



Ube Industries, Ltd.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2022

August 3, 2021

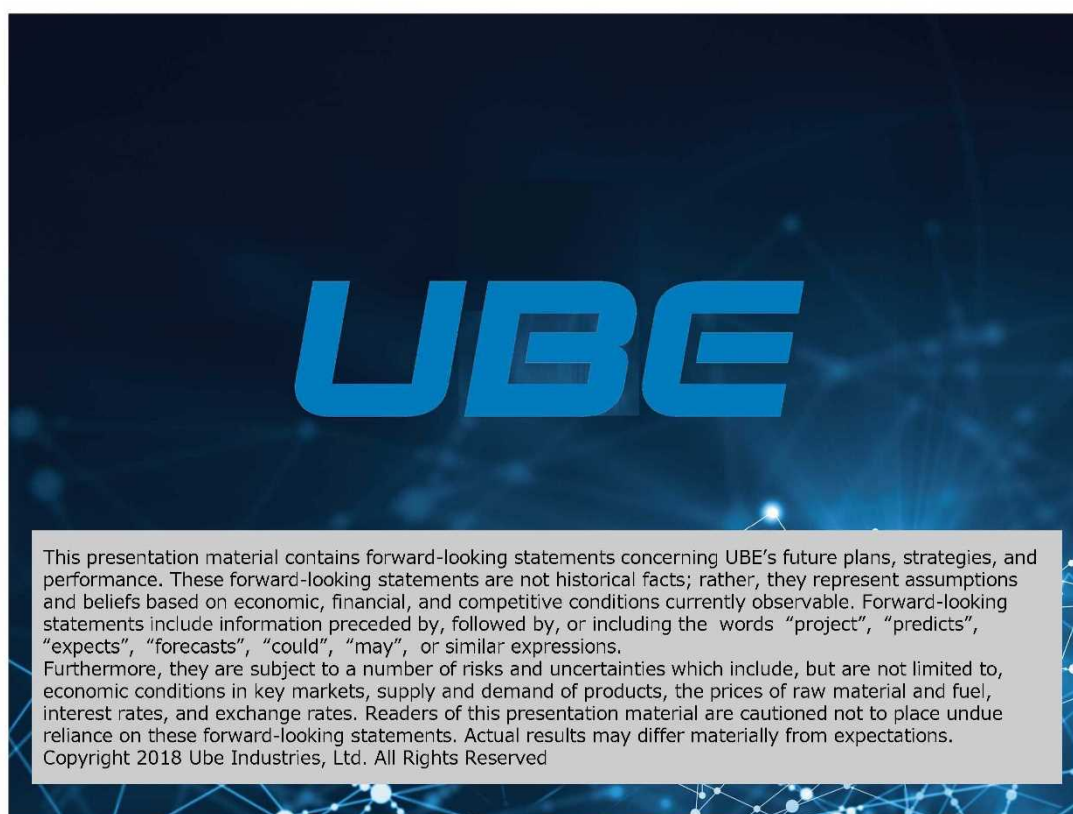
Event Summary

[Company Name]	Ube Industries, Ltd.	
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[Time]	18:00 – 18:47 (Total: 47 minutes, Presentation: 21 minutes, Q&A: 26 minutes)	
[Venue]	Dial-in	
[Number of Speakers]	1 Masayuki Fujii	Director, Managing Executive Officer, CFO

Presentation

Moderator: Good evening, investors. Thank you for taking time out of your busy schedule to participate in today's conference call with Ube Industries, Ltd.

Mr. Masayuki Fujii, Director, Managing Executive Officer and CFO, will now give a 20-minute presentation on the consolidated financial results for Q1 of FY2021, followed by a question-and-answer session. The entire meeting is scheduled for 45 minutes.



Before we begin the conference call, please note that all forward-looking statements made in this presentation are based on current expectations and are subject to risks and uncertainties. Please be aware that the actual results may differ from the forecast.

We will now begin to explain the financial results. Managing Executive Officer Fujii, please.

Scope of Consolidation

Item	End of FY2020 (A)	End of FY2021 1Q (B)	Difference (B) - (A)	Notes
Number of consolidated subsidiaries	66	66	0	
Number of equity method affiliates	26	27	1	+ C Integration Arrangement, Ltd
Total	92	93	1	

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Fujii: Good evening, everyone. I am Fujii from Ube Industries. Thank you very much for taking time out of your busy schedule to join us today.

I would like to explain the consolidated financial results for Q1 of FY2021, which were announced today, in accordance with the materials. Thank you.

Page numbers are assigned at the bottom right of the document. First, the slide on page 3.

The number of consolidated subsidiaries totaled 66 at the end of Q1, unchanged from the end of the previous fiscal year.

The number of equity method affiliates increased by 1 to 27. The added company is C Integration Arrangement, Ltd, as shown in the notes. We are going to integrate our cement and other businesses in April next year, and in preparation for this integration, we have established a company with Mitsubishi Materials Corporation on a 50-50 basis. This is a new addition as an equity method affiliate. There will be no significant impact on the business results for Q1.

Environmental Factors

Item			FY2020 1Q (A)	FY2021 1Q (B)	Difference (B) - (A)	
Exchange Rate	Yen/\$		107.6	109.5	1.9	
Material Price	Naphtha	CIF	\$/ t	306	601	295
		Domestic	Yen/KL	24,900	47,700	22,800
	Benzene (ACP)	\$/ t	358	933	575	
	Australian Coal (CIF)	\$/ t	76.0	130.3	54.3	
		Yen/t	8,179	14,261	6,082	

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Next, the slide on page 4, environmental factors.

Compared to Q1 of last year, the yen has weakened slightly.

In Q1 of last year, prices of materials such as naphtha, benzene, and coal fell sharply, partly due to the impact of COVID-19. From there, the price is now going up. Therefore, the prices of naphtha, benzene, coal et cetera have increased significantly compared to Q1 of last year. The results for Q1 have been better than the level we expected at the beginning of the fiscal year.

Major P/L Items

Item	(Billions of yen)			
	FY2020 1Q (A)	FY2021 1Q (B)	Difference (B) - (A)	Percentage change
Net sales ^{*1}	136.1	146.2	10.1	–
		<i>164.9</i>	<i>28.8</i>	<i>21.2%</i>
Operating profit (loss)	(0.6)	8.9	9.5	–
Ordinary profit (loss)	(1.2)	8.9	10.2	–
Profit (loss) attributable to owners of parent	(1.3)	4.7	6.0	–

*1: We don't indicate the rate of increase and decrease in net sales compared with the previous fiscal year because of applying the "Accounting Standard for Revenue Recognition" from FY2021. Figures shown in italics are before applying Accounting Standard for Revenue Recognition.

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This is followed by the major items on page 5.

Net sales were JPY146.2 billion in Q1. The accounting standard has changed from this fiscal year. As you can see in the note at the bottom of the page, the figures in italics show the figures on a conventional basis before applying the new accounting standard for revenue recognition.

Net sales increased by JPY10.1 billion under the new accounting standard. On a conventional basis, sales increased by JPY28.8 billion, or more than 20%.

Operating profit was JPY8.9 billion, and last year we were in the red, with an operating loss of JPY600 million. We returned to the black, with an increase of JPY9.5 billion.

Ordinary profit was JPY8.9 billion, also an increase of JPY10.2 billion YoY.

Profit attributable to owners of parent was JPY4.7 billion, an increase of JPY6 billion.

In Q1 of last year, demand plummeted due to the spread of COVID-19. In addition to this, the regular repair for ammonia also caused a significant deterioration in our business performance. All profit items were in the red in Q1 of last year.

Since H2 of last year, the situation has been rapidly recovering. The profit for Q1 has recovered to a level higher than that of Q1 of FY2019 before COVID-19.

Net Sales and Operating Profit by Segment

(Billions of yen)

	Segment	FY2020 1Q (A)	FY2021 1Q (B)	Difference (B) - (A)	Percentage change
Net sales	Chemicals	52.5	76.7 <i>*1 78.8</i>	24.1 26.2	– 50.0%
	Construction Materials	69.1	48.7 <i>66.1</i>	(20.4) (3.0)	– (4.4)%
	Machinery	16.7	21.4 <i>20.5</i>	4.7 3.8	– 22.8%
	Others	0.7	0.8 <i>0.8</i>	0.0 0.0	– 13.0%
	Adjustment	(3.1)	(1.4) <i>(1.4)</i>	1.6 1.6	– –
	Total	136.1	146.2 <i>164.9</i>	10.1 28.8	– 21.2%
	Operating profit (loss)	Chemicals	(2.7)	7.6	10.3
Construction Materials		1.9	0.6	(1.2)	(65.6)%
Machinery		0.2	0.7	0.4	196.8%
Others		0.0	0.0	0.0	88.4%
Adjustment		(0.1)	(0.2)	(0.0)	–
Total		(0.6)	8.9	9.5	–

*1: Figures shown in italics are before applying Accounting Standard for Revenue Recognition.

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The next slide on page 6 shows the breakdown of net sales and operating profit by segment.

Both sales and profits increased in the Chemicals and Machinery segments, but both sales and profits decreased in the Construction Materials segment.

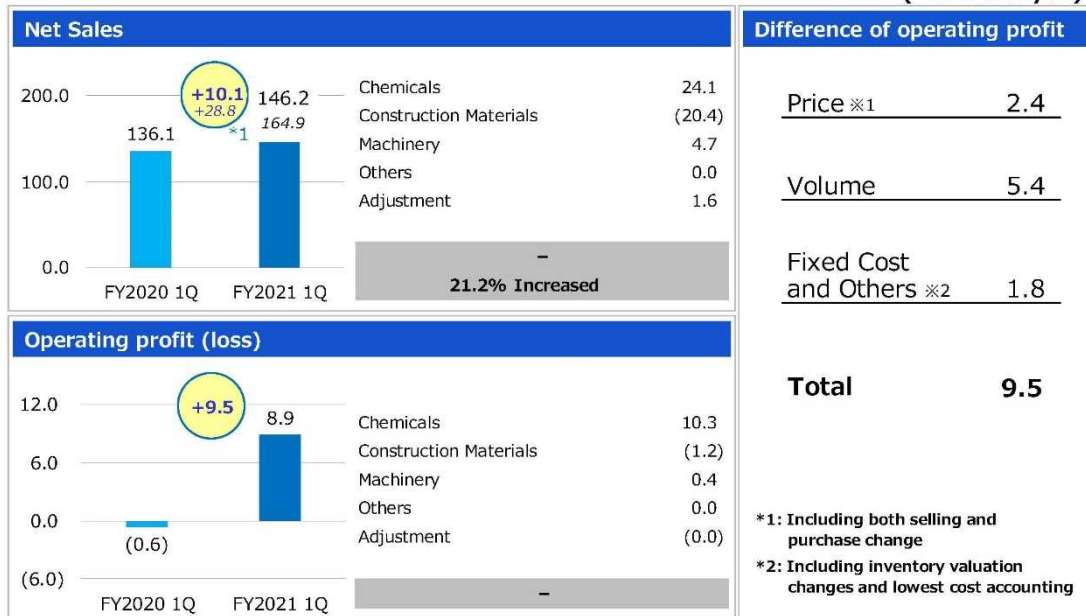
I mentioned that net sales increased by JPY10.1 billion under the new accounting standard. This includes an increase of JPY24.1 billion in Chemicals. Sales of Construction Materials decreased by JPY20.4 billion, but this is largely due to the impact of the accounting standard. However, even without taking into account the impact of the new accounting standard, on a conventional basis, sales are down by JPY3 billion. As for Machinery, sales increased by JPY4.7 billion.

As for the operating profit in the lower part of the table, I have stated that it increased by JPY9.5 billion as a whole.

As a breakdown, a JPY10.3 billion increase in Chemicals is the major driver for the overall increase in profits. On the other hand, Construction Materials reported a decrease of JPY1.2 billion and Machinery reported an increase of JPY0.4 billion.

Analysis - Total

(Billions of yen)



*1: Figures shown in italics are before applying Accounting Standard for Revenue Recognition.

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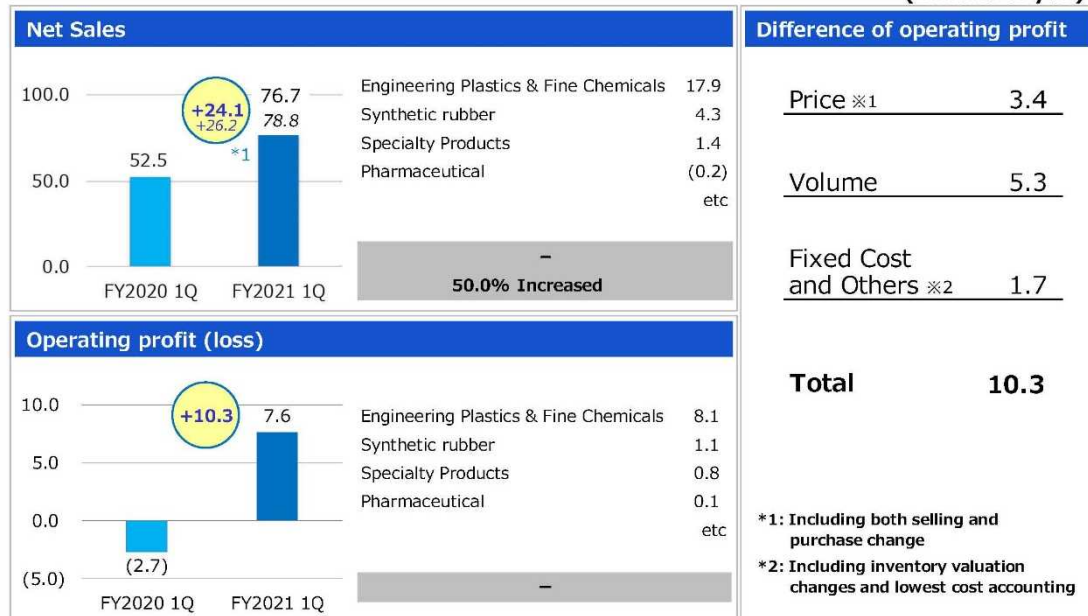
Next, the slide on page 7.

As for the variance analysis, the breakdown by segment is as shown in the previous page. The table on the right shows the breakdown of price difference, volume difference, fixed cost and others.

Of the total increase of JPY9.5 billion, JPY2.4 billion was added in price difference, JPY5.4 billion in volume difference, and JPY1.8 billion in fixed costs and others.

Analysis - Chemicals

(Billions of yen)



*1: Figures shown in italics are before applying Accounting Standard for Revenue Recognition.

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Next is the status by segment. First, on page 8 is the status of Chemicals.

In Chemicals, demand is recovering in general, especially in the automotive sector, and almost all products have increased in volume compared to the previous year. Against the backdrop of this tightening supply and demand, raw material prices have been rising, as you saw earlier, but product prices have been improving faster than this.

In particular, price revisions are underway for nylon, lactam, and synthetic rubbers, while sales of polyimide for electronic materials are expanding and recovery is progressing for specialty products such as separation membranes and ceramics for industrial applications. In addition, there is no regular repair for ammonia, which is also a positive factor.

The breakdown is shown here. Sales increased by JPY24.1 billion in total.

In the sub-segments, the largest increase was JPY17.9 billion in engineering plastics & fine chemicals, where nylon, lactams, industrial chemicals and fine chemicals each saw an increase in sales. Especially, the increase in nylon and lactam is significant. The volume is increasing, and as I mentioned earlier, the price is also improving significantly.

Then, synthetic rubber sales increased by JPY4.3 billion. The demand is also coming back very strong.

Sales of specialty products increased by JPY1.4 billion. Sales of each product in general have also increased YoY.

Sales of pharmaceutical business decreased slightly to JPY200 million, but this was due to the timing of shipments.

As for operating profit in the lower part of the table, the total increase was JPY10.3 billion.

This includes an increase of JPY8.1 billion in engineering plastics & fine chemicals, with the improvement in profits here being the major driver, and a significant improvement in the spread of nylon and lactam.

As for industrial chemicals, since there is no regular repair for ammonia this year, the volume has increased and the price has improved. In addition, demand for fine chemicals is returning.

In the synthetic rubber business, profits increased by JPY1.1 billion, which was also due to increased sales.

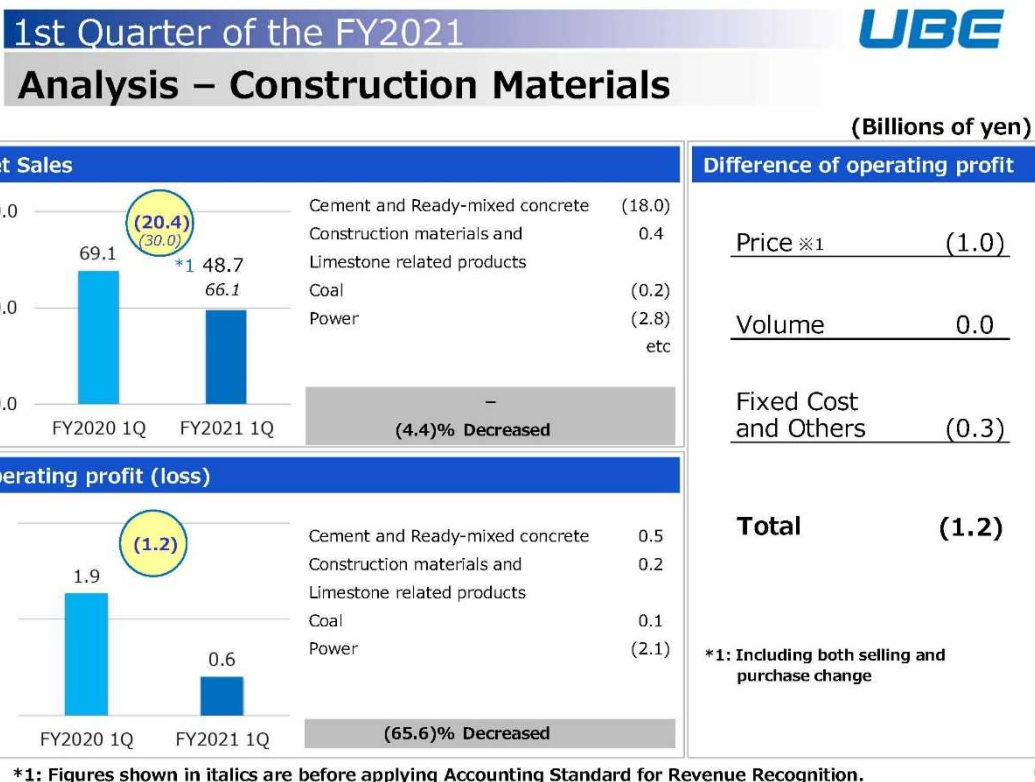
Profit in specialty products increased by JPY0.8 billion. Profits also increased in all products.

In the pharmaceutical business, sales were down slightly, but profits were slightly positive.

On the right, the price difference is a positive factor of JPY3.4 billion, and the improvement in the prices of nylon and lactam is significant. The spread has improved.

The volume difference is a positive factor of JPY5.3 billion. Volume differences are almost universally positive for all products. The same is true for nylon and lactam, and the increases are building up in industrial chemicals, synthetic rubber, separators and fine chemicals.

In addition, fixed costs and others increased by JPY1.7 billion. This includes the impact of inventory valuation changes and lowest cost accounting, as shown at asterisk 2. The impact of these factors is insignificant, so we are seeing positive effects in fixed costs, such as labor and repair costs.



The next slide on page 9 is on Construction Materials.

In Construction Materials, sales were largely affected by the change in the accounting standard, but there was also a slump in domestic demand for cement and higher coal prices. However, these effects were limited in Q1.

Fixed cost reductions, as well as the recovery of Ube Material Industries' products, such as Calcia and Magnesia, have helped to offset the negative factors in cement and other products.

On the other hand, the actual reason for the decrease in both sales and profits is that the power sectors are undergoing IPP regular repairs once every 2 years, so compared to Q1 of last year, there was a decrease in volume and an increase in costs due to the repair work. We found some problems with the equipment during the regular repair, so the repair work took a little longer than in the past, which has had a larger negative impact.

In terms of the breakdown of specific figures, sales declined by JPY20.4 billion in total. The major part was JPY18 billion in cement and ready-mixed concrete, which was mostly due to the impact of the change in the accounting standard.

In addition, Construction Materials and limestone related products such as those of Ube Materials Industries' are recovering, which is having a positive impact. On the other hand, sales of coal and other materials decreased slightly. As I mentioned earlier, power sales have decreased significantly due to the impact of IPP regular repair.

Operating profit, as shown in the bottom row, decreased by JPY1.2 billion in total.

In the cement and ready-mixed concrete business, profits increased by about JPY500 million YoY. As I mentioned earlier, domestic demand for cement has been sluggish and volumes have been declining, but on the other hand, fixed costs have been decreasing and the volume of ready-mixed concrete has been increasing. We are covering with these positive factors.

Power business at the bottom recorded a loss of JPY 2.1 billion. This is due to the impact of IPP regular repair that I mentioned earlier. The IPP repair was scheduled from the beginning, so it was factored into the plan, but the negative impact was slightly inflated due to the extension of the repair period.

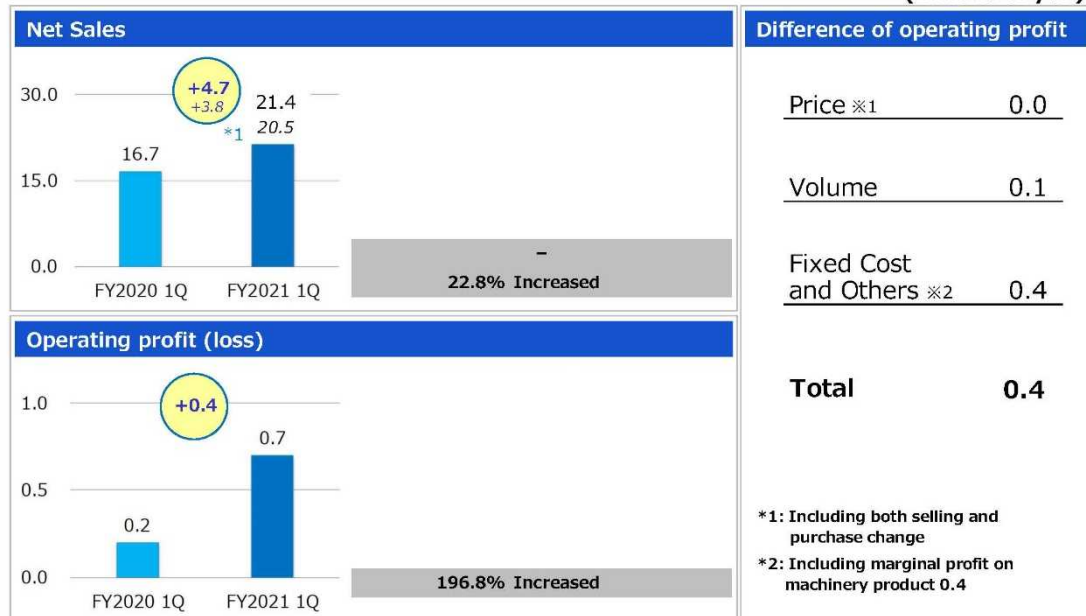
On the right is the price difference, volume difference, and fixed costs. The price difference was negative JPY1 billion. This is from cement exports, domestic compositional differences et cetera, or the decline in electricity sales prices. Prices for limestone products and Ube Materials Industries' products have a slightly worse spread. These negative factors are piling up.

Although the difference in volume is zero, the breakdown is that some items have increased and others have decreased. The volume of ready-mixed concrete and limestone-related products has been increasing, and we are seeing positive results. On the other hand, the negative impact of the volume of cement, IPPs, and electricity sales has been offset, resulting in a total impact of zero.

Then, fixed costs are negative JPY300 million. Although there is a large negative factor in fixed costs due to the repair cost of IPP, this has been covered to some extent by the decrease in other fixed costs.

Analysis - Machinery

(Billions of yen)



*1: Figures shown in italics are before applying Accounting Standard for Revenue Recognition.

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The next slide on page 10 is on Machinery.

In the Machinery segment, we are seeing a recovery in inquiries and orders for capital investment projects in the automobile sector, which declined last fiscal year due to COVID-19. However, we are still in the process of recovery. In Q1, sales and profits increased, partly due to the steady progress of projects based on the percentage-of-completion method, especially in the field of industrial machinery.

In terms of sales, the price of steel products and raw material scrap has soared, and the price of products has also risen, which has had an impact on the increase in sales.

Against this backdrop, sales in the Machinery segment increased by JPY4.7 billion. As I mentioned earlier, the increase in sales of industrial machinery and steel products is having an effect.

Operating profit increased by JPY400 million. The increase in profit due to higher sales from the progress of projects based on the percentage-of-completion method for industrial machinery and other factors is having an effect.

On the right is the price difference, volume difference, fixed costs and others. The price difference and volume difference are for steel products. As for Machinery products, marginal profit of JPY400 million has been added to the fixed cost and others.

Operating Profit – Profit attributable to owners of parent

(Billions of yen)

Item	FY2020 1Q (A)	FY2021 1Q (B)	Difference (B) - (A)
Operating profit (loss)	(0.6)	8.9	9.5
Non-operating income (expenses)	(0.6)	0.0	0.6
Net interests expenses	0.2	0.3	0.0
Share of profit of entities accounted for using equity method	0.0	0.1	0.1
Foreign exchange gains (losses)	(0.2)	0.0	0.2
Others	(0.7)	(0.5)	0.1
Ordinary profit (loss)	(1.2)	8.9	10.2
Extraordinary income (losses)	0.4	(0.0)	(0.5)
Profit (loss) before income taxes	(0.7)	8.8	9.6
Income taxes and loss attributable to non-controlling interests	(0.5)	(4.1)	(3.5)
Profit (loss) attributable to owners of parent	(1.3)	4.7	6.0
Net income per share	(13.16) yen	47.31 yen	60.47 yen

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Next, the slide on page 11 shows non-operating income and expenses and thereafter.

Operating profit for Q1 was JPY8.9 billion, but non-operating income and expenses were zero in total. This is an improvement of about JPY600 million compared to last year.

Share of profit of entities accounted for using equity method was positive JPY100 million. This was due to the improved performance of equity method affiliates in the chemical industry.

On the other hand, costs have been incurred by the preparatory company for the integration of Construction Materials. They are offset to some extent.

After adding such non-operating income and expenses, ordinary profit was JPY8.9 billion. There were no significant extraordinary income or losses in Q1. In Q1 of last fiscal year, there was a slight accounting gain due to the reorganization of group companies, so compared to that, the situation has deteriorated by about JPY500 million.

The second from the bottom, profit attributable to owners of parent has just settled at JPY4.7 billion.

Consolidated Balance Sheet

(Billions of yen)

Item	End of FY2020 (A)	End of FY2021 1Q (B)	Difference (B) - (A)
Current assets	331.7	328.1	(3.5)
Fixed assets	437.8	434.6	(3.1)
Total assets	769.7	762.9	(6.7)
Interest-bearing debt	214.7	204.3	(10.3)
Other liabilities	174.3	183.3	9.0
Total liabilities	389.0	387.7	(1.3)
Shareholders' equity *1	359.0	353.8	(5.1)
Non-controlling interests and others	21.6	21.3	(0.3)
Total net assets	380.6	375.2	(5.4)
Total liabilities and net assets	769.7	762.9	(6.7)

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

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Next slide on page 12 shows the B/S items.

Total assets were JPY762.9 billion at the end of Q1, a slight reduction in assets compared to the end of March of the previous fiscal year.

In terms of liabilities, interest-bearing debt was reduced by about JPY10.3 billion to JPY204.3 billion, which is a slight reduction in cash holdings.

Then, shareholders' equity in net assets. We had JPY353.8 billion, a decrease of JPY5.1 billion compared to the end of the previous fiscal year. Net income for per share was up about JPY4.7 billion.

On the other hand, we paid the year-end dividend for the previous fiscal year, and we are now repurchasing our own shares with an upper limit of JPY10 billion. Less than half of this progress was made in Q1. As a result, our shareholders' equity decreased by about JPY5.1 billion in Q1.

Consolidated Statements of Cash Flows

(Billions of yen)

Item	FY2020 1Q	FY2021 1Q	
A.Cash flows from operating activities	18.1	14.3	Profit before income taxes 8.8 Depreciation and amortization 9.0 Decrease in working capital (3.9) etc.
B.Cash flows from investing activities	(9.6)	(9.2)	Acquisition of PP&E (9.4) etc.
Free cash flows (A+B)	8.5	5.0	
C.Cash flows from financing activities	3.5	(19.7)	Decrease in interest-bearing debt (10.7) Dividends paid (4.6) Buy back of shares (4.3) etc.
D.Net increase/decrease in cash and cash equivalents	12.9	(14.6)	
E.Cash and cash equivalents at end of the quarter	53.5	65.0	

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Next, cash flow on page 13.

Cash flow from operating activities was JPY14.3 billion, a slight decrease from the previous fiscal year. This is due to an increase in working capital.

Cash flow from investing activities was a cash outflow of JPY9.2 billion, almost the same as last year, and after subtracting these amounts, free cash flow was JPY5 billion.

Cash flow from financing activities was negative JPY19.7 billion. We have just over JPY10 billion in cash outflow from the reduction of interest-bearing debt, dividend payments, and share buybacks.

Cash and cash equivalents decreased by about JPY14.6 billion during Q1, and the balance at the end of the quarter was JPY65 billion.

The above is a summary of the financial results for Q1 of FY2021, and we have decided to leave the initial earnings forecast unchanged.

Although there were some ups and downs in Q1, H1 of the fiscal year has been quite solid. However, we would like to see how H2 of the fiscal year goes, so we have decided to leave the forecast unchanged this time.

That is all I have to say.

Moderator: Thank you very much.

Question & Answer

Moderator: We will now begin the question-and answer-session. When it is your turn and your name is called, please state your company name and your name and ask questions. We will answer in a question-and-answer format. In order to answer questions from as many people as possible, we would like questions to be kept to 2 per person at a time. We will now begin the question-and-answer session.

Questioner A: Hello.

Fujii: Thank you very much.

Questioner A: Now, I would like to ask you 2 questions. First of all, congratulations on the successful recovery of the Chemicals business. You mentioned that JPY20 billion was the minimum requirement, so I appreciate that it is a solid recovery, but could you please elaborate a little more on the background of the recovery of Chemicals?

The improvement is JPY8.1 billion in nylon and fine chemicals, but if you look at the improvement in the spread, the lactam margin probably improved by about USD450 per ton, so I assume that nylon improved even more and that there was expansion in the automotive sector. I would like to know more about nylon and fine separately.

Since you said that the separators were also good for specialty products, could you tell us about the background of favorable separators? Please elaborate on the factors behind the increase in profits in Chemicals.

Fujii: First of all, in the Engineering Plastics and Fine Chemicals business, there was a very large improvement in profit. As you know, the improvement of lactam and nylon is particularly significant. As for the spread of lactam, as you may have already heard, it has been above USD1,000 for a while in Q1.

As for nylon, the supply and demand are extremely tight. In Q1 of last fiscal year, there was a sharp drop in demand due to COVID-19. Especially, demand for films was relatively strong, mainly for food applications.

On the other hand, composites, mainly for the automobile industry, had deteriorated significantly, but since H2 of last year, the automobile sector has been recovering rapidly. At present, demand for substitutes for nylon 66 has been increasing, and demand for film applications is also expanding in areas such as battery exteriors, in addition to solid food applications. Against the backdrop of such a strong supply-demand balance, although the price of raw materials and lactam has risen, we have been able to correct the price by more than offsetting the sharp rise in prices, and the nylon spread has widened.

In particular, we have seen a significant improvement in spreads overseas, especially in Spain and Thailand, which has contributed to increased profits.

On the other hand, demand for fine chemicals is also improving, especially in the automotive sector. However, compared to lactam, nylon et cetera, the increase in profit is not as large, but it is also steadily increasing.

As for separators, Q1 of last year was affected by a significant decline in demand for automotive applications, so the volume of both coated and non-coated separators has increased compared to Q1 of last year. In total, the volume has increased by almost 90%, or rather, has recovered, so we are aware that the expansion is progressing steadily.

Questioner A: If the improvement is nearly 90%, does that mean that separators have increased by 1.9 times?

Fujii: As a volume, that's what I mean. In other words, Q1 of last year was so depressed.

Questioner A: Is there any unevenness between the coated and non-coated types? You also mentioned that nylon and lactam margins have also improved. Is this also due to the increase in compound? Let me check.

Fujii: As for the unevenness between the coating type and non-coating type, if you compare them in Q1, the ratio is growing at a similar rate. In terms of the progress up to that point, depending on the quarter, there was an increase or decrease in either 1 but compared to a year ago it was almost the same.

In addition, we are improving the margins of nylon, both for polymers for film applications and composites. We don't have detailed data on the ratio but, originally, film and food applications were relatively strong last year amid the COVID-19 pandemic. Looking at the changes from last year, it can be said that composites have improved more significantly.

Questioner A: I understand. Thank you. 1 more point, briefly, please. In Q1, domestic demand for cement in Construction Materials was 9.2 million tons, which is really depressed, but under such circumstances, while the price of coal has risen, cement and ready-mixed concrete have been a factor for the increase in profit. Is this because of the increase in the volume of ready-mixed concrete, or because of cost reductions other than variable costs such as coal? What are the factors behind this?

Fujii: In terms of cement and ready-mixed concrete, as you know, domestic demand for cement has decreased by about 1.8% in terms of volume compared to the previous year. In this area, we have managed to cover the total volume by increasing exports, but the difference in the price composition has had some impact.

The price of coal has also been rising, but this has not had a major impact in Q1 because there are still inventories carried over from the previous year. We can say that it was still limited.

On the other hand, compared to Q1 of last fiscal year, the fixed cost of cement has decreased due to a decrease in repair costs et cetera, and the volume of ready-mixed concrete has increased, which are positive factors. In total, there are negative factors, but the positive factors outweighed them.

Questioner A: As for cost reduction, have repair costs and others decreased?

Fujii: That's right. The fixed costs have basically decreased, which is a positive thing.

Questioner A: Of the JPY500 million, is the contribution 50-50? There are some negative trading conditions, so is it difficult to say for sure?

Fujii: It's a little difficult to give you a breakdown of the ratios.

Questioner A: I understand. Thank you.

Fujii: Thank you very much.

Questioner B: Thank you.

Fujii: Thank you very much.

Questioner B: The first point. Continuing from the last question, I would like to ask you to explain about power for Construction Materials. Which factors, such as price difference, volume difference or fixed cost difference, are responsible for the large negative impact of JPY2.1 billion YoY decrease in operating profit in Q1? If you could explain in figures if possible, or qualitatively if it is difficult, it would help us better understand what you said earlier about cement and ready-mixed concrete. Please.

Fujii: Regarding power, it is difficult to provide specific figures, but qualitatively speaking, the price difference is a negative factor. This is a bit of a negative factor as the price of selling electricity has dropped compared to Q1 of last year. As for the volume difference, there is a negative impact because the volume has decreased significantly compared to Q1 of last year due to regular repairs.

Also, other fixed costs are increasing due to repair costs and others in accordance with regular repairs. In this sense, each of these factors has contributed to the decrease in profit.

Naturally, we planned to have regular repair work this fiscal year, and we included it in our initial forecast, but we found a problem with the equipment during the regular repair, so we had to extend the period slightly, which had a slightly negative impact. Even so, the level is somewhat limited.

Questioner B: How much was the additional cost increase for the equipment problem you just mentioned, and when did things return to normal?

Fujii: We have been back by the end of Q1, and of course we are moving into operation. It is difficult to give a specific amount of impact, but the impact was limited.

Questioner B: And the second point, I would like to know about specialty products in Chemicals. I think you described in your financial report that the YoY increase was largely due to battery materials. Is this correct?

In the comparison with Q4, what is the sense of direction for this battery material? Also, please give us some additional information on how polyimide and other materials are viewed in terms of QoQ.

Fujii: In specialty products, profits increased compared to Q1 of last year. As a breakdown, battery materials, of course, have been positively affected by the recovery in demand from the automobile sector. Sales of specialty products such as polyimides and ceramics are also recovering steadily in volume compared to last year. The polyimide business was also strong in the COVID-19 pandemic last year, and profits increased compared to that, so overall specialty products are contributing to an increase in profits.

In comparison with Q4 of last fiscal year, profits for specialty products have decreased compared to Q4 of last year, but in Q4 of last year, especially for polyimide-related products, there was a gap between H1 of the fiscal year and the recovery period, as well as the accounting difference between the current fiscal year, cost deviation and so on. We felt that profits for specialty products were slightly more inflated than usual in Q4, so compared to that, profits for specialty products decreased in Q1.

There are no major factors, but basically, sales of each specialty product have been declining gradually since Q4. Although the volume is about the same, we have seen such effects.

Questioner B: Is it correct to understand that the separators also saw a slight decrease in profit compared to Q4?

Fujii: In comparison to Q4, sales were almost on par with Q4.

Questioner B: I understand now. Thank you.

Fujii: Thank you very much.

Questioner C: Thank you.

Fujii: Thank you very much.

Questioner C: I also have an additional question about specialty products. In comparison with Q4, based on your previous answer, I think that polyimide business saw a decline in sales and profits probably due to a reactionary decline from a slightly overly strong performance. Is it correct to assume that way? Is it a story about inventory adjustment or production reduction by customers? Or is the unit price down, or is the competitor gaining market share? Please add more information about price, volume, and market share.

Fujii: Regarding the comparison with Q4 for specialty products, I would like to add 1 more thing: regarding the sales of electrolyte, in H2 of last fiscal year, we entered into a joint venture with Mitsubishi Chemical Corporation, and our electrolyte business became an equity method affiliate. However, it will take some time to obtain certification from customers, so during that time, it is sold via our company. From Q1 of this fiscal year, such items have been netted in accordance with the revenue recognition accounting standard, so the impact of the electrolyte is included in the sales slightly.

In terms of profits, if you look at the short term of 3 months, there are some positive and negative effects on profits, but we understand that there has not been a particularly large impact on the market or on customers, leading to the decline in sales.

However, in the area of polyimide, there is a shortage of semiconductors for display devices in relation to the varnish, and we have heard that this is having some impact on the market. It's not that big. Although there are such factors, there have not been any significant changes.

Questioner C: Thank you very much. In that case, would it be correct to say that although there was a slight decrease in the April to June period, there is no need to worry so much about Q2 and beyond, including prices?

Fujii: Yes. In general, we expect demand to remain strong in Q2 and beyond. In relation to the varnish I mentioned earlier, there is some concern about the shortage of semiconductors and other effects, but I do not think it will be significant. Therefore, we expect that the volume will remain steady. As for the price, since these are specialty products, we are assuming that the price will decrease due to downward pressure on the price on a regular basis, but this is not a major negative factor and will be within the expected range to a certain extent.

Questioner C: Thank you very much. Secondly, in the Machinery business, I think sales and profits have returned to normal. In terms of orders, I think H1 of last year was bad and H2 was on a recovery trend. Please tell us about the movement of orders in this fiscal year compared to H2 of the previous fiscal year.

Fujii: Regarding the status of orders for Machinery, in the area of molding machines, orders for automobiles are continuing to recover. In particular, we are seeing an increase in projects related to EVs and weight reduction. Although there are regional differences, the North American and Chinese markets are showing steady growth. On the other hand, areas such as India and Southeast Asia are still affected by COVID-19, and it will take some more time for them to recover.

As for industrial machinery, we have already received orders for projects, and sales are progressing. However, in terms of the order environment, some IPP-related projects have peaked out, so we recognize that 1 of our tasks is to increase orders in this area going forward. Compared to last year, Q1 of this fiscal year has seen a recovery in orders.

Questioner C: That's all. Thank you very much.

Fujii: Thank you very much.

Questioner D: Thank you for your explanation.

The first question is about the overall impression. You mentioned earlier that there were ups and downs in Q1, but H1 is solid. When you look at the Q1 results alone, which areas in particular went up and which areas went down compared to your assumptions, and is it correct to say that overall results went up?

Fujii: Looking at the results for Q1, the overall recovery in Chemicals has been stronger than planned. Mainly in nylon and lactam. For lactam, the spread was initially estimated at USD900 for this fiscal year, but the average for Q1 was just under USD1,100, so this upswing of the spread has had a positive impact. Other products, in general, are performing slightly better than planned for Chemicals.

On the other hand, in terms of Construction Materials, we see the slight extension of the repair period for IPPs, as I mentioned earlier, as a slight downward factor. As for Machinery, we are almost at the planned level due to shipping and other factors. In this context, we are aware that we have been performing above the planned level in total.

Questioner D: Was the impact of the high coal prices little in Q1?

Fujii: Although some costs have increased, the impact has been limited.

Questioner D: I understand. The second question is about caprolactam. As you have just explained, the April to June period has been quite steady, but on the other hand, I think you are going to see a little bit of an expansion phase in the next 2 months or so. On the other hand, it seems that if you endure a little longer, you will enter the demand period, so could you explain a little bit about the future outlook for caprolactam?

Fujii: I think you are right, but there are regional differences here as well. In China, the supply and demand situation is somewhat relaxed, but in other regions such as Europe and Taiwan, the supply and demand is still tight at present. We are aware that demand has been strong, and that there have also been problems with facilities in various locations, which have affected the supply of competing products.

The price of benzene has been on an upward trend since Q1 of this fiscal year, but we are aware that the price of lactam has been able to pass on it. Recently, it has exceeded USD1,000, so there is a sense of a leveling off to some extent, but we expect it to remain almost at the same level in Q2. As you know, in H2 of the year, we will enter the demand season for winter clothing, so we expect to be able to continue in that area for the time being.

Questioner D: I understand. Thank you very much.

Fujii: Thank you very much.

Moderator: We have a few more questions, but we have reached the end of our scheduled time, so we will conclude the Q&A session. Please note that the Finance and Investor Relations Department will contact you tomorrow or later regarding any questions that we were unable to answer today.

Lastly, we will have a few words from Mr. Fujii, Managing Executive Officer of Ube Industries, Ltd.

Fujii: As I just explained, Q1 was driven by a significant improvement in the performance of the Chemical segment in particular, and we are aware that the performance has exceeded the plan. We expect demand to continue to be strong in general for the foreseeable future. For H1 of the year, we see a high probability that the upturn in Chemicals will contribute to the overall upturn.

On the other hand, in H2 of the year, there are some concerns such as COVID-19 that has not been easily settled down, and the price of raw materials and fuels, such as coal, which remains high. Therefore we would like to see how these concerns go. With such strong demand at present, we will strive to capture this demand and steadily increase profits.

Thank you very much for joining us today. That's all from me.

Moderator: This concludes the conference call. Thank you for your participation.

[END]