Ube Industries Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022

November 2, 2021

Event Summary

[Company Name]	Ube Industries Ltd.
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[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 30-minute presentation on the consolidated financial results for Q2 of FY2021, followed by a question-and-answer session. The entire meeting is scheduled for 60 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.

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 now like to explain the consolidated financial results for Q2 of FY2021 and the full-year forecast for FY2021, which were announced today, in accordance with the materials.

Page numbers are assigned at the bottom right of the documents.

1st half of the FY2021

Scope of Consolidation

Item	End of FY2020 (A)	End of FY2021 2Q (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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The first slide on page 3 is about consolidated subsidiaries.

In H1 of the year, the number of consolidated subsidiaries remained unchanged at 66. The number of equity method affiliates increased by 1 to 27, for a total of 93.

The added company is C Integration Arrangement, Ltd., as shown on the right. This company was established in Q1 as a 50-50 joint venture preparation company for the integration of our cement and other businesses in the next fiscal year.

Since this preparation company has no income, it is a company with high preparation costs, which will be taken into account under the equity method.

1st half of the FY2021

UBE

Environmental Factors

Item				FY2020 2Q (A)	FY2021 2Q (B)	Difference (B) - (A)
Exchange Rate			Yen/$	106.9	109.8	2.9
Material Price	Naphtha	CIF	$/ t	344	639	295
		Domestic	Yen/KL	27,600	50,700	23,100
	Benzene (ACP)		$/ t	398	981	583
	Australian Coal (CIF)		$/ t	75.8	143.5	67.7
			Yen/t	8,099	15,756	7,657

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The next slide on page 4, environmental factors.

The yen has weakened slightly against the US dollar on a YoY basis.

As you can see, the prices of naphtha, benzene, coal, and other raw materials and fuels have increased considerably compared to the previous year.

1st half of the FY2021

Major P/L Items

(Billions of yen)

Item	FY2020 2Q (A)	FY2021 2Q (B)	Difference (B) - (A)	Percentage change
Net sales *1	280.0	306.6 *347.1*	26.6 *67.1*	– *24.0%*
Operating profit	3.4	19.0	15.6	459.8%
Ordinary profit	1.5	17.8	16.3	–
Profit attributable to owners of parent	0.2	9.5	9.2	–

*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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The next slide on page 5 shows the major items.

Net sales totaled JPY306.6 billion in Q2, an increase of JPY26.6 billion YoY.

Since the accounting standard for revenue recognition has been applied from the current fiscal year, the sales figures before applying the accounting standard are shown in italics.

Operating profit for H1 was JPY19 billion, an increase of JPY15.6 billion YoY.

Ordinary profit was JPY17.8 billion, an increase of JPY16.3 billion YoY.

Profit attributable to owners of parent was JPY9.5 billion, an increase of JPY9.2 billion YoY.

In H1 of the last fiscal year, our business performance deteriorated significantly due to a sharp drop in demand caused by the growing impact of COVID-19 and the regular repair for ammonia. Since H2 of the last fiscal year, we have been rapidly recovering, and our profit for H1 of the current fiscal year has recovered to a level higher than that of H1 of FY2019 before COVID-19.

1st half of the FY2021

Net Sales and Operating Profit by Segment

(Billions of yen)

	Segment	FY2020 2Q (A)	FY2021 2Q (B)	Difference (B) - (A)	Percentage change
Net sales	Chemicals	112.3	157.3	45.0	–
			*1 *161.8*	*49.4*	*44.1%*
	Construction Materials	139.1	105.7	(33.4)	–
			143.5	*4.4*	*3.2%*
	Machinery	34.9	45.3	10.4	–
			43.6	*8.6*	*24.8%*
	Others	1.4	1.5	0.1	–
			1.5	*0.1*	*7.9%*
	Adjustment	(7.8)	(3.4)	4.4	–
			(3.4)	*4.4*	–
	Total	280.0	306.6	26.6	–
			347.1	*67.1*	*24.0%*
Operating profit (loss)	Chemicals	(2.5)	14.5	17.1	–
	Construction Materials	5.6	2.0	(3.6)	(63.8)%
	Machinery	0.2	2.3	2.1	839.7%
	Others	0.1	0.1	0.0	29.4%
	Adjustment	(0.0)	(0.0)	0.0	–
	Total	3.4	19.0	15.6	459.8%

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

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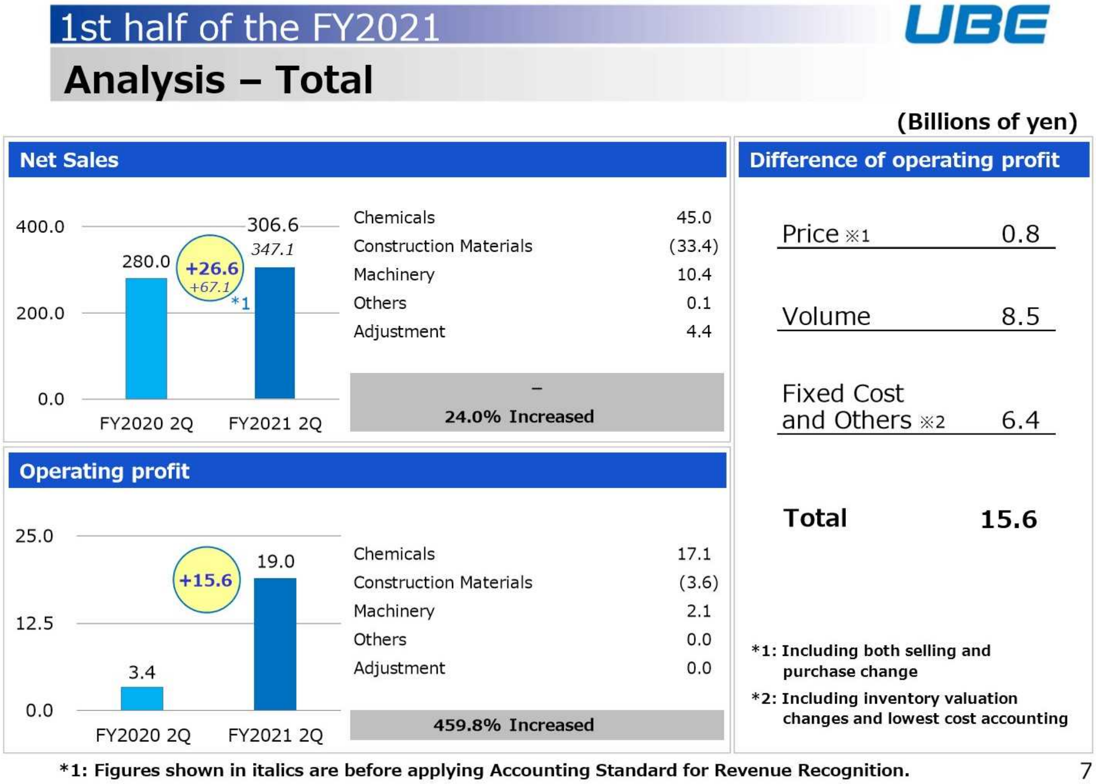
The next slide on page 6 shows the breakdown of net sales and operating profit by segment.

Both sales and profits increased in the Chemicals and the Machinery segments, but sales decreased in the Construction Materials segment. Because of the significant impact of the accounting standards, if we exclude the impact, sales have increased, but operating profit has decreased significantly.

As you can see from the figures, although we said that overall net sales increased by JPY26.6 billion, the Chemicals segment saw an increase of JPY45 billion, while the Construction Materials segment saw a decrease of JPY33.4 billion including the impact of the accounting standard. The Machinery segment saw an increase of JPY10.4 billion.

Operating profit increased by JPY15.6 billion overall. This was largely due to a JPY17.1 billion increase in profit from Chemicals. On the other hand, Construction Materials saw a decrease of JPY3.6 billion. The Machinery segment reported an increase of JPY2.1 billion.

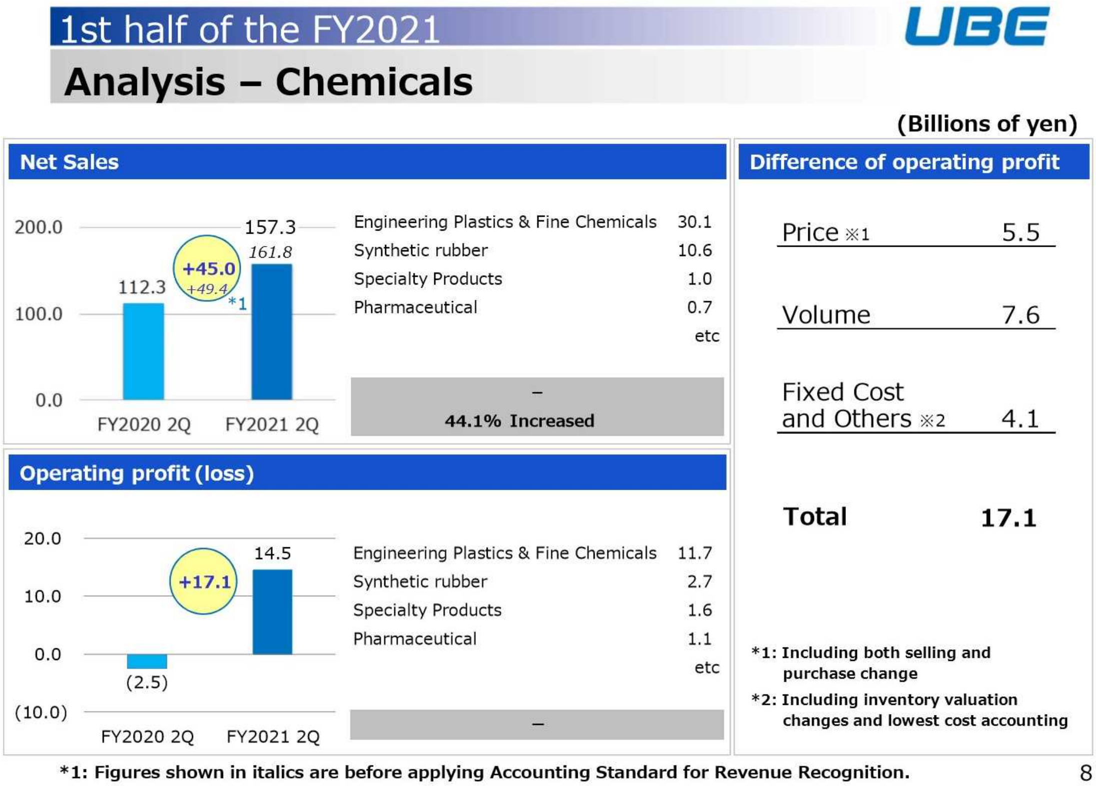


Next, the slide on page 7.

As for the analysis of differences in operating profit, the breakdown is as shown on the previous page.

Look at the breakdown of the difference of profit on the right.

Price difference had a positive impact of JPY0.8 billion, volume difference had a positive impact of JPY8.5 billion, and fixed cost and others had a positive impact of JPY6.4 billion.



Next, I will explain the status by segment. The slide on page 8 is about the Chemicals segment.

As a whole, in H1, demand has been recovering since the previous fiscal year, especially in the automotive sector. Almost all products saw an increase in volume.

Against the backdrop of this tightening supply and demand, product prices have been improving more than the rise in raw material prices. In addition, sales of polyimides for battery materials have remained strong, and the recovery is progressing for specialty products, such as separation membranes for industrial applications and ceramics.

In addition, there is no biennial regular repair for ammonia this year, which has also contributed to the increase in profits.

Net sales increased by JPY45 billion, and the breakdown of sub-segments is as shown here. The largest was JPY30.1 billion for engineering plastics and fine chemicals. Sales of nylon, lactam, industrial chemicals, and fine chemicals have all increased. Basically, the volume has increased, and the price has been improving.

Sales of synthetic rubber increased by JPY10.6 billion. The price is also rising, and the volume is also increasing.

Sales of specialty products increased by JPY1 billion. Electrolytes were deconsolidated and accounted for under the equity method in H2 of last year, so this had a negative impact on sales.

Other than that, sales of polyimide, separators, and other specialty products increased, and the total increase was JPY1 billion.

In the Pharmaceutical business, sales increased by JPY700 million due to increased shipments of contracted products and royalty income.

Next, the bottom row shows operating profit.

The total increase was JPY17.1 billion. This includes JPY11.7 billion in engineering plastics and fine chemicals, which is also a very large factor in the increase in profit. As I mentioned in the sales section, the spread of nylon, lactam, and fine chemicals has been improving due to price improvement. As for industrial chemicals, there is no regular repair this year, so the increase in volume is also having an effect.

In the Synthetic Rubber business, profits increased by JPY2.7 billion. Sales are recovering, and profits are also recovering.

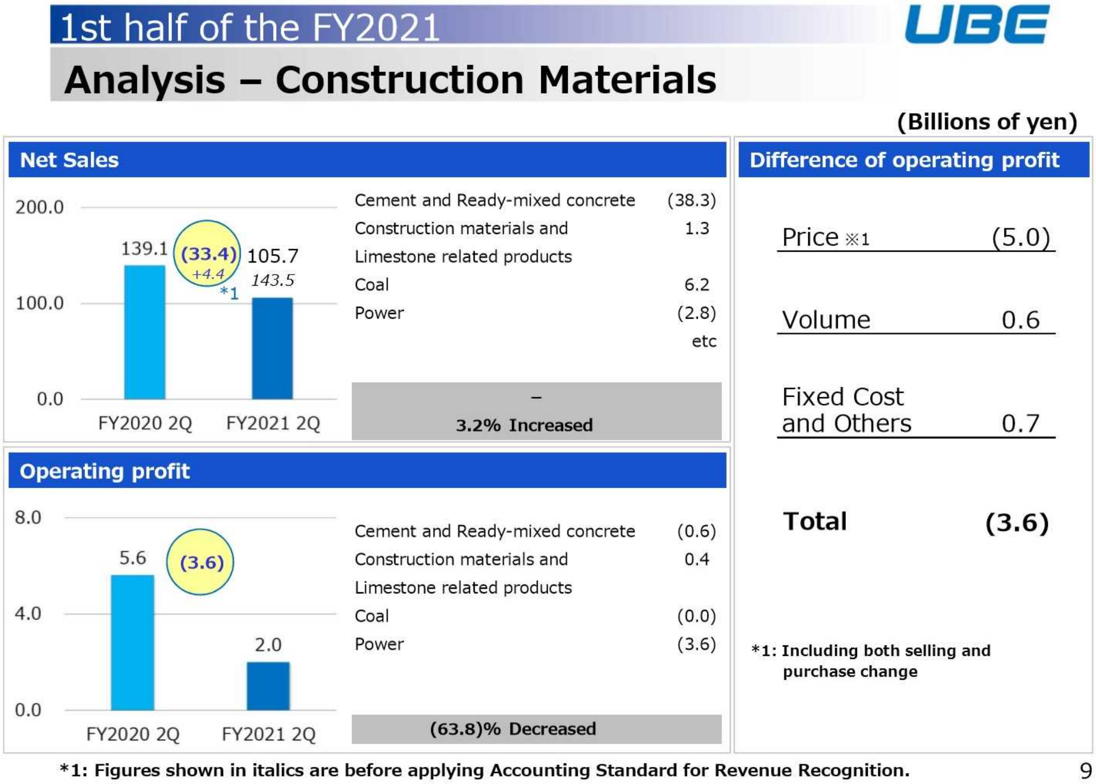
As for the increase in profit of JPY1.6 billion in specialty products, profits increased in specialty products in general. This is due to the increase in volume.

In addition, profits in the Pharmaceutical business increased by JPY1.1 billion.

If you look at the price difference and volume difference on the right, you will see that the price difference has increased by JPY5.5 billion. Nylon-lactam chain, and synthetic rubber accounted for a large portion.

The volume difference is positive JPY7.6 billion. This is positive in general. There is a general increase in the volume of nylon-lactam chain, separators, fine chemicals, synthetic rubber, and other products.

Fixed costs and others increased by JPY4.1 billion. As shown in *2 below, inventory valuation changes and the lowest cost accounting are included. The positive factor of JPY2.6 billion as inventory valuation changes is included in this figure.



The next slide on page 9 is about the Construction Materials segment.

In the Construction Materials sector, sales are greatly affected by the accounting standards. Excluding this, revenue increased, and the increase in the price of coal was a major factor.

In terms of the overall picture, domestic demand for cement has been sluggish in general, and due to climatic factors, such as long rainy seasons and typhoons, shipments have been sluggish this year. This is being handled by increasing exports.

In Q1, the biennial IPP regular repair had a significant impact on profits, but in Q2, the impact of higher costs for cement and power increased due to the sharp rise in coal prices.

As you can see from the sales figures on the slide on page 9, sales decreased by JPY33.4 billion compared to the previous year. Cement and ready-mixed concrete accounted for the largest portion, at JPY38.3 billion. This is where most of the impact of the accounting standards comes in.

Sales of construction materials and limestone related products increased in line with the recovery in demand. Coal sales increased by JPY6.2 billion, partly due to the price impact, but power sales were negative due to a decrease in volume caused by the impact of IPP regular repair.

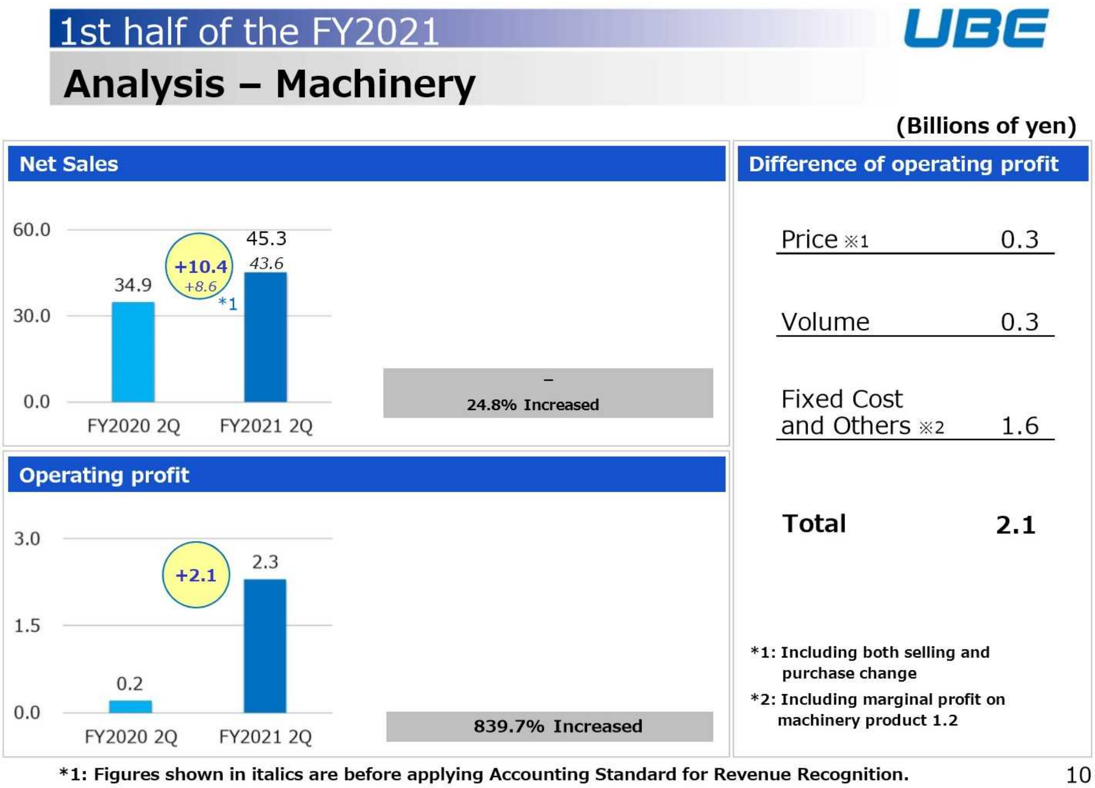
The bottom row shows operating profit. The total decrease is JPY3.6 billion. As you can see, the biggest factor is the JPY3.6 billion loss in power. This includes the impact of IPP regular repair and the cost increase due to the increase in coal prices.

Cement and ready-mixed concrete at the top of the table recorded a loss of JPY600 million, also due to the impact of coal prices and cost increases.

As you can see in the breakdown on the right, the price difference is a negative JPY5 billion. This is from power, cement and Ube Material Industries, rising energy prices, such as coal and oil, have had a negative impact.

On the other hand, the volume difference is a factor of JPY0.6 billion increase in profit. This was due to a recovery in demand for limestone-related products of Ube Material Industries.

In addition, fixed cost and others were positive JPY700 million.



The next slide on page 10 is about the Machinery segment.

In the Machinery segment, we are seeing a recovery in inquiries and orders for automobile-related capital investment projects, especially molding machines, which were down due to COVID-19 last fiscal year.

However, there are regional differences, but sales in China and North America have been strong.

In the Industrial Machinery business, we are making steady progress in the projects based on the percentage-of-completion method that we have already received.

As for the Service business, both orders and sales have been steady.

In the Steelmaking business, the price of raw material scrap has been rising. As a result, product prices have also increased. In addition, demand has been strong, and this fiscal year we are recovering from the decline of the previous year. Due to these factors, sales increased by JPY10.4 billion compared to the previous year. Operating profit increased by JPY2.1 billion.

As you can see in the breakdown on the right, the price difference and volume difference are positive factors of JPY300 million each in the Steelmaking business.

Fixed cost and other expenses totaled JPY1.6 billion. As you can see in *2 below, marginal profit on machinery product is included in this figure, with an increase of JPY1.2 billion.

1st half of the FY2021

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Operating Profit – Profit attributable to owners of parent

(Billions of yen)

Item	FY2020 2Q (A)	FY2021 2Q (B)	Difference (B) - (A)
Operating profit	3.4	19.0	15.6
Non-operating income (expenses)	(1.8)	(1.1)	0.6
Net interests expenses	0.2	0.2	0.0
Share of profit (loss) of entities accounted for using equtiy method	(0.2)	(0.6)	(0.4)
Foreign exchange gains (losses)	(0.4)	0.4	0.8
Others	(1.5)	(1.1)	0.3
Ordinary profit	1.5	17.8	16.3
Extraordinary income (losses)	0.2	(1.8)	(2.1)
Profit before income taxes	1.8	15.9	14.1
Income taxes and profit (loss) attributable to non-controlling interests	(1.5)	(6.4)	(4.9)
Profit attributable to owners of parent	0.2	9.5	9.2
Net income per share	2.69 yen	95.89 yen	93.20 yen

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We will continue with the slide on page 11. This is below non-operating income/expenses.

In H1 of this fiscal year, operating profit was JPY19 billion, and non-operating expenses were JPY1.1 billion, an improvement of JPY600 million compared to the previous fiscal year.

Ordinary profit was JPY17.8 billion. Extraordinary loss was JPY1.8 billion, which is JPY2.1 billion worse than last year's positive figure due to a 1-time gain associated with Group restructuring.

As a result, profit attributable to owners of parent was JPY9.5 billion.

Consolidated Balance Sheet

(Billions of yen)

Item	End of FY2020 (A)	End of FY2021 2Q (B)	Difference (B) - (A)
Current assets	331.7	329.5	(2.2)
Fixed assets	437.8	430.2	(7.5)
Total assets	769.7	759.9	(9.7)
Interest-bearing debt	214.7	204.8	(9.9)
Other liabilities	174.3	181.7	7.4
Total liabilities	389.0	386.6	(2.4)
Shareholders' equity *1	359.0	352.8	(6.1)
Non-controlling interests and others	21.6	20.4	(1.1)
Total net assets	380.6	373.3	(7.3)
Total liabilities and net assets	769.7	759.9	(9.7)

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

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The next slide on page 12 is the balance sheet section.

Total assets are JPY759.9 billion at the end of H1. Assets decreased by about JPY9.7 billion compared to the end of March or the end of the previous fiscal year.

As for liabilities, interest-bearing debt decreased by about JPY9.9 billion. In H1 of the current fiscal year, bonds were redeemed, so interest-bearing debt was reduced.

Shareholders' equity was JPY352.8 billion at the end of H1. This is a decrease of about JPY6.1 billion compared to the end of March or the end of the previous fiscal year. Although the profit for the quarter was positive, it decreased by JPY6.1 billion at the end of H1 due to dividends paid and the buyback of shares this fiscal year.

1st half of the FY2021

UBE

Consolidated Statements of Cash Flows

(Billions of yen)

Item	FY2020 2Q	FY2021 2Q	
A.Cash flows from operating activities	29.7	12.6	Profit before income taxes 15.9 Depreciation and amortization 17.9 Decrease in working capital (17.4) etc.
B.Cash flows from investing activities	(23.8)	(19.9)	Acquisition of PP&E (18.9) etc.
Free cash flows (A+B)	5.8	(7.3)	
C.Cash flows from financing activities	0.4	(23.4)	Decrease in interest-bearing debt (10.4) Dividends paid (4.7) Buy back of shares (8.1) etc.
D.Net increase/decrease in cash and cash equivalents	6.8	(30.8)	
E.Cash and cash equivalents at end of the quarter	47.4	48.7	

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The next slide on page 13 shows the cash flow.

Net cash provided by operating activities was JPY12.6 billion, while net cash used in investing activities was JPY19.9 billion, resulting in a cash outflow of JPY7.3 billion in free cash flow.

As for cash flow from financing activities, the total cash outflow was JPY23.4 billion, due to the decrease in interest-bearing debt including the redemption of bonds, dividends paid, and the buyback of shares.

This was covered by a reduction in cash and deposits, and the final balance of cash and cash equivalents at the end of the quarter was JPY48.7 billion.

That's all for the summary of the consolidated financial results for Q2.

FY2021 Consolidated Forecasts

Scope of Consolidation

Item	End of FY2020 (A)	End of FY2021 (B)	Difference (B) - (A)	Notes
Number of consolidated subsidiaries	66	64	(2)	+ UBE Elastomer Co.Ltd. + UBE HIGH CO.,LTD − Yamaishi Metal Co., Ltd. − UBE PROCESSING TEC CORPORATION − UBE Advanced Materials INC. − Advanced Electrolyte Technologies LLC
Number of equity method affiliates	26	26	0	+ C Integration Arrangement, Ltd. − Ube Nisshin Lime, Ltd.
Total	92	90	(2)	

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I would like to continue with the forecast of consolidated financial results for the current fiscal year.

Look at the slide on page 15.

As a result of the change in the scope of consolidation, the number of consolidated subsidiaries will decrease by 2 for the current fiscal year. There will be an increase of 2 companies and a decrease of 4 companies.

As you can see in the notes, the added company UBE Elastomer is a newly established company since the Synthetic Rubber business was spun off.

The second company, UBE HIGH, is a specific purpose company, which was established as a joint venture with HighChem, a chemical trading company, to invest in fine chemical joint ventures in China.

As for the companies that have been deconsolidated, Yamaishi Metal was transferred to FURUKAWA and is no longer consolidated.

Then, UBE PROCESSING TEC CORPORATION. We have decided to dissolve the company in Q4 of the current fiscal year because the contract production of raw materials for dielectric ceramics has been completed.

Below them are UBE Advanced Materials and Advanced Electrolyte Technologies. These 2 companies are investment companies that were established when we started the Electrolyte business in the US. Liquidation of these companies is scheduled to be completed by the end of this fiscal year.

Regarding equity method affiliates, in addition to C Integration Arrangement mentioned earlier, we have already passed the resolution to dissolve Ube Nisshin Lime and its liquidation is scheduled to be completed by the end of this fiscal year.

FY2021 Consolidated Forecasts

Environmental Factors

Item			FY2020 (A)	FY2021 (B)	Difference (B) - (A)
Exchange Rate		Yen/$	106.1	109.9 [110.0]	3.8
Material Price	Naphtha CIF	$/ t	399	647 [655]	248
	Naphtha Domestic	Yen/KL	31,300	51,400 [52,100]	20,100
	Benzene (ACP)	$/ t	500	915 [850]	415
	Australian Coal (CIF)	$/ t	82.0	153.3 [163.0]	71.3
		Yen/t	8,700	16,842 [17,930]	8,142

[ ] : numbers for the 2nd half of the period only

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The next slide on page 16 shows environmental factors.

The exchange rate for the full year is JPY109.9. The figure in parentheses is our assumption for H2 of the fiscal year, which is JPY110.

The prices of naphtha, benzene and coal are shown in parentheses as assumed values for H2. The current price has generally been higher than our assumptions for H2.

FY2021 Consolidated Forecasts

Major P/L & B/S Items

(Billions of yen)

Item	FY2020 (A)	FY2021 (B)	Difference (B) - (A)	Percentage change
Net sales *1	613.8	635.0 *715.0*	21.1 *101.1*	- *16.5%*
Operating profit	25.9	39.0	13.0	50.6%
Ordinary profit	23.2	33.5	10.2	43.8%
Profit attributable to owners of parent	22.9	19.5	(3.4)	(15.0)%

Item	End of FY2020 (A)	End of FY2021 (B)	Difference (B) - (A)
Total assets	769.7	790.0	20.2
Interest-bearing debt	214.7	230.0	15.2
Equity capital *2	359.0	356.0	(3.0)
Dividend(Yen /Share) *3	90.00	90.00	0.00

*1: The above forecast of consolidated financial results shows the amounts after which the "Accounting Standard for Revenue Recognition" is applied so the rate of increase and decrease in net sales compared with the previous fiscal year is not indicated.The figures shown at the bottom of each table are reference values for expected results if the Accounting Standard for Revenue Recognition is not considered.

*2: Equity capital = Net assets - Subscription rights to shares - Non-controlling interests

*3: Dividend: Interim/45yen, Fiscal year-end/45yen

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The next slide on page 17, the major items.

This is in line with the revised forecast that was announced on October 22, 2021.

Although net sales and operating profit have been revised upward from the initial forecast, ordinary profit and profit attributable to owners of parent have been revised downward due to the expected deterioration in share of profit and loss of entities accounted for using equity method.

Net sales are expected to be JPY635 billion for this full year, an increase of JPY21.1 billion over the previous year. Operating profit will be JPY 39 billion, an increase of JPY13 billion over the previous year. Ordinary profit will be JPY33.5 billion, also an increase of JPY10.2 billion. Profit attributable to owners of parent will be JPY19.5 billion, a decrease of JPY3.4 billion.

Regarding this profit, in FY2020, with the entry into force of the tax treaty between Japan and Spain, tax expenses decreased significantly as a result of the reversal of deferred tax liabilities.

Due to these special factors, profit was increased in the last fiscal year. Compared to the previous year, the current year's figure shows a decrease in profit.

This is the balance sheet. Total assets are expected to increase slightly by about JPY20 billion to JPY790 billion. Interest-bearing debt is also expected to increase by about JPY15.2 billion to a level of JPY230 billion. Shareholders' equity will be at the level of JPY356 billion.

Then the dividends. We are forecasting an annual dividend of JPY90, and we have resolved to pay an interim dividend of JPY45, as shown in *3 below. We have maintained our year-end dividend forecast of JPY45 per share.

FY2021 Consolidated Forecasts

UBE

Net Sales and Operating Profit by Segment

(Billions of yen)

	Segment	FY2020 (A)	FY2021 (B)	Difference (B) - (A)	Percentage change
Net sales	Chemicals	259.3	322.0	62.6	-
			*1 *331.0*	*71.6*	*27.6%*
	Construction Materials	282.8	217.0	(65.8)	-
			289.0	*6.1*	*2.2%*
	Machinery	78.7	100.0	21.2	-
			99.0	*20.2*	*25.8%*
	Others	3.1	3.0	(0.1)	-
			3.0	*(0.1)*	*(3.8)%*
	Adjustment	(10.1)	(7.0)	3.1	-
			(7.0)	*3.1*	-
	Total	613.8	635.0	21.1	-
			715.0	*101.1*	*16.5%*
Operating profit	Chemicals	8.1	28.0	19.8	242.1%
	Construction Materials	14.7	6.0	(8.7)	(59.3)%
	Machinery	2.8	5.0	2.1	76.6%
	Others	0.4	0.4	(0.0)	(10.5)%
	Adjustment	(0.3)	(0.4)	(0.0)	-
	Total	25.9	39.0	13.0	50.6%

*1: The figures shown at the bottom of each table are reference values for expected results if the Accounting Standard for Revenue Recognition is not adopted.

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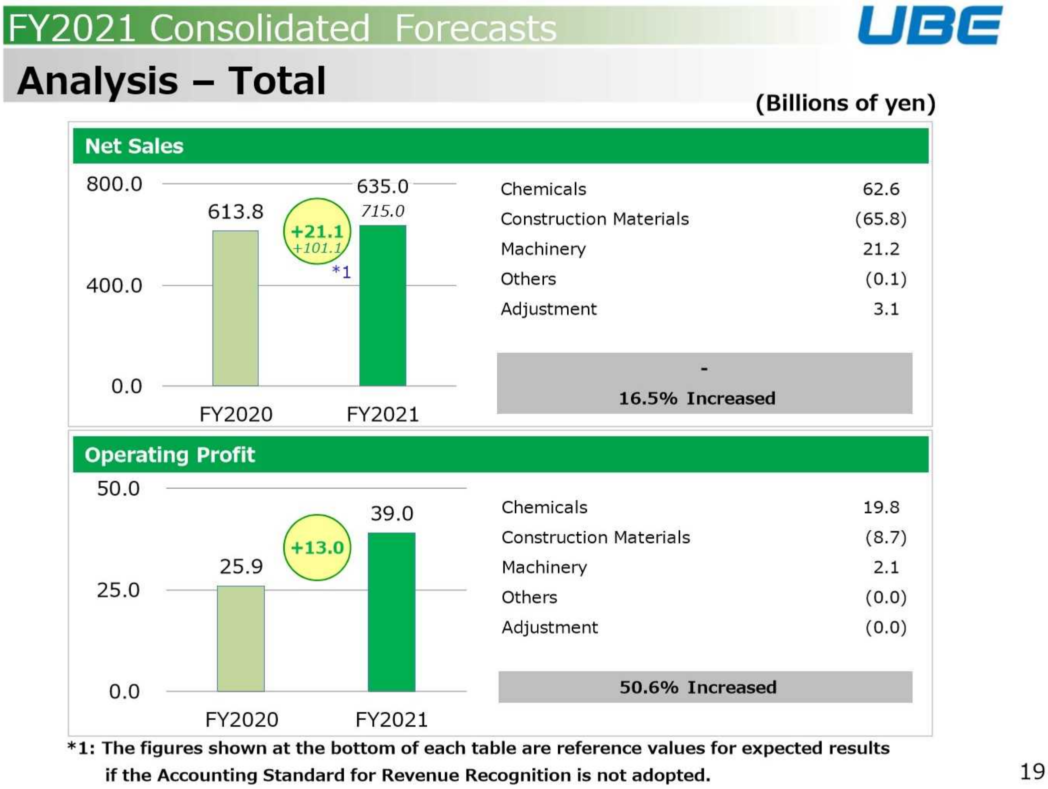
The next slide on page 18 shows the consolidated earnings forecast for net sales and operating profit by segment.

The overall trend is the same as in H1, with increased sales and profits in the Chemicals segment and the Machinery segment but decreased sales and profits in the Construction Materials segment.

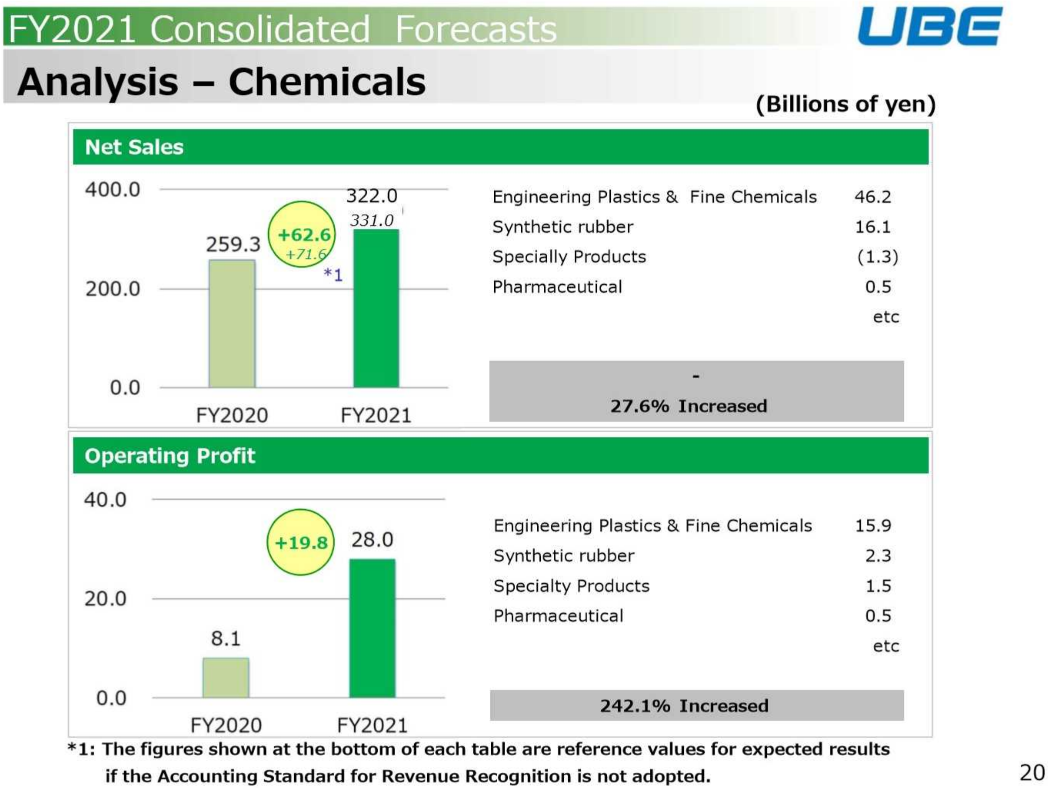
As I mentioned earlier, overall net sales will increase by JPY21.1 billion. Breaking it down, sales in the Chemical segment will increase by JPY62.6 billion, while sales in Construction Materials will decrease by JPY65.8 billion. As for Machinery, we expect an increase of JPY21.2 billion.

The bottom is operating profit. Overall profit is expected to increase by JPY13 billion. The breakdown is an increase of JPY19.8 billion in Chemicals and a decrease of JPY8.7 billion in Construction Materials. And we expect an increase of JPY2.1 billion in Machinery.



The next slide on page 19.

This is also a breakdown of each segment, so we will omit it.



By segment, the Chemicals segment is shown on page 20.

Based on the results of H1 and the outlook for H2, we expect that demand in the Chemical segment will continue to be relatively strong in general, reflecting the trend of H1.

As a result, we expect sales and profits in H2 to increase YoY.

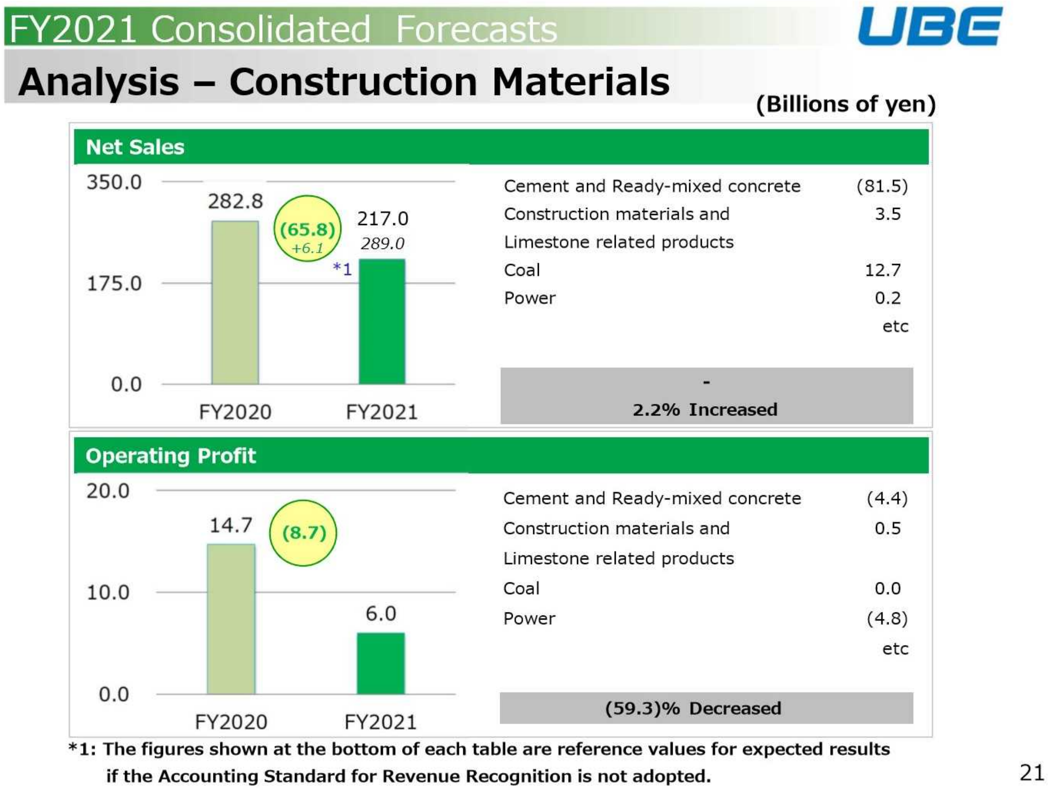
For the full year, we expect net sales to increase by JPY62.6 billion in total.

This includes an expected increase of JPY46.2 billion in engineering plastics and fine chemicals and JPY16.1 billion in synthetic rubber.

On the other hand, sales of specialty products will decrease by JPY1.3 billion due to the impact of the deconsolidation of electrolytes. They have been accounted for under the equity method since H2 of last year, but we continued to sell electrolytes products by proxy for a while, so the decrease in sales will have a negative effect. Sales of other specialty products will basically increase.

The bottom is operating profit. The overall increase in profit is expected to be JPY19.8 billion. The largest breakdown is JPY15.9 billion for engineering plastics and fine chemicals. In H2 of the fiscal year, we expect to see positive growth due to continued strong sales.

Synthetic rubber is expected to increase by JPY2.3 billion, specialty products by JPY1.5 billion, and Pharmaceutical business by JPY0.5 billion.



Page 21, Construction Materials.

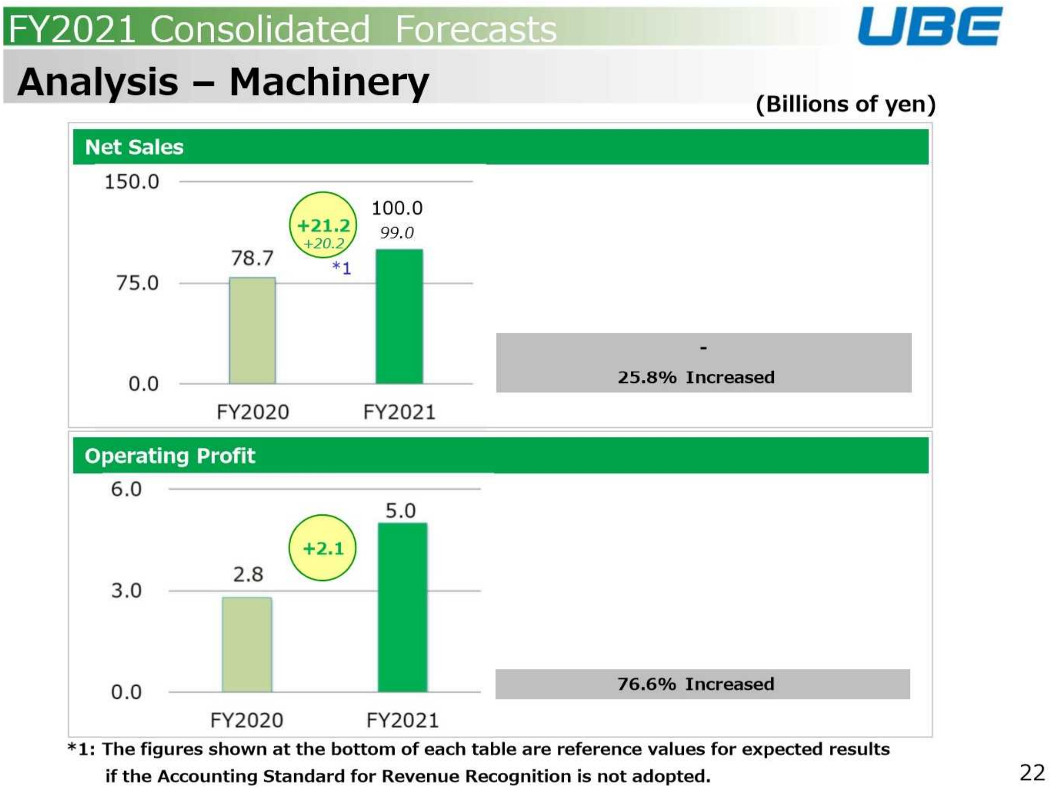
Regarding H2 for Construction Materials, we expect a certain recovery in domestic demand for cement in H2. However, we have judged that it will be difficult to reach the initial forecast for the full year.

On the other hand, we expect coal prices to be higher than in the H1. However, we are assuming that the market will regain a certain degree of calm from the current level. As a result, we expect a significant decrease in profit also in H2.

Total sales will decline by JPY65.8 billion. As a result of a major impact of the accounting standard, cement and ready-mixed concrete sales will decrease by JPY81.5 billion.

Sales of construction materials and limestone related products will continue to recover and increase by JPY3.5 billion. Coal sales are expected to increase by JPY12.7 billion, partly due to higher prices.

As for the operating profit in the lower part of the table, we expect a decrease of JPY8.7 billion in total. For cement and ready-mixed concrete, the profit will decrease by 4.4 billion. Construction materials and limestone related products will increase by JPY0.5 billion due to recovery in demand. Coal will have almost no impact on the bottom line. Then, for power, the profit will decrease by JPY4.8 billion. We expect a decrease of JPY4.8 billion due to the impact of IPP regular repair in H1 and cost increase factors due to coal prices throughout the fiscal year.



The next slide on page 22, the Machinery segment.

As for H2, we expect that the environment for orders will continue to be difficult, but a certain degree of recovery will continue, and profits in H2 will be on par with H2 of last year.

For the full year, net sales will increase by JPY21.2 billion compared to the previous year. Operating profit is expected to increase by JPY2.1 billion compared to the previous year.

FY2021 Consolidated Forecasts

Operating Profit – Profit attributable to owners of parent

(Billions of yen)

Item	FY2020 (A)	FY2021 (B)	Difference (B) - (A)
Operating profit	25.9	39.0	13.0
Non-operating income (expenses)	(2.6)	(5.5)	(2.8)
Ordinaly profit	23.2	33.5	10.2
Extraordinary income (losses)	(0.8)	(3.5)	(2.6)
Profit before income taxes	22.4	30.0	7.5
Income taxes and profit (loss) attributable to non-controlling interests	0.5	(10.5)	(11.0)
Profit attributable to owners of parent	22.9	19.5	(3.4)
Net income per share	226.79 yen	197.66 yen	(29.13) yen

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The next slide on page 23 shows the non-operating income/expenses and below.

We expect operating profit to be JPY39 billion and non-operating expenses to be JPY5.5 billion for the full year. Ube-Mitsubishi Cement, a cement sales and logistics company, will also suffer a downturn in earnings due to higher costs and there will be costs incurred by C Integration Arrangement. Therefore, we expect a deterioration of JPY2.8 billion compared to the previous year.

As a result, ordinary profit will be JPY33.5 billion. We expect extraordinary profit and loss to be negative JPY3.5 billion for the full year. We expect to incur a normal level of asset disposal.

Finally, profit attributable to owners of parent will be JPY19.5 billion. As I mentioned earlier, in income taxes and profit and loss attributable to non-controlling interests, tax expenses decreased significantly in FY2020 due to the reversal of deferred tax liabilities and other factors, so the deterioration factor is JPY11 billion compared to the previous year. As a result, profit attributable to owners of parent is expected to decrease by JPY3.4 billion.

The above is our full-year forecast. That's all I have to say.

Moderator: Thank you very much.

Question & Answer

Moderator: Now let us turn to the question-and-answer session.

Please ask your questions in a question-and-answer format. In order to answer questions from as many people as possible, please limit the number of questions to 2 per person at a time.

We will begin the question-and-answer session.

Questioner A: Thank you. 2 questions, please.

First of all, sales increased but profits decreased for Chemicals from Q1 to Q2, but according to what you said earlier, major products seemed to be generally strong in Q2. What factor put pressure on business performance?

Also, comparing the tables on page 20 with page 8, I see that operating profit in H2 of this fiscal year for synthetic rubber, specialty products, and Pharmaceutical business is down from H2 of the previous fiscal year. Is there something like anxiety factor? Please tell us about the trends in Chemicals in this area.

Fujii: First of all, in the movements from Q1 to Q2, Q2 saw a slight decrease in profits, but the reason for this is that Q2 is the period when there is a regular repair for synthetic rubber in Japan.

Also, in Spain, there was a regular repair for lactam in this Q2, so this has had an impact. Basically, there is nothing particularly deteriorating.

Then, I think the difference between page 20 and page 8 refers to the YoY comparison for H2. Profit of synthetic rubber decreased slightly, but we believe that this was due to the spread.

In this H1, the price of butadiene, a raw material, has been rising all the time. Therefore, the price pass-through will take effect at the beginning of this H2, and then, when the price falls, the pass-through to the product price will take effect from later this H2. Due to the influence of that part, it seems to be a little negative.

Sales of specialty products were about the same as the previous year. In Q4 of last fiscal year, there was a slight concentration of sales of polyimide, so there was a slight decrease compared to that special factor, but on the other hand, we expect to be able to secure almost the same level of sales as in H2 of last year, including that portion.

As for Pharmaceutical business, there are seasonal factors, so the impact of shipping is expected. As for the total profit level, we expect to achieve the initially projected level for Pharmaceutical business.

Questioner A: Since pharmaceutical sales were large in Q2, sales will decrease in H2 on a YoY basis, but remain steady for the year as a whole?

Fujii: That's right. If we compare H1 and H2 of this fiscal year, Pharmaceutical business has not deteriorated particularly, so in that sense, H2 of last year was a bit more prolific.

Questioner A: Understood. Thank you very much. Please let me know if you have any market assumptions for caprolactam in Chemicals for H2.

Fujii: Regarding the spread assumption for Lactam, the actual spread for H1 of the fiscal year was USD1,064. In H2 of the fiscal year, we are assuming USD1,000.

The supply and demand environment has been relatively firm. In China, there is a possibility that the supply-demand balance will loosen somewhat in the future mainly due to the operation of new and additional plants. On the other hand, the spread situation is expected to remain at the current level for the time being as the tightness continues in regions other than China. Although it has been slightly above USD1,100 at the moment, the average for the full year is expected to be around USD1,000.

Questioner A: I understand very well. Thank you very much. The second point. I would like to know about trends in Construction Materials. In addition to the IPP repair work, there was spot income in Q4 of last year due to the power shortage, so there will be a decrease in profits in Power business, but I think Ube Material Industries' Magnesia and Calcia businesses for steel will be extremely strong.

In particular, I believe that magnesia is quite good for electromagnetic steel sheets, and although the specialized manufacturers of cement are talking about raising prices, H2 is expected to be quite weak. I understand the Power business, so please tell me more about the rest of the situation.

Fujii: As for Ube Materials Industries, as you pointed out, demand has been recovering considerably, so sales will also increase. So, this is also a positive factor in H2, but on the other hand, energy costs have risen, so in that sense, the increase in profits has not been that large.

As for cement, there has been a considerable increase in cost due to the rise in coal prices. As you pointed out, Ube-Mitsubishi Cement has announced a price hike of more than JPY2,200 per ton starting next January.

As is also the case with manufacturing, the cost increases for logistics and labor costs have risen to a level that cannot be absorbed by self-help efforts, so we are launching a price increase.

The price hike has not yet been factored into the current forecast, so we are hoping that the progress of the price hike will have a positive effect on our performance.

Questioner A: For construction materials and limestone-related products in the Construction Materials segment, sales increased by JPY2.2 billion in H2 on a YoY basis, but the increase in profit was only JPY100 million. Is this because energy has a short-term impact?

As for cement, normally it would be quite difficult to pass a price increase from January, but is it correct to understand that you have no time to spare for the price hike?

Fujii: Yes. Your understanding is correct for both points. The same is true for Ube Materials Industries, and many cement companies have announced price hikes. I understand that there is no time to spare not only for Ube-Mitsubishi Cement but for the entire industry.

Questioner A: Understood. Thank you very much. I am hoping for a price increase. Thank you.

Fujii: Thank you very much.

Questioner B: Thank you. First, please tell us how much you are planning to procure for coal. The assumption for Australian coal in H2 is a CIF figure of USD163. On the other hand, when I looked at the balance sheet and cash flow statement, inventories had increased considerably, which made me think that maybe you are procuring in advance. How solid are the figures for coal for the full year?

Fujii: I can't go into too much detail about coal because of our procurement strategy. As you pointed out, we use various hedging methods to reduce instantaneous price fluctuations, and we also devise various procurement methods while monitoring market conditions.

Even so, the price has been rising rapidly and is still quite high compared to the level we expected for H2 of the fiscal year. Recently, due to China's tighter price controls, prices have dropped slightly, but they are still higher than expected. If the market does not regain its composure and remains at a high level, there will be a certain degree of impact.

Questioner B: Which part has the greatest impact on the increase in inventories?

Fujii: As for the overall increase in inventories, coal was also a factor, but we have instantly cut off at the end of September. Then the arrival of petroleum coke and other products happened to come in at the end of September. There is such an influence.

Questioner B: The second point. The forecast for the Chemicals segment is for a slight decrease of about JPY1 billion from H1 to H2. Which part are you looking at in the negative direction?

In addition to this, I would like you to explain about caprolactam in Europe. We have heard that the price of natural gas in Europe has risen dramatically, and the production of ammonia has stopped. Will this be a negative factor in your company's financial results or not?

Fujii: We are forecasting that profits in the Chemical section will decrease from H1 to H2. 1 reason for this is that we expect the spread of synthetic rubber to be reduced in H2 compared toH1, as I mentioned earlier.

Other than that, the overall increase in raw material prices will have a slightly greater impact than in H1. In H1, product prices improved ahead of the increase in raw material prices, but now that product prices have penetrated the market to a certain extent, we expect that the increase in raw material prices will have an effect, which will put some pressure on the profit margin compared to H1. Apart from that, we have not seen any significant changes in the supply-demand relationship.

As for lactam-related products in Europe, as you pointed out, gas prices have risen and the market for ammonia has also been affected by rising prices. However, the supply-demand relationship for lactam in Europe is still quite tight, and we expect it to continue for the time being. There may be some impact, but I don't think it will be significant.

Questioner B: Is it correct to understand that the rising price of natural gas in Europe can be absorbed to some extent, and in the main, there will be no problem if we only consider the deteriorating spread of synthetic rubber?

Fujii: That's right. I hope you understand that the major factor is the synthetic rubber part.

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

Fujii: Thank you very much.

Questioner C: Thank you. First, I would like to confirm about the cement. Sales companies have been raising their prices since January, but did you say that the effect of the price hike has not been factored into the manufacturing process, which is reflected in your operating profit?

Also, I think the sales companies are accounted for under the equity method, and the equity method profit and loss for H2 is also a little worse than the initial forecast and H1. What do you think about it? From about Q4, do you assume that the sales companies will see a slight improvement in earnings? Please confirm this point first.

Fujii: The cement price hike has not been factored into either operating profit or share of profit of entities accounted for using equity method in this forecast.

Questioner C: Thank you. On the non-operating side, I heard that the profit and loss of the cement sales company was worse than in H1 and that the preparation cost of C Integration Arrangement was higher. It seems that the costs have increased significantly compared to the beginning of the fiscal year. Please tell me the background of this. Since you are using it much earlier this fiscal year, will it be lighter as a cost next fiscal year, and can you get off to a good start? Could you explain about this?

Fujii: As I mentioned earlier, for sales companies, the factors include the sharp rise in crude oil prices and others, the increase in operation costs and labor costs due to the shortage of manpower, and deterioration in the performance of dealers and the composition difference due to the decline in domestic demand. Because of this, we have announced a price increase for shipments starting in January of next year.

However, as I explained earlier, please understand that this price increase has not yet been incorporated into the numerical plan.

As for C Integration Arrangement, costs have increased due to the increase in procedures and processing, as well as the need to change specifications as the Company is established and preparations are being made to finalize details.

In addition, some of the costs that were previously assumed to be capitalized as start-up costs should now be treated as periodic costs, and in this sense, the periodic costs have increased and expanded.

Questioner C: Will you continue to incur these kinds of expenses in the next fiscal year?

Fujii: Basically, this is the cost of preparing for the integration, so it does not mean that the increase will continue to increase every year.

Questioner C: I understand. Thank you. Secondly, please let me confirm the specialty materials. I don't know if this is correct as it is the calculation at hand, but the profit of specialty products in Q1 and Q2 is probably almost flat. I think H1 and H2 are also flat, but could you please explain how the movements of polyimide and separators have resulted in such a profit?

Fujii: As you pointed out, from Q1 to Q2, the total profit level of the specialty products is about the same. From H1 to H2, it will remain about the same or increase slightly. Overall, they have been steady. H1 was also solid, and we expect this trend to continue.

With regard to polyimide, the demand situation has not changed, as large LCD panel manufacturers continue to adopt our products. Therefore, our products are being used for new models and high-definition models.

In terms of panel demand, we believe that an adjustment phase is possible, but the impact on our films is expected to be limited. This is how I see it for film.

As for varnishes, there was a slight impact of the shortage of semiconductors in Q1, but the business is on a recovery track in Q2.

The situation with polyimide is that we expect some of these effects may remain, although they are limited in total.

In the area of separators, the impact of reduced automobile production has become apparent since this H1. This is also a limited impact, but it varies depending on the make and model.

In H2, we expect that demand will basically continue at a certain level, but there are concerns about the prolongation and expansion of production cutbacks in automobiles. Although we have already factored in what is manifesting itself at this point, we are concerned about its prolongation and expansion in the future.

Questioner C: Thank you very much. In the supplement, have there been any changes in price trends? Could you comment on polyimides, films, varnishes, and separators?

Fujii: As for the price, since they are specialty materials, the price is basically going to decrease little by little. In response to this, we are trying to maintain product prices as much as possible by introducing new grades and new products.

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

Fujii: Thank you very much.

Questioner D: 2 questions, please. The first question is on page 8, which shows that specialty products in the Chemicals segment increased by JPY1 billion YoY. Could you tell us a little more quantitatively, to the extent possible, about the trends in H1 on a YoY basis, mainly for separators and polyimide?

Fujii: Sales of separators and polyimides have both been strong. In H1 of last year, specialty products were not so much affected by COVID-19, but due to the recovery from that, the sales of polyimide and separators were both higher in H1 YoY.

Questioner D: Could you tell us more quantitatively about the shipment volume of separators, for example, whether or not it has increased by 40% to 50% compared to the previous year?

Fujii: In terms of the volume of separators, the total volume has increased by more than 50%. The volume of polyimide also increased in H1 YoY. This is also true for films, and varnishes are also on the rise.

Questioner D: I understand. As a supplement to the previous question, I feel that the smartphone and TV markets are slowing down a bit with regard to polyimide. Does it not seem to have much impact on your shipments?

Fujii: Yes. Basically, we are aware that there has not been a significant impact on our shipments.

Questioner D: Does that mean there are inventory piling up somewhere?

Fujii: I think that there was originally a relatively small amount of our products in the distribution stock, and as I mentioned earlier, we are aware that the adoption of our products for such panel parts as high-definition products is progressing.

Questioner D: Also, could you please add something about the separator? It seems that Japanese OEMs are investing more aggressively in batteries. Please comment on the response to your sales expansion to Japanese OEMs.

Fujii: We are also focusing our efforts on markets that value the performance and quality of our products, so we would like to follow the trend of expanding batteries in such markets as much as possible.

Questioner D: Thank you very much. The second question is simply about magnesia, a construction material. As Questioner A asked earlier, I think the business is doing well, but haven't you factored any particular price increase for the magnesia product group into the guidance for H2? In fact, I think there are some products, for which supply and demand are quite tight. Could you tell us about the possibility of raising prices?

Fujii: Ube Material Industries has been working to improve the prices of its limestone products in response to cost increases, and we are planning to continue to do so in the future.

Questioner D: For example, you have not factored in a steep price increase for magnesia clinker, et cetera, but rather you expect to increase prices in line with the high price of raw materials?

Fujii: This will depend on demand, but at the very least, we will pass on the increased costs. I think we will have to wait and see what happens with supply and demand.

Questioner D: I understand. Thank you very much.

Fujii: Thank you very much.

Moderator: We have some more questions, but it is getting close to the end of our time, so we will conclude the question-and-answer session.

Please note that the Finance and Investor Relations Department will contact you tomorrow or later with 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 for Q2 of this fiscal year, as we have explained, we had contrasting results. The Chemicals segment and the Machinery segment performed well, while the Construction Materials segment performed very poorly due to the worsening business environment.

In H2 of the fiscal year, we do not expect any major changes from H1.

On the other hand, there are concerns about shortages of semiconductors and parts, as well as rising and persistently high prices for raw materials and fuel.

Under these circumstances, we will strive to achieve our business forecasts while closely monitoring market trends in each business and promptly responding to any changes that may occur.

Thank you very much for joining us today.

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

[END]