

Consolidated Financial Report for the First Half Ended September 30, 2019

November 1, 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/>
 Date of dividend payment: December 3, 2019
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(Amounts rounded to the nearest million yen)

1. Consolidated Financial Results for the First Half Ended September 30, 2019

(From April 1, 2019 to September 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 – September 2019	335,062 (3.8)%	16,755 11.4%	16,642 (11.0)%	10,790 (12.6)%
April – September 2018	348,268 6.5%	15,042 (33.5)%	18,696 (21.2)%	12,352 (21.7)%

(Note) Comprehensive Income: From April 1, 2019 to September 30, 2019: 9,123 Million Yen (42.7)%
 From April 1, 2018 to September 30, 2018: 15,932 Million Yen (31.4)%

	Net income per share (Yen)	Diluted net income per share (Yen)
April – September 2019	106.77	106.44
April – September 2018	117.60	117.22

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio (%)
September 30, 2019	716,679	354,756	46.1
March 31, 2019	740,286	354,552	44.5

(Reference) Shareholders' equity: As of September 30, 2019: 330,394 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	-	45.00			
April 2019 – March 2020 (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, 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 2019 – March 2020	705,000 (3.4)%	42,000 (5.7)%	41,000 (14.3)%	27,500 (15.4)%	272.10

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

(Notes)

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

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

	September 30, 2019	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	5,129,494	5,158,424
	April – September 2019	April – September 2018
Weighted-average number of shares outstanding during period	101,059,831	105,036,651

(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, due to a fall in sales prices of the products including caprolactam and a decline in sales volume of the products represented by nylon and coal, while operating profit increased mainly because of improvement in the spread between the selling prices of synthetic rubber products and the buying prices of butadiene, an increase in sales volume of the specialty products, and a fall in the raw material prices such as coal. 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 – September 2019 ①	335.0	16.7	16.6	10.7
April – September 2018 ②	348.2	15.0	18.6	12.3
Difference ① - ②	(13.2)	1.7	(2.0)	(1.5)
Percentage change	(3.8)%	11.4%	(11.0)%	(12.6)%

(2) Overview by Segment

Net sales

(Billions of yen)

Segment	April – September 2019 ①	April – September 2018 ②	Difference ① – ②	Percentage change
Chemicals	146.4	154.6	(8.1)	(5.3)%
Construction Materials	152.7	155.8	(3.0)	(2.0)%
Machinery	42.0	43.2	(1.1)	(2.8)%
Others	2.3	2.2	0.1	4.5%
Adjustment	(8.4)	(7.5)	(0.8)	—
Total	335.0	348.2	(13.2)	(3.8)%

Operating profit

(Billions of yen)

Segment	April – September 2019 ①	April – September 2018 ②	Difference ① – ②	Percentage change
Chemicals	8.3	8.2	0.0	0.8%
Construction Materials	6.7	5.5	1.1	20.9%
Machinery	1.6	1.3	0.3	24.3%
Others	0.2	0.2	(0.0)	(13.1)%
Adjustment	(0.2)	(0.3)	0.1	—
Total	16.7	15.0	1.7	11.4%

Chemicals – Decreases in net sales and increase in operating profit

■ Engineering Plastics & Fine Chemicals Businesses

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 the buying prices of butadiene.

■ Specialty Products Businesses

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 both net sales and operating profit, because our customers, pharmaceutical companies, expanded sales both in drugs developed by UBE and those manufactured under contract, and royalty revenues increased.

■ 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 the buying prices of butadiene in the Synthetic Rubber Business and sales expansion in the Specialty Products Businesses and Pharmaceutical Businesses.

Construction Materials – Decreases in net sales and increase in operating profit

■ The Cement and Ready-Mixed Concrete Business recorded a net sales decrease due to sluggish domestic demand, for which the large number of holidays and resulting decrease in business days was a contributing factor.

■ The Calcia and Magnesia Business recorded a net sales decrease, because downturn in economy had a significant impact on sales volume of the products, despite of 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.

■ The Construction Materials Segment as a whole recorded a decrease in net sales and an increase in operating profit, because impact of a price fall of coal used as the raw materials offset a decrease in sales volume of cement, ready-mixed concrete and coal.

Machinery – Decreases in net sales and increase in operating profit

■ The Segment recorded a decrease in net sales and an increase in operating profit; while shipment of the products decreased in both Molding Machine and Industrial Machine Businesses for the reason that economic downturn resulted from the trade conflict between the U.S. and China had an impact on capital spending on a global basis, while the Service Business remained strong and the Steel Products Business saw improvement in profitability.

Others – Increases in net sales and decrease in operating profit

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and September 30, 2019

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	32,903	32,288
Notes and accounts receivable - trade	171,611	146,036
Merchandise and finished goods	42,585	44,800
Work in process	22,611	26,651
Raw materials and supplies	31,568	30,669
Other	15,020	12,230
Allowance for doubtful accounts	(599)	(472)
Total current assets	315,699	292,202
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	88,100	87,035
Machinery, equipment and vehicles, net	143,335	135,506
Land	80,510	80,112
Other, net	19,371	27,689
Total property, plant and equipment	331,316	330,342
Intangible assets		
Goodwill	643	533
Other	6,463	7,081
Total intangible assets	7,106	7,614
Investments and other assets		
Investment securities	55,567	55,511
Other	31,063	31,446
Allowance for doubtful accounts	(628)	(624)
Total investments and other assets	86,002	86,333
Total non-current assets	424,424	424,289
Deferred assets	163	188
Total assets	740,286	716,679

As of March 31, 2019 As of September 30, 2019

Liabilities		
Current liabilities		
Notes and accounts payable - trade	102,223	89,645
Short-term borrowings	51,371	46,424
Current portion of bonds	10,000	—
Income taxes payable	4,106	4,065
Provision for bonuses	7,163	7,244
Other provisions	1,298	1,127
Other	49,902	45,199
Total current liabilities	226,063	193,704
Non-current liabilities		
Bonds payable	50,000	60,000
Long-term borrowings	74,275	72,223
Provisions	2,727	2,899
Retirement benefit liability	7,011	7,343
Asset retirement obligations	1,884	1,899
Other	23,774	23,855
Total non-current liabilities	159,671	168,219
Total liabilities	385,734	361,923
Net assets		
Shareholders' equity		
Share capital	58,435	58,435
Capital surplus	40,355	40,346
Retained earnings	235,671	238,360
Treasury shares	(12,798)	(12,724)
Total shareholders' equity	321,663	324,417
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,217	4,143
Deferred gains or losses on hedges	(5)	(345)
Foreign currency translation adjustment	6,075	4,482
Remeasurements of defined benefit plans	(2,430)	(2,303)
Total accumulated other comprehensive income	7,857	5,977
Share acquisition rights	626	599
Non-controlling interests	24,406	23,763
Total net assets	354,552	354,756
Total liabilities and net assets	740,286	716,679

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

• Consolidated Statements of Income

For the first half ended September 30, 2018 and 2019

(Millions of yen)

	April 1, 2018 – September 30, 2018	April 1, 2019 – September 30, 2019
Net sales	348,268	335,062
Cost of sales	291,741	276,263
Gross profit	56,527	58,799
Selling, general and administrative expenses	41,485	42,044
Operating profit	15,042	16,755
Non-operating income		
Interest income	135	171
Dividend income	1,572	944
Rental income	539	540
Amortization of negative goodwill	64	13
Share of profit of entities accounted for using equity method	2,802	995
Foreign exchange gains	1,012	—
Other	1,201	960
Total non-operating income	7,325	3,623
Non-operating expenses		
Interest expenses	564	506
Rental expenses	295	339
Foreign exchange losses	—	182
Other	2,812	2,709
Total non-operating expenses	3,671	3,736
Ordinary profit	18,696	16,642
Extraordinary income		
Gain on sales of non-current assets	37	9
Gain on sales of investment securities	15	48
Total extraordinary income	52	57
Extraordinary losses		
Loss on disposal of non-current assets	898	442
Impairment loss	154	180
Loss on valuation of investment securities	8	291
Total extraordinary losses	1,060	913
Profit before income taxes	17,688	15,786
Income taxes	4,803	4,934
Profit	12,885	10,852
Profit attributable to non-controlling interests	533	62
Profit attributable to owners of parent	12,352	10,790

• Consolidated Statements of Comprehensive Income
For the first half ended September 30, 2018 and 2019

(Millions of yen)

	April 1, 2018 – September 30, 2018	April 1, 2019 – September 30, 2019
Profit	12,885	10,852
Other comprehensive income		
Valuation difference on available-for-sale securities	294	(55)
Deferred gains or losses on hedges	120	(340)
Foreign currency translation adjustment	2,607	(1,241)
Remeasurements of defined benefit plans, net of tax	200	110
Share of other comprehensive income of entities accounted for using equity method	(174)	(203)
Total other comprehensive income	3,047	(1,729)
Comprehensive income	15,932	9,123
Comprehensive income attributable to owners of parent	14,919	8,910
Comprehensive income attributable to non-controlling interests	1,013	213

(3) Consolidated Statements of Cash Flows

For the first half ended September 30, 2018 and 2019

(Millions of yen)

	April 1, 2018 – September 30, 2018	April 1, 2019 – September 30, 2019
Cash flows from operating activities		
Profit before income taxes	17,688	15,786
Depreciation and amortization	17,899	18,186
Impairment loss	154	180
Amortization of negative goodwill	(64)	(13)
Increase (decrease) in allowance for doubtful accounts	(34)	(126)
Interest and dividend income	(1,707)	(1,115)
Interest expenses	564	506
Share of loss (profit) of entities accounted for using equity method	(2,802)	(995)
Loss (gain) on sales of non-current assets	1	139
Decrease (increase) in trade receivables	7,893	24,757
Decrease (increase) in inventories	(11,206)	(5,800)
Increase (decrease) in trade payables	2,069	(10,106)
Other, net	(3,792)	(2,781)
Subtotal	26,663	38,618
Interest and dividends received	2,669	2,205
Interest paid	(625)	(505)
Income taxes paid	(7,026)	(3,567)
Net cash provided by (used in) operating activities	21,681	36,751
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(22,298)	(20,339)
Proceeds from sales of property, plant and equipment	699	438
Purchase of investment securities	(47)	(177)
Proceeds from sales of investment securities	5	88
Purchase of shares of subsidiaries and associates	(296)	(675)
Proceeds from sales of shares of subsidiaries and associates	37	—
Decrease (increase) in short-term loans receivable	(164)	(31)
Other, net	(43)	(119)
Net cash provided by (used in) investing activities	(22,107)	(20,815)

(Millions of yen)

	April 1, 2018 – September 30, 2018	April 1, 2019 – September 30, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	3,116	(2,030)
Increase (decrease) in commercial papers	17,000	—
Proceeds from long-term borrowings	2,165	4,994
Repayments of long-term borrowings	(15,367)	(9,879)
Proceeds from issuance of bonds	—	9,955
Redemption of bonds	(10,010)	(10,000)
Purchase of treasury shares	(5)	(3)
Dividends paid	(7,903)	(8,074)
Dividends paid to non-controlling interests	(667)	(770)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(430)	—
Other, net	(424)	(480)
Net cash provided by (used in) financing activities	(12,525)	(16,287)
Effect of exchange rate change on cash and cash equivalents	368	(303)
Net increase (decrease) in cash and cash equivalents	(12,583)	(654)
Cash and cash equivalents at beginning of period	48,529	32,295
Cash and cash equivalents at end of period	35,946	31,641

(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, 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	Construction Materials	Machinery	Others	Total		
Net sales							
External sales	154,191	149,961	42,544	1,572	348,268	—	348,268
Internal sales or transfers	422	5,845	663	665	7,595	(7,595)	—
Total	154,613	155,806	43,207	2,237	355,863	(7,595)	348,268
Segment profit (operating profit)	8,247	5,597	1,353	244	15,441	(399)	15,042

Note 1: (399) million yen for adjustment for Segment profit 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 is adjusted with operating profit recorded in the consolidated statements of income.

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.

(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 half 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 – September 2018	April – September 2019	April 2019 – March 2020 (forecast)	April 2018 – March 2019
Capital investment	17.0	18.0	50.0	41.7
Depreciation and amortization	17.8	18.1	37.0	36.4
Research and development expenses	5.9	6.5	14.0	12.1
Adjusted operating profit *1	19.5	18.8	45.5	51.5
Interest-bearing debt	192.3	181.4	191.0	187.2
Shareholders' equity *2	322.5	330.3	342.0	329.5
Total assets	734.4	716.6	770.0	740.2
D/E ratio (times)	0.60	0.55	0.56	0.57
Shareholders' equity ratio (%)	43.9	46.1	44.4	44.5
Return on sales - ROS (%) *3	4.3	5.0	6.0	6.1
Return on assets - ROA (%) *4	—	—	6.0	6.9
Return on equity - ROE (%) *5	—	—	8.2	10.1
Number of employees	11,016	11,152	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