
Total other comprehensive income	7,009	3,047
Comprehensive income	23,235	15,932
Comprehensive income attributable to owners of parent	22,242	14,919
Comprehensive income attributable to non-controlling interests	993	1,013

(3) Consolidated Statements of Cash Flows

For the first half ended September 30, 2017 and 2018

(Millions of yen)

	April 1, 2017 – September 30, 2017	April 1, 2018 – September 30, 2018
Cash flows from operating activities		
Profit before income taxes	23,254	17,688
Depreciation and amortization	17,220	17,899
Impairment loss	71	154
Amortization of negative goodwill	(65)	(64)
Increase (decrease) in allowance for doubtful accounts	(82)	(34)
Interest and dividend income	(924)	(1,707)
Interest expenses	731	564
Foreign exchange losses (gains)	(83)	(2)
Share of loss (profit) of entities accounted for using equity method	(1,596)	(2,802)
Loss (gain) on sales of non-current assets	(13)	1
Decrease (increase) in notes and accounts receivable - trade	8,809	7,893
Decrease (increase) in inventories	(11,937)	(11,206)
Increase (decrease) in notes and accounts payable - trade	651	2,069
Other, net	(1,602)	(3,790)
Subtotal	34,434	26,663
Interest and dividend income received	2,204	2,669
Interest expenses paid	(718)	(625)
Income taxes paid	(4,902)	(7,026)
Net cash provided by (used in) operating activities	31,018	21,681
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(15,619)	(22,298)
Proceeds from sales of property, plant and equipment	23	699
Purchase of investment securities	(141)	(47)
Proceeds from sales of investment securities	13	5
Purchase of shares of subsidiaries and associates	(1,120)	(296)
Proceeds from sales of shares of subsidiaries and associates	111	37
Decrease (increase) in short-term loans receivable	223	(164)
Other, net	82	(43)
Net cash provided by (used in) investing activities	(16,428)	(22,107)

(Millions of yen)

	April 1, 2017 – September 30, 2017	April 1, 2018 – September 30, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,035)	3,116
Increase (decrease) in commercial papers	(10,000)	17,000
Proceeds from long-term loans payable	15,278	2,165
Repayments of long-term loans payable	(10,998)	(15,367)
Proceeds from issuance of bonds	19,908	—
Redemption of bonds	(15,010)	(10,010)
Purchase of treasury shares	(5,011)	(5)
Cash dividends paid	(6,340)	(7,903)
Dividends paid to non-controlling interests	(308)	(667)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(200)	(430)
Other, net	(510)	(424)
Net cash provided by (used in) financing activities	(15,226)	(12,525)
Effect of exchange rate change on cash and cash equivalents	621	368
Net increase (decrease) in cash and cash equivalents	(15)	(12,583)
Cash and cash equivalents at beginning of period	35,806	48,529
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	1,267	—
Cash and cash equivalents at end of period	37,058	35,946

(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.

(Additional Information)

(Adoption of the "Partial Amendment to 'Accounting Standard for Tax Effect Accounting'")

The Company Group has adopted the 'Partial Amendment to Accounting Standard for Tax Effect Accounting' (Accounting Standards Board of Japan Statement No. 28 issued on February 16, 2018) from the beginning of the first quarter consolidated period under review. Accordingly, deferred tax assets are presented in the section of investments and other assets, and deferred tax liabilities are presented in the section of non-current liabilities.

6. Segment Information

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

For the First Half Ended September 30, 2017 (April 1, 2017 to September 30, 2017) (Millions of yen)

	Reported segment							Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Pharma- ceuticals	Cement & Construction Materials	Machinery	Energy & Environment	Others	Total		
Net sales									
External sales	145,492	5,104	112,582	35,412	26,901	1,668	327,159	—	327,159
Internal sales or transfers	831	40	3,412	353	6,125	584	11,345	(11,345)	—
Total	146,323	5,144	115,994	35,765	33,026	2,252	338,504	(11,345)	327,159
Segment profit (operating profit)	13,313	1,654	5,869	1,312	621	290	23,059	(442)	22,617

Note 1: (442) million yen for adjustment for Segment profit includes 28 million yen for the elimination of transaction between the Segments and (470) 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, 2018 (April 1, 2018 to September 30, 2018) (Millions of yen)

	Reported segment							Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Pharma- ceuticals	Cement & Construction Materials	Machinery	Energy & Environment	Others	Total		
Net sales									
External sales	150,847	3,344	116,934	42,544	33,027	1,572	348,268	—	348,268
Internal sales or transfers	805	41	2,565	663	5,498	665	10,237	(10,237)	—
Total	151,652	3,385	119,499	43,207	38,525	2,237	358,505	(10,237)	348,268
Segment profit or loss (operating profit or loss)	8,251	(4)	4,597	1,353	1,000	244	15,441	(399)	15,042

Note 1: (399) million yen for adjustment for Segment profit or loss includes (45) million yen for the elimination of transaction between the Segments and (354) 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 recorded in the consolidated statements of income.

(Material subsequent events)

The Company resolved the matters related to its buyback of shares at a meeting of the Board of Directors held November 1, 2018. For more details, please refer to the announcement published today “Ube Industries Announces Decision on Matters Related to Buyback of Shares (Buyback of Shares Pursuant to the Provision of Its Articles of Incorporation in Accordance with Article 165, Paragraph 2 of Japan’s Companies Act)”.

(Reference) Consolidated Key Indicators

(Billions of yen – except where noted)

	April – September 2017	April – September 2018	April 2018 – March 2019 (forecast)	April 2017 – March 2018
Capital investment	13.8	17.0	40.0	40.3
Depreciation and amortization	17.2	17.8	37.0	35.3
Research and development expenses	6.4	5.9	14.0	13.2
Adjusted operating profit *1	25.1	19.5	50.5	55.1
Interest-bearing debt	207.5	192.3	185.0	195.5
Shareholders' equity *2	300.6	322.5	334.0	315.3
Total assets	721.5	734.4	750.0	742.4
D/E ratio (times)	0.69	0.60	0.55	0.62
Shareholders' equity ratio (%)	41.6	43.9	44.5	42.5
Return on sales - ROS (%) *3	6.9	4.3	5.9	7.2
Return on assets - ROA (%) *4	—	—	6.8	7.6
Return on equity - ROE (%) *5	—	—	9.4	10.5
Number of employees	10,998	11,016	11,000	10,799

*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