

Consolidated Financial Report for the First Half of the Fiscal Year Ending March 31, 2015

Ube Industries, Ltd.

1. Consolidated Companies

Fiscal period	Previous FY ended Mar. 31, 2014	Current first half ended Sept. 30, 2014	Change
Number of companies			
Consolidated companies	65	66	+1
Companies using equity method accounting	24	25	+1
Total	89	91	+2

2. Consolidated Business Results for the First Half of the Fiscal Year Ending March 31, 2015
(April 1, 2014 to September 30, 2014)

(1) Results of Operations

(Billions of Yen – except per share data)

	Previous first half ended Sept. 30, 2013	Current first half ended Sept. 30, 2014	Change
Net sales	310.8	307.7	-3.0
Operating income	9.0	6.2	-2.8
Net interest expenses	-1.0	-0.5	0.4
Equity in earnings of affiliates	0.3	0.1	-0.1
Other non-operating income	-1.6	-0.9	0.6
Ordinary income	6.7	4.8	-1.8
Extraordinary income	2.9	0.0	-2.8
Extraordinary losses	-1.1	-5.4	-4.3
Net income	6.6	0.0	-6.6
Net income per share	6.54 Yen	0.04 Yen	-6.50 Yen

Environmental Factors

Exchange rate (Yen/US\$)	98.9 Yen	103.0 Yen	4.1 Yen
Naphtha price (Yen/kl)	64,700 Yen	70,900 Yen	6,200 Yen
Australian coal price (Yen/ton)	11,011 Yen	9,671 Yen	-1,340 Yen

Net Sales by Segment

(Billions of Yen)

	Previous first half ended Sept. 30, 2013	Current first half ended Sept. 30, 2014	Change	Comments
Chemicals & Plastics	109.7	102.2	-7.5	- Decrease in sale volume, due to ceased production of caprolactam at Sakai Factory, decrease in sales price of caprolactam, etc
Specialty Chemicals & Products	32.0	30.7	-1.2	- Decrease in sales price of battery materials, etc.
Pharmaceutical	4.1	3.5	-0.5	
Cement & Construction Materials	106.9	109.9	3.0	- Increase in sales volume of cement and limestone related materials, etc
Machinery & Metal Products	34.8	35.2	0.3	
Energy & Environment	27.7	30.7	2.9	- Increase in sales volume of coal, etc.
Other	13.9	16.3	2.4	- Increased sales amount of overseas subsidiary companies, etc.
Adjustment	-18.5	-21.1	-2.5	
Total	310.8	307.7	-3.0	

Operating Income by Segment

(Billions of Yen)

	Previous first half ended Sept. 30, 2013	Current first half ended Sept. 30, 2014	Change	Comments
Chemicals & Plastics	-2.0	-2.2	-0.1	- Improvement in profit and loss as a result of ceased production of caprolactam at Sakai Factory, decrease in spread between selling prices and costs of raw materials for caprolactam, etc.
Specialty Chemicals & Products	0.4	-1.1	-1.6	- Decrease in sales price of battery materials, etc.
Pharmaceutical	0.4	0.4	-0.0	
Cement & Construction Materials	6.8	7.1	0.3	- Increase in sales volume of limestone related materials, etc
Machinery & Metal Products	2.3	0.6	-1.7	- Deterioration in profitability of molding machines, etc.
Energy & Environment	0.6	1.0	0.4	- Decrease in maintenance cost of IPP power plant (in comparison with the previous quarter when extensive periodic inspection took place), etc.
Other	0.4	0.4	-0.0	
Adjustment	-0.0	-0.1	-0.0	
Total	9.0	6.2	-2.8	

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

(2) Financial Condition

(Billions of Yen)

Assets	Previous FY ended Mar. 31, 2014	Current first half ended Sept. 30, 2014	Change
Cash and deposits	30.5	33.3	2.7
Accounts receivable	153.1	138.7	-14.3
Inventories	82.4	91.9	9.5
Property, plant and equipment	332.4	339.0	6.6
Intangible fixed assets	5.2	4.9	-0.3
Investments and other assets	96.9	101.0	4.1
Total assets	700.7	709.0	8.3

Liabilities	Previous FY ended Mar. 31, 2014	Current first half ended Sept. 30, 2014	Change
Notes and accounts payable-trade	89.2	89.0	-0.1
Interest-bearing debt	245.8	255.0	9.2
Other liabilities	100.3	99.5	-0.7
Net assets	265.3	265.3	-0.0
(Shareholders' Equity)	(238.2)	(234.7)	(-3.5)
(Accumulated Other Comprehensive Income)	(3.4)	(6.7)	(3.2)
(Share subscription rights and Minority interests)	(23.6)	(23.8)	(0.2)
Total liabilities and Net assets	700.7	709.0	8.3

Cash Flows

(Billions of Yen)

(Billions of Yen)

	Current first half ended Sept. 30, 2014
Cash flows from operating activities	19.7 *1
Cash flows from investing activities	-20.7 *2
Cash flows from financing activities	2.9
(Interest-bearing debt)	(8.6)
(Dividend paid and Other)	(-5.7) *3
Cash and cash equivalents at end of period	32.5

(Ref.) Previous first half ended Sept. 30, 2013
15.8
-21.7
-6.8
(-1.0)
(-5.7)
27.7

*1 Net loss before taxes	-0.5 billion Yen
Depreciation and amortization	16.2 billion Yen
Increase or decrease in working capital	5.2 billion Yen, etc
*2 Acquisition of tangible/ intangible fixed assets	-20.7 billion Yen, etc
*3 Dividend paid	-5.4 billion Yen, etc

(3)Qualitative Information for business segments

Overview

During the current term, while the U.S economy continued modest recovery and the European economy showed some signs of bottoming out, the pace of economic growth slowed down in China and other Asian countries; as a whole, the world economy seemed to lack momentum. On the other hand, the Japanese economy was on the course of modest recovery, thanks to relatively steady increase in investment in both private and public sectors to offset the remaining impact of the increase in the consumption tax.

Under such circumstances, the Company Group has engaged in activities to solve the various operational tasks and to respond to changes in structural business environments in a speedy manner based on the basic policies of “Change & Challenge—Driving Growth,” the three-year midterm management plan (fiscal 2013-2015), in which this business year was set as the second year. However, the environment surrounding our chemicals-related business remains severe.

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

Chemicals & Plastics Segment

Sales of caprolactam, which is a material used to synthesize polyamide, were greatly affected by the stagnation of the China market caused by excess supply after a series of opening of new facilities by competitors, as well as the full-scale maintenance conducted once in several years in our Thai and Spain factories. On the other hand, improvement effect has been achieved as we expected after production ceasing of caprolactam at Sakai Factory at the end of March 2014. Shipment of polyamide resins remained strong, because of a steady increase in sales of the products used for food wrap films. Shipment of polybutadiene rubber (synthetic rubber) and industrial chemicals hovered at the almost same level with the same period in the previous year.

Specialty Chemicals & Products Segment

Looking at the business performance of the products used for lithium-ion batteries, sales of both electrolyte and separators were greatly affected by drop of the prices. In addition, shipment of separators for consumer use such as laptop PC decreased. Shipment of fine chemical products, polyimide films and separation membranes hovered at steady level, but the business performance of those products as a whole has not yet reached the level of full-scale recovery.

Pharmaceutical Segment

Among the drugs developed by UBE, shipment of anti-allergic drugs and blood-pressure-lowering drugs was relatively steady, but that of antiplatelet agents was sluggish due to an adjustment of distribution inventory. Shipment of active ingredients and intermediates for drugs manufactured under contract was weak.

Cement & Construction Materials Segment

Domestic shipments of cement, ready-mixed concrete and building materials decreased slightly in comparison with the same period in the previous year, due to sluggish demand caused by labor shortage at construction sites in the Japanese market. On the other hand, export mainly to the Asian countries was steady, and, as the result, the overall business performance hovered at the same level with the same period in the previous year. Sales of calcia and magnesia products were steady, especially in the business with the steel industry.

Machinery & Metal Products Segment

While shipment of industrial machinery such as vertical mills and conveyors increased, thanks to investment in new equipment and replacement of old machines in Japan, shipment of molding machines mainly used in the automobile industry decreased, and profitability also deteriorated in comparison with the same period in the previous year when profitability of export had greatly improved, thanks to sharp appreciation of the yen. Received orders for both industrial machinery and molding machines increased, and that for the machinery service remained at a steady level. Business condition for steel products was so severe that it was very hard to acquire new orders; shipment of the products were steady, but was affected by rise of electric power cost.

Energy & Environment Segment

In the coal business, sales volume of salable coal hovered at a steady level, and volume of coal dealing at UBE's Coal Center (a coal storage facility) hovered at the almost same level with the same period of the previous year. In the power producer business, while UBE's privately-owned power plant was affected by the periodic inspection, the IPP power plant was released, in the current term, from the impact of the maintenance cost increase resulted from the extensive periodic inspection in the same period of the previous year. In addition, restoration of the IPP power plant had progressed without any problem and the operation was resumed on October 18, 2014.

(4) Qualitative Information for Financial Condition

Total assets at the end of the second quarter of the fiscal year increased by 8.3 billion yen, in comparison with the end of the previous fiscal year, to 709 billion yen. Although notes and accounts receivable decreased by 14.3 billion yen, tangible fixed assets, inventories including commercial products and manufactured goods, and cash on hand and in banks increased respectively by 2.7 billion yen, 9.5 billion yen and 6.6 billion yen.

Total liabilities increased by 8.3 billion yen to 443.7 billion yen in spite of a 1.0 billion yen decrease in income tax payable and others, because interest-bearing debt increased by 9.2 billion yen.

Net assets decreased by 0.04 billion yen to 265.3 billion yen in spite of an increase of 2.2 billion yen in foreign currency translation adjustments, mainly because dividend of 5.2 billion yen paid from retained earnings offset most of a 1.5 billion yen retained earnings increase generated by impact of the change of the calculation method liabilities for employees' retirement benefits.

(5) Topics

- Chemicals & Plastics Segment -

◆ Ube Industries, Ltd. developed the high thermal conductive version of "UBESTA XPA." (April 2014)

- Specialty Chemicals & Products Segment -

◆ Ube Industries, Ltd. expanded its separator manufacturing facilities in its Sakai Factory. (August 2014)

- Pharmaceutical Segment -

◆ Ube Industries, Ltd. launched sales of antiplatelet agent "Effient™" in the domestic market. (May 2014)

◆ Ube Industries, Ltd. filed application for an additional indication of "Talion® (agent for treatment of allergic disorders)" as a treatment for pediatric patients. (June 2014)

- Cement & Construction Materials Segment -

◆ Ube's "1 Day Pave," a concrete pavement product enabling early reopen of the traffic, was used at a public works site for the first time. (June 2014)

◆ Ube Industries, Ltd. decided to wind up Ube Board Co., Ltd.. (Scheduled in March 2014) (September 2014)

- Machinery & Metal Products Segment -

◆ Ube Industries, Ltd. established its Mexican company "UBE Machinery Mexico S.A. de C.V." (April 2014)

◆ Ube Industries, Ltd. began manufacturing of large-size die-cast machines in China. (June 2014)

- Energy & Environment Segment -

◆ Ube Industries, Ltd began business operation of US Power Co., Ltd., an operation company of solar power generator jointly established with Showa Shell Sekiyu K.K. (July 2014)

3. Consolidated Earnings Forecast for the Year Ending March 31, 2015 (April 1, 2014 to March 31, 2015)

Looking into future economic conditions, while Japanese economy is expected to continue modest economic recovery, there is concern regarding the risk of slower growth in the global economy, particularly in China and other emerging countries. Although conditions differ depending on the business segment, we forecast that our Group as a whole will continue to face a severe business environment.

Considering the present economic condition, we maintain our earnings forecast for the whole financial year announced on October 16, 2014, with net sales of 660 billion yen, operating income of 26 billion yen, ordinary income of 22 billion yen and net income of 12.5 billion yen.

(Billions of Yen – except per share data)

	Fiscal Year ended Mar. 31, 2014	Fiscal Year ending Mar. 31, 2015(forecast)	Change
Net sales	650.5	660.0	9.5
Operating income	24.4	26.0	1.6
Ordinary income	18.6	22.0	3.4
Extraordinary income (losses), net	0.9	-3.5	-4.4
Net income	12.6	12.5	-0.1
Net income per share	12.16 Yen	11.82 Yen	-0.34 Yen
Dividend per share	5.0 Yen	5.0 Yen	0.0 Yen

Business Conditions

Exchange rate (yen/ US\$)	100.2 Yen	104.0 Yen	3.8 yen
Naphtha price (yen/kl)	67,300 Yen	71,100 Yen	3,800 yen
Australian coal price (yen/ton)	11,117 Yen	9,687 Yen	-1,430 yen

Net Sales by Segment

	Fiscal Year ended Mar. 31, 2014	Fiscal Year ending Mar. 31, 2015 (forecast)	Change	Comments
Chemicals & Plastics	230.5	225.0	-5.5	- Decrease in sale volume, due to ceased production of caprolactam at Sakai Factory, decrease in sales price of caprolactam, etc
Specialty Chemicals & Products	63.1	66.5	3.4	- Increase In sales volume, etc
Pharmaceutical	9.7	8.0	-1.7	- Decrease in sales volume of active ingredients which UBE discovered, etc.
Cement & Construction Materials	223.5	226.0	2.5	- Increase in sales volume of cement and limestone related materials, etc
Machinery & Metal Products	75.5	79.0	3.5	- Increase in shipment of industrial machines, etc
Energy & Environment	59.0	66.0	7.0	- Increase of income from IPP, Increase in sales volume of coal, etc
Other	28.8	29.5	0.7	- Increased sales amount of overseas subsidiary companies, etc.
Adjustment	-39.8	-40.0	-0.2	
Total	650.5	660.0	9.5	

Operating Income by Segment

	Fiscal Year ended Mar. 31, 2014	Fiscal Year ending Mar. 31, 2015 (forecast)	Change	Comments
Chemicals & Plastics	0.8	2.5	1.7	- Impacted by ceasing production of caprolactam at Sakai Factory, decrease in sales volume of synthetic rubber and nylon resin, etc.
Specialty Chemicals & Products	-0.4	-1.0	-0.6	- Decrease in sales price of battery materials, etc.
Pharmaceutical	1.6	1.0	-0.6	- Decrease in sales volume of active ingredients which UBE discovered, etc.
Cement & Construction Materials	15.5	16.5	1.0	- Increase in domestic sales volume of cement and limestone related materials, etc
Machinery & Metal Products	4.4	4.5	0.1	
Energy & Environment	1.9	2.3	0.4	- Increase of income from IPP etc.
Other	1.0	1.0	0.0	
Adjustment	-0.6	-0.8	-0.2	
Total	24.4	26.0	1.6	

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

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

	Previous first half ended Sept. 30, 2013	Current first half ended Sept. 30, 2014	Fiscal Year ending Mar. 31, 2015 (forecast)	Fiscal Year ended Mar. 31, 2014
Capital investment	12.5	20.0	47.0	36.3
Depreciation and amortization	15.8	16.2	34.5	32.4
Research and development expenses	6.9	7.0	15.0	13.9
Adjusted operating income *1	9.9	7.1	27.5	25.2
Interest-bearing debt	246.0	255.0	242.0	245.8
Net debt *2	218.3	222.5	217.0	215.7
Equity capital*3	235.6	241.4	252.0	241.7
Total assets	683.1	709.0	715.0	700.7

Net D/E ratio (times)	0.93	0.92	0.86	0.89
Equity ratio (%)	34.5	34.1	35.2	34.5
Return on sales (%)	2.9	2.0	3.9	3.8
Return on assets - ROA (%) *4	-	-	3.9	3.6
Return on equity – ROE (%)	-	-	5.1	5.5
Number of employees	11,309	11,261	10,850	11,225

*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