

Consolidated Financial Report for the First Quarter Ended June 30, 2019

July 31, 2019

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/>
 Contact: Hirotaka Ishikawa, General Manager,
 Finance & Investor Relations Department
 Tel: +81-3-5419-6116

(Amounts rounded to the nearest million yen)

1. Consolidated Financial Results for the First Quarter Ended June 30, 2019

(From April 1, 2019 to June 30, 2019)

(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 – June 2019	165,058 (2.4)%	7,318 19.7%	7,737 (24.5)%	4,541 (34.4)%
April – June 2018	169,078 5.9%	6,114 (32.8)%	10,244 0.6%	6,924 5.3%

(Note) Comprehensive Income: From April 1, 2019 to June 30, 2019: 3,403 Million Yen (27.8)%
 From April 1, 2018 to June 30, 2018: 4,714 Million Yen (52.8)%

	Net income per share (Yen)	Diluted net income per share (Yen)
April – June 2019	44.94	44.80
April – June 2018	65.93	65.71

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio (%)
June 30, 2019	730,034	349,453	44.5
March 31, 2019	740,286	354,552	44.5

(Reference) Shareholders' equity: As of June 30, 2019: 324,823 Million Yen
 As of March 31, 2019: 329,520 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 2018 – March 2019	-	0.00	-	80.00	80.00
April 2019 – March 2020	-				
April 2019 – March 2020 (Forecast)		45.00	-	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, 2020

(From April 1, 2019 to March 31, 2020)

(% 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 – September 2019	370,000	6.2%	19,000	26.3%	19,000	1.6%	12,000 (2.8)%	118.76
April 2019 – March 2020	760,000	4.1%	47,000	5.5%	47,000	(1.8)%	31,000 (4.6)%	306.80

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

(Notes)

(1) Changes in significant subsidiaries during the first quarter ended June 30, 2019: No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first quarter ended June 30, 2019.

(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)

	June 30, 2019	March 31, 2019
Numbers of shares outstanding at period end	106,200,107	106,200,107
Numbers of shares of treasury stock at period end	5,141,403	5,158,424

	April – June 2019	April – June 2018
Weighted-average number of shares outstanding during period	101,052,002	105,025,815

(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, mainly due to revision of sales prices resulted from falls in the raw material prices and a decline in sales volume of coal, while operating profit increased mainly because of improvement in the spread between the selling prices of the synthetic rubber products and buying price of butadiene and an increase in sales volume of the specialty products. Non-operating income decreased, because profit from business integration of equity-method affiliates that had taken place in the previous term was eliminated.

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 – June 2019 ①	165.0	7.3	7.7	4.5
April – June 2018 ②	169.0	6.1	10.2	6.9
Difference ① - ②	(4.0)	1.2	(2.5)	(2.3)
Percentage change	(2.4)%	19.7%	(24.5)%	(34.4)%

(2) Overview by Segment

Net sales (Billions of yen)				
Segment	April – June 2019 ①	April – June 2018 ②	Difference ① – ②	Percentage Change
Chemicals	74.5	75.0	(0.5)	(0.8)%
Construction Materials	75.4	76.9	(1.5)	(2.0)%
Machinery	18.8	18.7	0.0	0.5%
Others	1.1	1.1	0.0	4.7%
Adjustment	(4.9)	(2.9)	(2.0)	—
Total	165.0	169.0	(4.0)	(2.4)%

Operating profit (Billions of yen)				
Segment	April – June 2019 ①	April – June 2018 ②	Difference ① – ②	Percentage Change
Chemicals	4.6	3.5	1.1	32.5%
Construction Materials	2.3	2.4	(0.1)	(5.5)%
Machinery	0.4	0.1	0.2	165.3%
Others	0.1	0.1	(0.0)	(6.2)%
Adjustment	(0.2)	(0.1)	(0.0)	—
Total	7.3	6.1	1.2	19.7%

Chemicals – Decreases in net sales and increase in operating profit

■ Engineering Plastics & Fine Chemicals

The Caprolactam Business recorded a sales decrease, due to falls in sales prices and sales volume resulted from weak demand in the China market.

The Nylon Business recorded a sales decrease, due to a sales volume fall mainly resulted from decreased demand in the China markets in addition to the impact of price falls of the caprolactam.

The Industrial Chemicals Business recorded a sales increase, thanks to increases in both production and shipment volume for the reason that there were no once-every-two-year periodic repair of the ammonia product factory.

The Fine Chemicals Business recorded a sales increase, thanks to overall sales price rises backed by the strong demand.

Both net sales and operating profit decreased in the Engineering Plastics and Fine Chemicals Businesses as a whole, due to the impact that the business dealing caprolactam and nylon had on the overall performance of these businesses.

■ Net sales decreased and operating profit increased in the Synthetic Rubber Business, while shipment of the products as a whole, particularly ones for mainly used for tires, was strong, the prices of butadiene, main raw materials in the business, fell more steeply than the ones of the products did, resulting improvement in the spread between the selling prices of the products and buying price of butadiene.

■ Specialty Products

The Battery Materials Business recorded a sales decrease, because the sales volume grew at a sluggish pace under the condition that competition became harsher in the China market and some main customers adjusted their production volume.

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 in the China market drove an increase in sale volume.

The Specialty Products Business as a whole recorded increases in net sales and operating profit, thanks to strong sales across the Business.

■ The Pharmaceutical Business recorded increases in net sales and operating profit, because our customers, pharmaceutical companies, expanded sales both in drugs developed by UBE and those manufactured under contract.

■ While net sales decreased in the Chemical Segment as a whole, due to price adjustment resulted from falls in the raw material prices, operating profit increased, thanks to improvement in the spread between the selling prices of synthetic rubber products and buying prices of butadiene in the Synthetic Rubber Business and sales expansion in the Functional Products and Pharmaceutical Businesses.

Construction Materials – Decreases in both net sales and operating profit

■ The Cement and Ready-Mixed Concrete Business recorded a net sales decrease, due to a decrease in shipment resulted from a decrease in operating days of customers, which consequently offset the continued strong demand supported by construction works relating to Shinkansen bullet trains and redevelopment in the urban areas.

■ The Calcia and Magnesia Business recorded a net sales increase, thanks to an increase in sales prices mainly resulted from revision of the prices of the magnesia products used in the steel and electric power industries.

■ The Energy Business recorded a net sales decrease, due to a decrease in sales volume of coal. In addition, the once-every-two-year periodic repair of the IPP power plant that took place in the term under review affected the overall performance of the business.

■ The Construction Materials Segment as a whole recorded decreases in net sales and operating profit, due to decreases in sales volume of cement, ready-mixed concrete and coal, and the impact that periodic repair of the IPP power plant had on the overall performance of the segment.

Machinery – Increases in both net sales and operating profit

■ The Molding Machine Business and Industrial Machine Business recorded net sales increases, respectively thanks to growing needs for lighter automobiles and strong demand for the products relating to large-scale power plants in Japan, which led to strong product and service sales.

■ Both net sales and operating profit increased in the Machinery Segment as a whole, because of continued strong sales in the Molding Machine and Industrial Machine Businesses as well as price falls of scrap, the raw material used in the Steel Product Business.

Others – Increases in net sales and decrease in operating profit

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	32,903	33,261
Notes and accounts receivable - trade	171,611	155,063
Merchandise and finished goods	42,585	46,304
Work in process	22,611	27,097
Raw materials and supplies	31,568	31,282
Other	15,020	15,621
Allowance for doubtful accounts	(599)	(519)
Total current assets	315,699	308,109
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	88,100	87,373
Machinery, equipment and vehicles, net	143,335	139,420
Land	80,510	80,553
Other, net	19,371	20,857
Total property, plant and equipment	331,316	328,203
Intangible assets		
Goodwill	643	536
Other	6,463	7,262
Total intangible assets	7,106	7,798
Investments and other assets		
Investment securities	55,567	55,019
Other	31,063	31,377
Allowance for doubtful accounts	(628)	(625)
Total investments and other assets	86,002	85,771
Total non-current assets	424,424	421,772
Deferred assets	163	153
Total assets	740,286	730,034

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	102,223	95,169
Short-term borrowings	51,371	50,555
Commercial papers	—	14,000
Current portion of bonds	10,000	—
Income taxes payable	4,106	1,883
Provision for bonuses	7,163	10,464
Other provisions	1,298	1,237
Other	49,902	45,841
Total current liabilities	226,063	219,149
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term borrowings	74,275	74,696
Provisions	2,727	2,592
Retirement benefit liability	7,011	7,309
Asset retirement obligations	1,884	1,892
Other	23,774	24,943
Total non-current liabilities	159,671	161,432
Total liabilities	385,734	380,581
Net assets		
Shareholders' equity		
Share capital	58,435	58,435
Capital surplus	40,355	40,351
Retained earnings	235,671	232,111
Treasury shares	(12,798)	(12,754)
Total shareholders' equity	321,663	318,143
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,217	3,937
Deferred gains or losses on hedges	(5)	(477)
Foreign currency translation adjustment	6,075	5,614
Remeasurements of defined benefit plans	(2,430)	(2,394)
Total accumulated other comprehensive income	7,857	6,680
Share acquisition rights	626	591
Non-controlling interests	24,406	24,039
Total net assets	354,552	349,453
Total liabilities and net assets	740,286	730,034

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

• Consolidated Statements of Income

For the first quarter ended June 30, 2018 and 2019

(Millions of yen)

	April 1, 2018 - June 30, 2018	April 1, 2019 - June 30, 2019
Net sales	169,078	165,058
Cost of sales	142,318	136,738
Gross profit	26,760	28,320
Selling, general and administrative expenses	20,646	21,002
Operating profit	6,114	7,318
Non-operating income		
Interest income	66	81
Dividend income	1,438	668
Rental income	260	253
Amortization of negative goodwill	31	5
Share of profit of entities accounted for using equity method	2,758	613
Foreign exchange gains	586	—
Other	816	570
Total non-operating income	5,955	2,190
Non-operating expenses		
Interest expenses	294	254
Rental expenses	149	163
Foreign exchange losses	—	330
Other	1,382	1,024
Total non-operating expenses	1,825	1,771
Ordinary profit	10,244	7,737
Extraordinary income		
Gain on sales of non-current assets	37	—
Gain on sales of investment securities	6	—
Total extraordinary income	43	—
Extraordinary losses		
Loss on disposal of non-current assets	70	213
Impairment loss	95	—
Loss on valuation of investment securities	8	263
Total extraordinary losses	173	476
Profit before income taxes	10,114	7,261
Income taxes	2,980	2,696
Profit	7,134	4,565
Profit attributable to non-controlling interests	210	24
Profit attributable to owners of parent	6,924	4,541

• Consolidated Statements of Comprehensive Income
For the first quarter ended June 30, 2018 and 2019

(Millions of yen)

	April 1, 2018 – June 30, 2018	April 1, 2019 – June 30, 2019
Profit	7,134	4,565
Other comprehensive income		
Valuation difference on available-for-sale securities	(396)	(264)
Deferred gains or losses on hedges	0	(472)
Foreign currency translation adjustment	(1,944)	(422)
Remeasurements of defined benefit plans, net of tax	100	17
Share of other comprehensive income of entities accounted for using equity method	(180)	(21)
Total other comprehensive income	(2,420)	(1,162)
Comprehensive income	4,714	3,403
Comprehensive income attributable to owners of parent	4,830	3,364
Comprehensive income attributable to non-controlling interests	(116)	39

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2018 – June 30, 2018	April 1, 2019 – June 30, 2019
Cash flows from operating activities		
Profit before income taxes	10,114	7,261
Depreciation and amortization	8,930	9,089
Impairment loss	95	—
Amortization of negative goodwill	(31)	(5)
Increase (decrease) in allowance for doubtful accounts	(38)	(87)
Interest and dividend income	(1,504)	(749)
Interest expenses	294	254
Share of loss (profit) of entities accounted for using equity method	(2,758)	(613)
Loss (gain) on sales of non-current assets	2	(16)
Decrease (increase) in trade receivables	5,816	16,233
Decrease (increase) in inventories	(6,007)	(8,096)
Increase (decrease) in trade payables	891	(6,775)
Other, net	1,767	3,032
Subtotal	17,571	19,528
Interest and dividends received	2,254	1,334
Interest paid	(307)	(238)
Income taxes paid	(6,477)	(5,054)
Net cash provided by (used in) operating activities	13,041	15,570
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(9,173)	(10,063)
Proceeds from sales of property, plant and equipment	489	273
Purchase of investment securities	(42)	(42)
Purchase of shares of subsidiaries and associates	(45)	(318)
Proceeds from sales of shares of subsidiaries and associates	12	—
Decrease (increase) in short-term loans receivable	28	12
Other, net	(91)	(100)
Net cash provided by (used in) investing activities	(8,822)	(10,238)

(Millions of yen)

	April 1, 2018 – June 30, 2018	April 1, 2019 – June 30, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,850)	(484)
Increase (decrease) in commercial papers	5,000	14,000
Proceeds from long-term borrowings	469	2,086
Repayments of long-term borrowings	(3,632)	(1,985)
Redemption of bonds	(10,000)	(10,000)
Purchase of treasury shares	(2)	(1)
Dividends paid	(7,894)	(8,102)
Dividends paid to non-controlling interests	(331)	(320)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(90)	—
Other, net	(149)	(150)
Net cash provided by (used in) financing activities	(18,479)	(4,956)
Effect of exchange rate change on cash and cash equivalents	(218)	(61)
Net increase (decrease) in cash and cash equivalents	(14,478)	315
Cash and cash equivalents at beginning of period	48,529	32,295
Cash and cash equivalents at end of period	34,051	32,610

(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 specific 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 Quarter Ended June 30, 2018 (April 1, 2018 to June 30, 2018) (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	74,841	74,965	18,434	838	169,078	—	169,078
Internal sales or transfers	246	2,002	357	295	2,900	(2,900)	—
Total	75,087	76,967	18,791	1,133	171,978	(2,900)	169,078
Segment profit (operating profit)	3,531	2,435	170	145	6,281	(167)	6,114

(Note 1) (167) million yen for adjustment for Segment profit includes (8) million yen for the elimination of transaction between the Segments and (159) 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 Quarter Ended June 30, 2019 (April 1, 2019 to June 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	74,325	71,915	17,985	833	165,058	—	165,058
Internal sales or transfers	195	3,540	902	353	4,990	(4,990)	—
Total	74,520	75,455	18,887	1,186	170,048	(4,990)	165,058
Segment profit (operating profit)	4,678	2,302	451	136	7,567	(249)	7,318

(Note 1) (249) million yen for adjustment for Segment profit includes (58) million yen for the elimination of transaction between the Segments and (191) 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.

(2) Information Concerning Changes in Reported Segments

Effective from the first quarter of this consolidated fiscal year, the Company Group modified its management framework, and as the result, integrated the former Pharmaceutical Segment into the Chemicals Segment, and the Energy & Environment Segment into the Construction Materials Segment.

For fair comparison over the same period last year, the segment information in the first quarter of the previous consolidated fiscal year is reported under the segmentation after the modification.

(Reference) Consolidated Key Indicators

(Billions of yen – except where noted)

	April – June 2018	April – June 2019	April 2019 – March 2020 (forecast)	April 2018 – March 2019
Capital investment	7.2	5.6	50.0	41.7
Depreciation and amortization	8.9	9.0	37.0	36.4
Research and development expenses	3.2	3.2	14.0	12.1
Adjusted operating profit *1	10.3	8.6	51.5	51.5
Interest-bearing debt	185.2	192.3	190.0	187.2
Shareholders' equity *2	312.3	324.8	352.0	329.5
Total assets	725.5	730.0	780.0	740.2
D/E ratio (times)	0.59	0.59	0.54	0.57
Shareholders' equity ratio (%)	43.1	44.5	45.1	44.5
Return on sales - ROS (%) *3	3.6	4.4	6.2	6.1
Return on assets - ROA (%) *4	—	—	6.8	6.9
Return on equity - ROE (%) *5	—	—	9.1	10.1
Number of employees	11,014	11,213	11,200	11,010

*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