

## Consolidated Financial Report for the First Half of the Fiscal Year Ending March 31, 2014

## Ube Industries, Ltd.

## 1. Consolidated Companies

Fiscal period	Previous FY ended Mar. 31, 2013	Current first half ended Sept. 30, 2013	Change
Number of companies			
Consolidated companies	67	68	+1
Companies using equity method accounting	25	24	-1
Total	92	92	0

2. Consolidated Business Results for the First Half of the Fiscal Year Ending March 31, 2014  
(April 1, 2013 to September 30, 2013)

## (1) Results of Operations

(Billions of Yen – except per share data)

	Previous first half ended Sept. 30, 2012	Current first half ended Sept. 30, 2013	Change
Net sales	310.7	310.8	0.0
Operating income	16.1	9.0	-7.1
Net interest expenses	-1.2	-1.0	0.2
Equity in earnings of affiliates	0.5	0.3	-0.2
Other non-operating income	-0.7	-1.6	-0.8
Ordinary income	14.6	6.7	-7.9
Extraordinary income / losses	-0.5	1.7	2.2
Net income	8.4	6.6	-1.7
Net income per share	8.42 Yen	6.54 Yen	-1.88 Yen

## Presupposition conditions

Exchange rate (Yen per US\$)	79.4	98.9	19.5
Naphtha price (Yen/kl)	55,200	64,700	9,500
Australian coal price (Yen/ton)	10,327	11,011	684

## Net Sales by Segment

(Billions of Yen)

	Previous first half ended Sept. 30, 2012	Current first half ended Sept. 30, 2013	Change	Comments
Chemicals & Plastics	109.3	109.7	0.3	
Specialty Chemicals & Products	32.1	32.0	-0.1	
Pharmaceutical	5.6	4.1	-1.5	- Price revision and decrease of volume in active ingredients witch UBE discovered, etc.
Cement & Construction Materials	101.5	106.9	5.4	- Increase in domestic sales volume of cement and ready-mixed concrete, etc
Machinery & Metal Products	34.3	34.8	0.4	- Increase in shipment of molding machines, etc
Energy & Environment	35.4	27.7	-7.6	- Decrease of income from IPP, decrease in sales volume of selling coal, etc.
Other	12.3	13.9	1.5	
Adjustment	-20.1	-18.5	1.5	
Total	310.7	310.8	0.0	

## Operating Income by Segment

(Billions of Yen)

	Previous first half ended Sept. 30, 2012	Current first half ended Sept. 30, 2013	Change	Comments
Chemicals & Plastics	3.8	-2.0	-5.9	- Decrease in spread between selling prices and costs of raw materials for caprolactam, etc.
Specialty Chemicals & Products	1.8	0.4	-1.3	- Decrease in sales price and volume, etc.
Pharmaceutical	1.9	0.4	-1.4	- Price revision and decrease of volume in active ingredients with UBE discovered, etc.
Cement & Construction Materials	4.5	6.8	2.2	- Increase in domestic sales volume of cement and ready-mixed concrete, etc.
Machinery & Metal Products	1.6	2.3	0.7	- Increase in shipments of molding machines, and decrease in fixed costs, etc.
Energy & Environment	2.6	0.6	-2.0	- Decrease of income from IPP, decrease in sales volume of selling coal, etc.
Other	0.4	0.4	0.0	
Adjustment	-0.8	-0.0	0.7	
<b>Total</b>	<b>16.1</b>	<b>9.0</b>	<b>-7.1</b>	

Note: Adjustment of operating income is calculated by totaling the company-wide cost excluding allocation to each segment and the tradeoff of inter-segment trades.

## (2) Financial Condition

(Billions of Yen)

<b>Assets</b>	Previous FY ended Mar. 31, 2013	Current first half ended Sept. 30, 2013	Change
Cash and deposits	36.2	28.1	-8.1
Accounts receivable	143.2	136.8	-6.4
Inventories	81.7	91.2	9.5
Property, plant and equipment	323.7	325.3	1.5
Intangible fixed assets	4.8	5.3	0.4
Investments and other assets	96.2	96.4	0.2
<b>Total assets</b>	<b>685.8</b>	<b>683.1</b>	<b>-2.7</b>

<b>Liabilities</b>	Previous FY ended Mar. 31, 2013	Current first half ended Sept. 30, 2013	Change
Notes and accounts payable-trade	83.2	83.1	-0.1
Interest-bearing debt	246.6	246.0	-0.5
Other liabilities	105.2	95.1	-10.1
<b>Net assets</b>	<b>250.7</b>	<b>258.6</b>	<b>7.9</b>
(Shareholders' Equity)	(222.1)	(232.2)	(10.1)
(Accumulated Other Comprehensive Income)	(-6.5)	(3.3)	(9.9)
(Share subscription rights and Minority interests)	(35.2)	(22.9)	(-12.2)
<b>Total liabilities and Net assets</b>	<b>685.8</b>	<b>683.1</b>	<b>-2.7</b>

## Cash Flows

(Billions of Yen)(Billions of Yen)

	Current first half ended Sept. 30, 2013	(Ref.) Previous first half ended Sept. 30, 2012
Cash flows from operating activities	15.8 *1	18.9
Cash flows from investing activities	-21.7 *2	-18.1
Cash flows from financing activities	-6.8	-1.7
(Interest-bearing debt)	(-1.0)	(-4.8)
(Dividend paid and Other)	(-5.7) *3	(3.0)
<b>Cash and cash equivalents at end of period</b>	<b>27.7</b>	<b>32.4</b>

\*1 Net income before taxes

8.5 billion Yen

Depreciation and amortization	15.8 billion Yen
Increase or decrease in working capital	-0.8 billion Yen
Gain on negative goodwill	-2.8 billion Yen, etc
*2 Acquisition of tangible/ intangible fixed assets	-18.8 billion Yen
Acquisition of stocks of subsidiaries and affiliates	-2.6 billion Yen etc
*3 Dividend paid	-5.4 billion Yen, etc

### (3)Qualitative Information

#### Overview

During the current consolidated term, although the U.S. economy continued a gradual recovery, stagnation of the European economy continued and there was a deceleration of economic expansion in China and other Asian countries, resulting in a somewhat weak global economy. On the other hand, the Japanese economy showed signs of recovery due to reconstruction demand from the Great East Japan Earthquake, as well as improved exports due to a weakening yen. However, there continues to be uncertainty in the economic environment.

The Company Group has been engaged in measures aiming to solve various operational tasks in order to enable speedy response to structural changes in the business environment. Our efforts are based on the basic policies of the three-year medium-term management plan “Change & Challenge –Driving Growth-,” which entered its first year in the current period. The basic policies are “Strengthen the revenue base to enable sustainable growth,” “Maximize the global strength of the Ube Group” and “Address and be part of the solution for resource, energy, and global environmental issues.” However, our efforts have yet to bear results.

The overall conditions of the Group by segment are as follows.

#### Chemicals & Plastics Segment

The market for caprolactam, which is used as a raw material of synthesize polyamide (nylon), continues to stagnate due to excess supply caused by the successive start of operation for new facilities of other companies in China. Furthermore, shipping decreased due to trouble at the Thailand factory. In the case of polybutadiene rubber (synthetic rubber), production in Japan continued to be unprofitable due to high prices in the market for naphtha, as well as decreased product prices caused by a significant decline in the market for the intermediate product butadiene. On the other hand, there was strong demand for nylon resins and industrial chemicals.

As a result, consolidated segment sales increased by 0.3 billion yen, compared to the same period in the previous year, to 109.7 billion yen, while consolidated operating income decreased by 5.9 billion yen to 2.0 billion yen.

#### Specialty Chemicals & Products Segment

In the market of materials for lithium-ion batteries, shipment of electrolyte decreased when compared to the same term in the previous year. Although shipment of separators increased, the market suffered due to a significant drop in prices. For functional materials including fine chemical products and the field of electronics and information materials, although some products show signs of increasing demand, shipment remained weak.

As a result, consolidated segment sales decreased by 0.1 billion yen, compared to the same period in the previous year, to 32.0 billion yen, while consolidated operating income decreased by 1.3 billion yen to 0.4 billion yen.

#### Pharmaceutical Segment

Regarding sales for active ingredients of the Group’s pharmaceutical products, the patent term ended for some products and shipment decreased when compared to the same term in the previous year. Furthermore, sales also decreased for active ingredients and intermediates on consignment manufacturing.

As a result, consolidated segment sales decreased by 1.5 billion yen, compared to the same period in the previous year, to 4.1 billion yen, while consolidated operating income decreased by 1.4 billion yen to 0.4 billion yen.

#### Cement & Construction Materials Segment

Shipments of cement, ready-mixed concrete and building materials were higher than the same term in the previous year due to full-scale reconstruction from the Great East Japanese Earthquake, strong public investment, and recovery in the construction of condominiums and houses. The profitability of exports also improved. The business of producing raw materials/fuel from various kinds of waste products was also strong. Shipments of calcia and magnesia remained weak due to stagnation in demand for steel and electronic information material.

As a result, consolidated segment sales increased by 5.4 billion yen, compared to the same period in the previous year, to 106.9 billion yen, while consolidated operating income increased by 2.2 billion yen to 6.8 billion yen.

### Machinery & Metal Products Segment

Obtaining orders for industrial machinery such as vertical mills and conveyors remains difficult due to fierce cost competitiveness among domestic and overseas manufacturers. Shipments dropped below the same term in the previous year. However, due to further permeation of the market for new models, shipment for molding machines mainly used in the automobile industry were strong, especially for new facilities and expanded facilities of Japanese users in emerging countries and the North American market. Machinery service was also strong. Moreover, shipment of steel products was strong despite difficulty in obtaining orders.

As a result, consolidated segment sales increased by 0.4 billion yen, compared to the same period in the previous year, to 34.8 billion yen while consolidated operating income increased by 0.7 billion yen to 2.3 billion yen.

### Energy & Environment Segment

In the coal business, sales volume for salable coal decreased due to a time lag in marine shipping. The traded volume of coal stored at UBE's Coal Center (transshipment station) also dropped below the same period in the previous year due to periodic inspections performed at the coal-fired power plants of power companies which are main customers. In the power producer business, the volume of power sold dropped significantly due to periodic inspections of IPP power plants and subsequent facilities trouble.

As a result, consolidated segment sales decreased by 7.6 billion yen, compared to the same period in the previous year, to 27.7 billion yen, while consolidated operating income decreased by 2.0 billion yen to 0.6 billion yen.

### Other

Consolidated segment sales of other businesses increased by 1.5 billion yen to 13.9 billion yen, while consolidated operating income increased by 0.01 billion yen to 0.4 billion yen.

## **(4) Qualitative Information for Financial Condition**

Regarding total assets for the current period when compared to the same period in the previous year, inventory assets including goods and products increased by 9.5 billion yen, tangible fixed assets increased by 1.5 billion yen, and investments and other assets increased by 1.7 billion yen. In contrast, cash on hand and in banks decreased by 8.1 billion, notes and accounts receivables decreased by 6.4 billion. This caused total assets to decrease by 2.7 billion yen to 683.1 billion yen.

Regarding liabilities, income taxes payable decreased by 3.0 billion yen, and other current liabilities decreased by 6.0 billion yen. This caused liabilities to decrease by 10.6 billion yen to 424.4 billion yen.

Regarding net assets, minority interests decreased by 12.2 billion yen and capital surplus increased by 9.9 billion yen due to a share exchange which made Ube Material Industries, Ltd. a wholly-owned subsidiary. Furthermore, although retained earnings decreased by 5.0 billion yen due to dividends of surplus, retained earnings increased by 6.6 billion yen due to quarterly net income, and the foreign currency translation adjustment improved by 9.1 billion yen. This caused net assets to increase by 7.9 billion yen to 258.6 billion yen.

## **3. Consolidated Earnings Forecast for the Year Ending March 31, 2014 ( April 1, 2013 to March 31, 2014)**

Regarding future economic conditions, although recovery is forecasted for the Japanese economy, there is concern regarding a downturn in the global economy including the outlook of the Chinese economy, and we forecast that the business environment will remain unpredictable.

Based on such conditions, as announced on September 30, 2013, we have changed the consolidated earnings forecast for the year ending March 31, 2014 as follows: net sales to 647 billion yen, operating income to 26 billion yen, ordinary income to 19.5 billion yen and net income to 12.5 billion yen.

(Billions of Yen – except per share data)

	Fiscal Year ended Mar. 31, 2013	Fiscal Year ending Mar. 31, 2014 (forecast)	Change
Net sales	626.0	647.0	21.0
Operating income	29.9	26.0	-3.9
Ordinary income	28.0	19.5	-8.5
Extraordinary income (losses), net	-12.2	-0.5	11.7
Net income	8.2	12.5	4.3
Net income per share	8.22 Yen	12.05 Yen	3.83 Yen
Dividend per share	5.0 Yen	5.0 Yen	0.0 Yen

#### Business Conditions

Exchange rate (yen per US\$)	83.1 Yen	99.4 Yen	16.3 yen
Naphtha price (yen/kl)	57,500 Yen	64,600 Yen	7,100 yen
Australian coal price (yen/ton)	10,540 Yen	11,059 Yen	519 yen

#### Net Sales by Segment

	Fiscal Year ended Mar. 31, 2013	Fiscal Year ending Mar. 31, 2014 (forecast)	Change	Comments
Chemicals & Plastics	219.3	230.0	10.7	- Increase in sales volume of synthetic rubber and nylon resin, etc.
Specialty Chemicals & Products	61.1	68.0	6.9	- Increase In sales volume, etc
Pharmaceutical	11.4	10.0	-1.4	-Price revision and decrease of volume in active ingredients witch UBE discovered, etc.
Cement & Construction Materials	208.3	218.0	9.7	- Increase in domestic sales volume of cement and ready-mixed concrete, etc
Machinery & Metal Products	71.3	76.0	4.7	-Increase in shipment of molding machines, and increase in sales of steel products, etc
Energy & Environment	68.7	58.0	-10.7	- Decrease of income from IPP, etc
Other	25.2	26.0	0.8	
Adjustment	-39.6	-39.0	0.6	
Total	626.0	647.0	21.0	

#### Operating Income by Segment

	Fiscal Year ended Mar. 31, 2013	Fiscal Year ending Mar. 31, 2014 (forecast)	Change	Comments
Chemicals & Plastics	5.0	2.0	-3.0	- Decrease in spread between selling prices and costs of raw materials for caprolactam, etc.
Specialty Chemicals & Products	1.2	2.0	0.8	- Increase In sales volume, etc
Pharmaceutical	3.4	2.0	-1.4	-Price revision and decrease of volume in active ingredients witch UBE discovered, etc.
Cement & Construction Materials	11.4	14.5	3.1	- Increase in domestic sales volume of cement and ready-mixed concrete, etc
Machinery & Metal Products	3.6	4.6	1.0	- Increase in shipments of molding machines, and decrease in fixed costs, etc.
Energy & Environment	5.9	1.4	-4.5	- Decrease of income from IPP, decrease in sales volume of selling coal, etc.
Other	1.0	1.0	0.0	
Adjustment	-1.9	-1.5	0.4	
Total	29.9	26.0	-3.9	

Note: Adjustment of operating income is calculated by totaling the company-wide cost excluding allocation to each segment and the tradeoff of inter-segment trades.

#### 4. Explanation of differences between the forecast for the current consolidated term and actual results

The following difference occurred between the actual results of the current consolidated term and the forecast announced on September 30, 2013.

(billion yen)	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per share
Previous Forecast (A) (announced Sept. 30, 2013)	313.0	8.0	5.0	5.0	4.90(yen)
Result (B)	310.8	9.0	6.7	6.6	6.54(yen)
Difference (B - A)	-2.2	1.0	1.7	1.6	
Ratio	-0.7(%)	12.5(%)	34.0(%)	32.0(%)	
First half of FY2012 (reference) (April 1,2012-Sept. 30 2013)	310.7	16.1	14.6	8.4	8.42(yen)

(Reason for differences)

Operating income, ordinary income and net income exceeded the previously announced forecast due to thorough cost reduction and other actions to improve profitability, as well as to improvement in non-operating profit and loss.

#### (Reference)

#### Consolidated Key Indicators (Billions of yen – except where noted)

	Previous first half ended Sept. 30, 2012	Current first half ended Sept. 30, 2013	Fiscal Year ending Mar. 31, 2014 (forecast)	Fiscal Year ended Mar. 31, 2013
Capital investment	17.3	12.5	38.0	40.9
Depreciation and amortization	15.4	15.8	32.5	31.3
Research and development expenses	6.9	6.9	14.5	14.0
Adjusted operating income *1	17.3	9.9	27.0	32.1
Interest-bearing debt	249.6	246.0	240.0	246.6
Net debt *2	217.2	218.3	210.0	210.6
Equity capital*3	205.0	235.6	237.0	215.5
Total assets	669.9	683.1	700.0	685.8
Net D/E ratio (times)	1.06	0.93	0.89	0.98
Equity ratio (%)	30.6	34.5	33.9	31.4
Return on sales (%)	5.2	2.9	4.0	4.8
Return on assets - ROA (%) *4	-	-	3.9	4.8
Return on equity – ROE (%)	-	-	5.5	4.0
Number of employees	11,202	11,309	11,300	11,090

\*1 Adjusted operating income: Operating income + Interest and dividend income + Equity in earnings of unconsolidated subsidiaries and affiliated companies

\*2 Net debt: Interest-bearing debt – Cash and cash equivalents

\*3 Equity capital: Net assets – Share subscription rights – Minority interests

\*4 ROA: Adjusted operating income / Average total assets

#### Recent Topics

– Chemicals & Plastics Segment –

◆ Ube Industries, Ltd. completed construction of liquid dioxycarbon manufacturing facilities at Ube Plant (August 2013)

– Specialty Chemicals & Products –

◆ Ube Industries, Ltd. started operation of separator facilities at Sakai Plant (May 2013)

◆ Ube Industries, Ltd. started business activities at Advanced Electrolyte Technologies (Zhangjiagang), a Chinese joint venture with America's The Dow Chemical Company (June 2013)

– Pharmaceutical Segment –

◆ Daiichi Sankyo Corporation submitted application to Japan Ministry of Health, Labour and Welfare for permission to conduct manufacturing in Japan for *Effient*<sup>®</sup>, a antiplatelet agent developed in cooperation with Ube Industries (June 2013)

– Energy & Environment Segment –

◆ Ube Industries, Ltd. started low-temperature carbonization demonstrative tests for PKS (palm kernel shells) in Indonesia (July 2013)