



UBE INDUSTRIES, LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2021

February 2, 2021

Event Summary

[Company Name]	Ube Industries, Ltd.
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[Time]	18:00 – 18:48 (Total: 48 minutes, Presentation: 22 minutes, Q&A: 26 minutes)
[Venue]	Dial-in
[Venue Size]	
[Number of Speakers]	1 Masayuki Fujii CFO, Director, Managing Executive Officer

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.

Masayuki Fujii, Director, Managing Executive Officer, and CFO, will now give a 20-minute presentation on the consolidated financial results for the third quarter of FY2020, followed by a question-and-answer session. The entire meeting is scheduled to last approximately 45 minutes.



Before we begin the conference call, I'd like to warn everyone that this presentation may contain forward-looking statements based on current expectations, all of which are subject to risks and uncertainties. Please note 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, Ltd. 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 the third quarter of FY2020, which were announced today, based on the materials. Thank you.

Scope of Consolidation

Item	End of FY2019 (A)	End of FY2020 3Q (B)	Difference (B) - (A)	Notes
Number of consolidated subsidiaries	69	66	(3)	+ Premium Composite Technology North America, Inc. - U-MHI Platech Co., Ltd. - U-MHI PLATECH AMERICA, INC. - AET Electrolyte Technologies (Zhangjiagang) Co., Ltd. - Ube Ammonia Industry, Ltd.
Number of equity method affiliates	26	26	0	+ MU Ionic Solutions Corporation - Changshu UM Battery Materials Co., Ltd.
Total	95	92	(3)	

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Page numbers are assigned at the bottom right of the document. The first slide on page three shows the changes in consolidated companies. The number of consolidated subsidiaries, in number, is 66, with a decrease of three. In reality, the number of consolidated subsidiaries increased by one and decreased by four.

The company name is listed in the applicable column on the right. One company that increased was Premium Composite Technology North America, which was acquired by a compound company in North America and was consolidated in the first quarter.

U-MHI PLATECH and U-MHI PLATECH AMERICA, which were joint ventures with Mitsubishi Heavy Industries, Ltd. in the injection molding machine business, were merged into UBE MACHINERY CORPORATION, Ltd., and were deconsolidated in the second quarter.


AET Electrolyte Technologies (Zhangjiagang) Co., Ltd. below is an electrolyte company in China, which was originally 100% owned by our Company but has been deconsolidated since its liquidation was completed. This is also the second quarter.

The last one is UBE Ammonia Industry, Ltd. This was deconsolidated in the third quarter. Since we absorbed the entire business of this company, it is no longer consolidated.

Next is the number of companies to which the equity method is applied. In terms of the number of companies, the number remained the same and is 26 companies, but there was an increase of one company and a decrease of one company. The increase was due to MU Ionic Solutions Corporation. The Electrolyte Business here is shifted to a joint venture with Mitsubishi Chemical in the second half of this fiscal year, and we will become an equity method affiliate with a 20% investment.

Changshu UM Battery Materials Co., Ltd. below was originally a 50-50 joint venture with Mitsubishi Chemical for electrolytes in China, but now it becomes a wholly owned subsidiary of MU Ionic Solutions above and will no longer be accounted for by our equity method.

Both changes have a negligible impact on consolidated business results.

3rd Quarter of the FY2020 
Environmental Factors

Item			FY2019 3Q (A)	FY2020 3Q (B)	Difference (B) - (A)	
Exchange Rate		Yen/\$	108.7	106.1	(2.6)	
Material Price	Naphtha	CIF	\$/ t	533	365	(168)
		Domestic	Yen/KL	42,300	28,900	(13,400)
	Benzene (ACP)		\$/ t	653	487	(166)
	Australian Coal (CIF)		\$/ t	101.5	77.3	(24.3)
			Yen/t	11,030	8,198	(2,832)

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Next is the slide on page four, environmental factors.

Foreign exchange rate in the third quarter: JPY has been a little strong. Looking at the cumulative period, JPY has appreciated slightly.

Then there is the price of materials. The prices of naphtha, benzene, and coal have all decreased considerably compared to the same period last year. However, if you look at the three months of the third quarter, the level has increased from the second quarter.

Major P/L Items

Item	(Billions of yen)			
	FY2019 3Q (A)	FY2020 3Q (B)	Difference (B) - (A)	Percentage change
Net sales	497.8	438.9	(58.9)	(11.8)%
Operating profit	25.4	13.8	(11.5)	(45.6)%
Ordinary profit	24.9	10.5	(14.3)	(57.6)%
Profit attributable to owners of parent	15.1	8.9	(6.2)	(40.9)%

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The next slide is on page five. This is a quick overview of the major items, but the overall picture is a decrease in sales and profits.

Net sales for the third quarter were JPY438.9 billion, a decrease of JPY58.9 billion, or 11.8%, compared to the same period last year. Operating profit was JPY13.8 billion, a decrease of JPY11.5 billion from the same period last year, or a 45.6% decrease.

As for ordinary profit, the actual figure was JPY10.5 billion, a decrease of JPY14.3 billion compared to the previous year, or 57.6%. Profit attributable to owners of the parent was JPY8.9 billion, a decrease of JPY6.2 billion, or 40.9%, from the same period last year.

In the first half of the current fiscal year, the impact of coronavirus was particularly large in Chemicals and Machinery. In addition, it was a year of scheduled repair for ammonia in Chemicals, so such an adverse impact has been reflected in the YoY results significantly.

Incidentally, if you look at the third quarter, the three months from October to December, sales declined slightly, but profits increased, and we are on a recovery track.

Net Sales and Operating Profit by Segment

(Billions of yen)

	Segment	FY2019 3Q (A)	FY2020 3Q (B)	Difference (B) - (A)	Percentage change
Net sales	Chemicals	214.9	179.7	(35.2)	(16.4)%
	Construction Materials	227.7	212.3	(15.3)	(6.7)%
	Machinery	64.7	54.5	(10.1)	(15.7)%
	Others	3.5	2.3	(1.2)	(35.3)%
	Adjustment	(13.0)	(10.0)	3.0	-
	Total	497.8	438.9	(58.9)	(11.8)%
Operating profit (loss)	Chemicals	11.0	1.5	(9.5)	(85.7)%
	Construction Materials	11.3	11.0	(0.2)	(2.6)%
	Machinery	2.9	1.0	(1.8)	(63.7)%
	Others	0.4	0.3	(0.1)	(34.7)%
	Adjustment	(0.4)	(0.1)	0.2	-
	Total	25.4	13.8	(11.5)	(45.6)%

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Next, the slide on page six. This shows a breakdown of net sales and operating profit by segment.

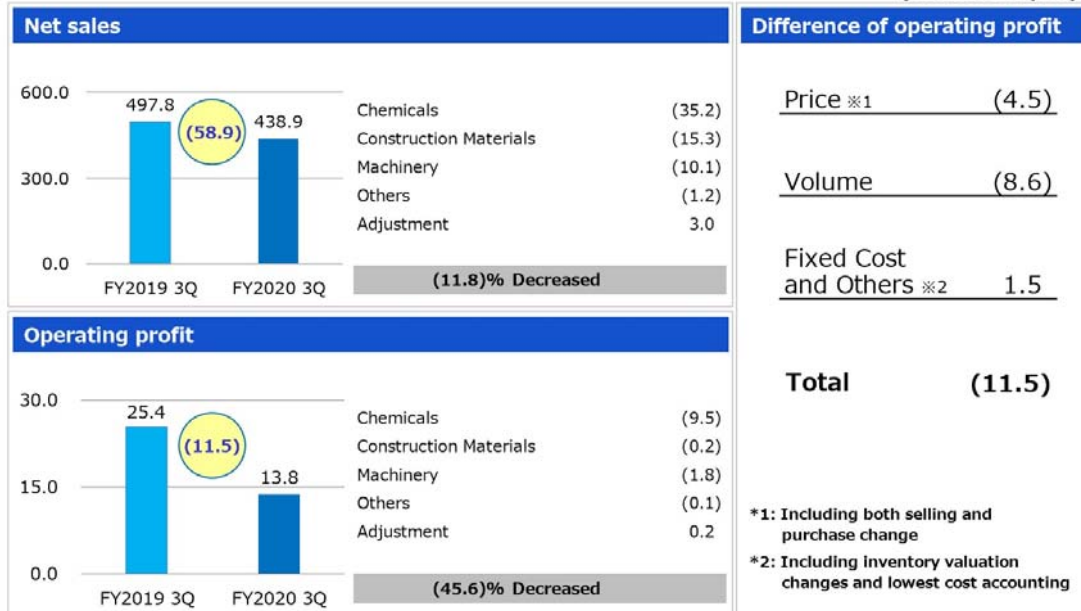
First, sales. Overall, I would like to say that sales decreased by JPY58.9 billion compared to the same period last year. Sales of Chemicals, Construction Materials, and Machinery, each decreased, with Chemicals decreasing by JPY35.2 billion, Construction Materials decreasing by JPY15.3 billion, and Machinery decreasing by JPY10.1 billion.

The rate of increase/decrease is shown on the right, and the rate of decrease in sales of the construction materials is relatively small. In the Construction Materials Sector, I think we can see that the impact of coronavirus was relatively limited.

Operating profit, on the other hand, decreased by JPY11.5 billion compared to the same period last year. The major factor was a JPY9.5 billion decrease in profit at the Chemicals Business. As for Construction Materials, the profit decreased by JPY200 million, which is almost the same level as the same period last year. Then, Machinery saw a decline of JPY1.8 billion. Chemicals and Machinery were particularly affected by the coronavirus in the first half of the year.

Analysis - Total

(Billions of yen)



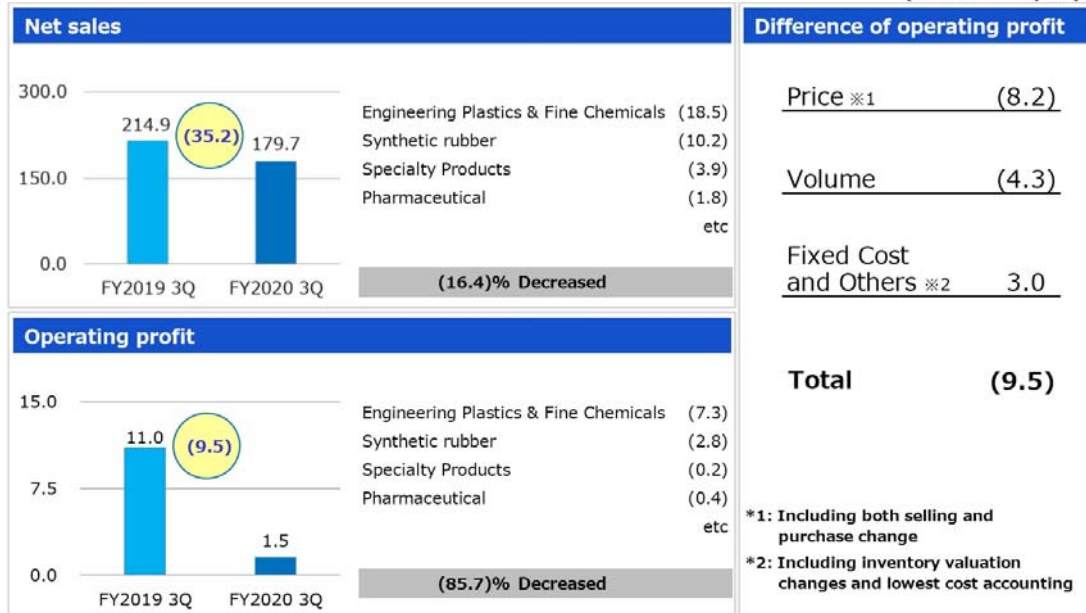
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Next, the slide on page seven. This is a variance analysis for the entire Company.

The breakdown by segment is as shown on the previous page. In the breakdown of the difference in operating profit on the right, there was a JPY4.5 billion decrease in price difference, a JPY 8.6 billion decrease in volume difference, and a JPY1.5 billion improvement in fixed costs and other factors.

Analysis - Chemicals

(Billions of yen)



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Below that, on page 8, by segment.

First is the Chemicals Segment.

Net sales decreased by JPY35.2 billion, and the breakdown of the sub-segments is as shown there. Sales in each sub-segment decreased.

The big ones were Engineering Plastics & Fine Chemicals Business and Synthetic Rubber Business. Nylon and lactam have been greatly affected by coronavirus, which has had a major impact of decreased prices. In addition, there was a decrease in the volume of industrial chemicals due to the regular repair work, and fine chemicals also saw a decrease in both price and volume due to the impact of coronavirus.

In the Synthetic Rubber Business, sales declined by JPY10.2 billion. The price of butadiene, a raw material, has fallen significantly, and product prices have followed suit.

In Specialty Products Business, sales declined by JPY3.9 billion. Sales of polyimide increased, but sales of other specialty products also decreased due to a decline in demand. In addition, sales of Pharmaceutical Business declined by JPY1.8 billion. Shipment volume is also decreasing here.

For the operating profit below, Chemicals as a whole had a decreased of JPY9.5 billion, and the breakdown is as you can see on the right. The biggest one is still the Engineering Plastics & Fine Chemicals Business. Nylon and lactam prices have fallen, and the spread is very compressed.

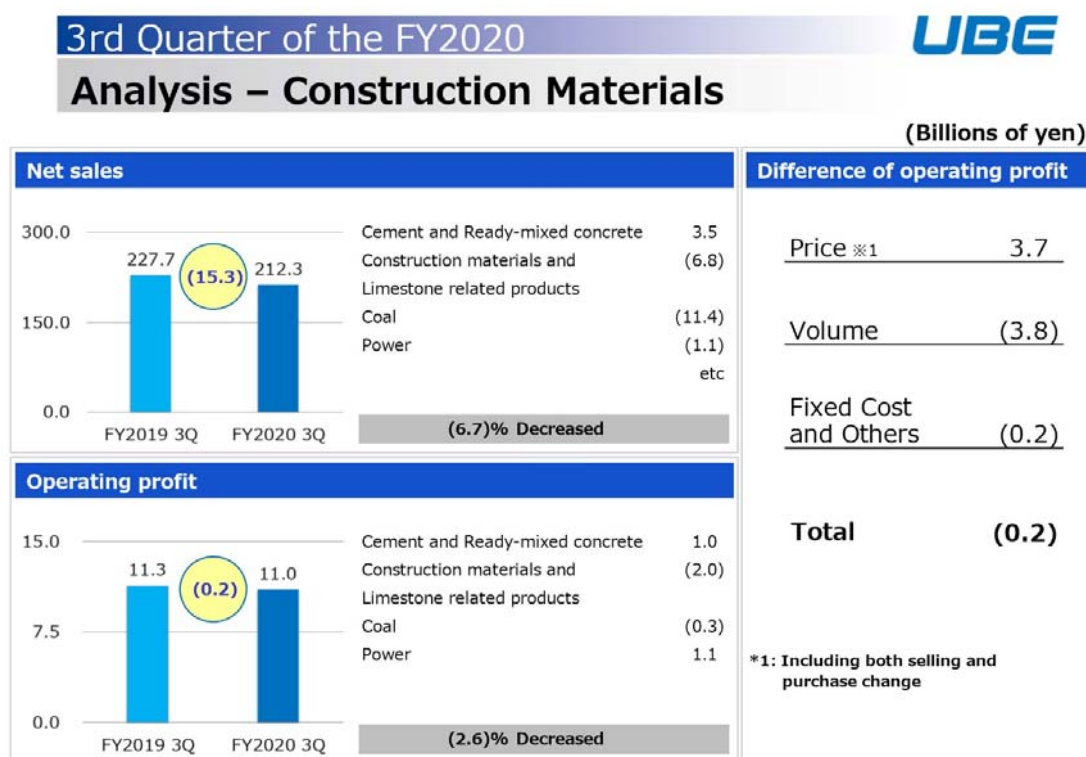
As for Synthetic Rubber Business, the impact of spreads is also significant. In the first half of the year in particular, product prices have fallen more than raw material prices.

Then, there was a JPY200 million decrease in profit in Specialty Products. Although the profit of polyimide increased, other products, as I mentioned in the sales section, were also affected by a decrease in volume due to a decline in demand for Specialty products.

Sales of Pharmaceutical Business decreased by JPY400 million. As mentioned in the sales section, there was a decrease in shipments. With regard to Pharmaceuticals, shipments may fluctuate depending on the timing of shipments, and shipments were also down YoY.

If you look at the difference in operating profit on the right side, the price difference and the volume difference, the price difference is a decrease of JPY8.2 billion. This is a place where the worse part of the spread is solely nylon, lactam, synthetic rubber, and the like. The volume difference of JPY4.3 billion is due to the negative impact of Specialty Products other than polyimide, which had a small negative impact on volume.

Other fixed costs and others have contributed to the positive increase of JPY3 billion. Footnote 2 refers to the inclusion of the valuation difference of inventory and the impact of the lower-of-cost-or-market method. These factors added approximately JPY2 billion to the total. Other than that, there was a positive factor of about JPY1 billion. The total decrease in profit was JPY9.5 billion.



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The next slide on page nine. Construction Materials.

As you can see from the breakdown, the largest decline was JPY11.4 billion in Coal sales with respect to the decreased sales of JPY15.3 billion. As for Coal, the price has dropped significantly. In addition, the volume of both coal sold and coal deposited has decreased slightly, so such a volume factor is also included.

The other is Limestone Products, such as calcia and magnesia, which are produced by Ube Material Industires, our subsidiary for the Construction materials and limestone related products Business. Sales in this area declined due to a decline in demand.

As for Power Business, coal prices have been falling, so the decline in sales is due to lower base prices.

On the other hand, the Cement and Ready-Mixed Concrete Business increased by JPY3.5 billion. In fact, the production and sales of cement and ready-mixed concrete have not seen a significant increase in sales. This time, there was a reorganization of the Group companies in the trading company function. As a result, there was a positive impact on the trading company function, and this part of the business did not have a significant impact on the bottom line.

Operating profit decreased by JPY200 million from the previous year. As you can see, the breakdown is positive for Cement and Ready-Mixed Concrete, at JPY1 billion. This is because the price of coal has fallen, and this has had the effect of reducing costs.

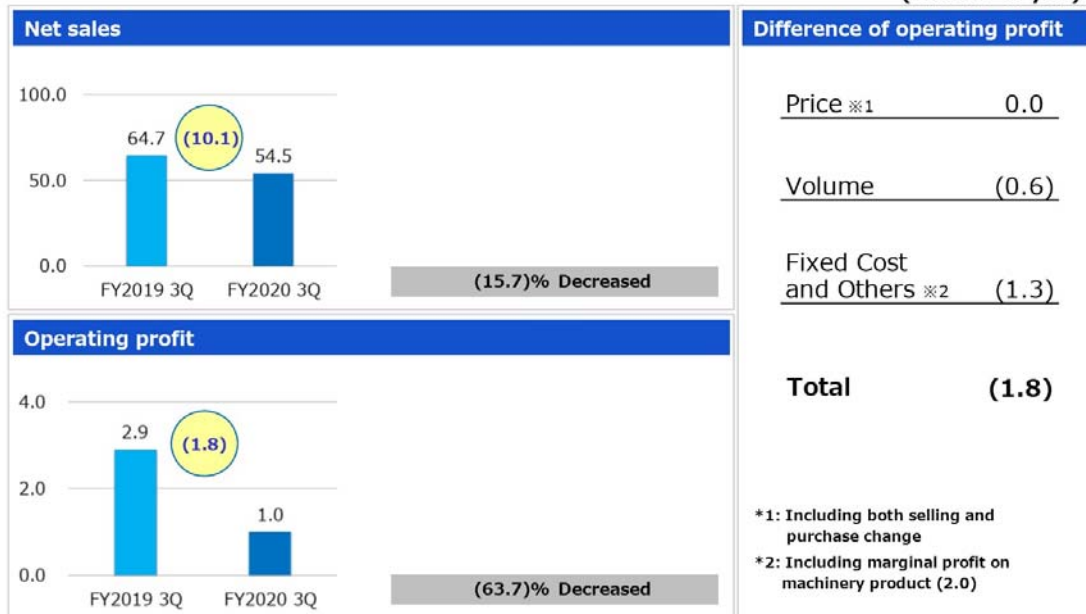
In Construction Materials and Limestone Products, as I mentioned in the sales section, there was a JPY2 billion decline in sales, due to a drop in demand for calcia/magnesia, and other products from Ube Material Industires.

As for Coal, prices are down and volumes are down, but the impact on profit and loss is not that significant. As for Power, the price of coal, a raw material, has fallen, and IPP has not had any scheduled repairs this year. Such a positive factor in terms of cost is included.

In terms of price difference and quantity difference, the price difference was positive JPY3.7 billion. This is largely due to the drop in the price of coal. On the other hand, the volume difference of negative JPY3.8 billion was mainly due to a decrease in the volume of Limestone Products of Ube Material Industries, which was caused by a decline in demand. In addition, fixed costs and other expenses were negative JPY200 million, resulting in a total decrease of JPY200 million.

Analysis - Machinery

(Billions of yen)



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Next, on page 10, is the Machinery section.

Net sales decreased by JPY10.1 billion. Regarding this, Molding Machines being affected by coronavirus was the major negative factor. Other effects are lower demand for Steel Products. These are the negative factors that come into play.

In addition, operating profit decreased by JPY1.8 billion. This is also the same as sales, but the major impact was a negative impact from a decrease in shipments of molding machines. Then the decline in demand for Steel Products. Both sales and profits of Industrial Machinery increased, but the negative factors of Molding Machines and Steel Products greatly outweighed the positive factors such as Industrial Machinery increased.

The price difference and quantity difference only for Steel Products are illustrated here. There is almost no price difference. The minus JPY600 million is the quantity difference. In addition, the impact of the marginal profit of the Machinery Business has been reflected in the fixed cost and other areas. As you can see from Footnote 2 at the bottom of the second page, marginal profit in the Machinery section deteriorated by about JPY2 billion YoY. This has had a significant impact on our business.

Operating Profit – Profit attributable to owners of parent

Item	(Billions of yen)		
	FY2019 3Q (A)	FY2020 3Q (B)	Difference (B) - (A)
Operating profit	25.4	13.8	(11.5)
Non-operating income (expenses)	(0.4)	(3.2)	(2.7)
Net interests expenses	0.5	0.1	(0.4)
Share of profit of entities accounted for using equity method	1.8	0.4	(1.4)
Foreign exchange gains (losses)	0.1	(0.8)	(1.0)
Others	(3.0)	(2.9)	0.0
Ordinary profit	24.9	10.5	(14.3)
Extraordinary income (losses)	(5.5)	1.5	7.1
Profit before income taxes	19.3	12.1	(7.1)
Income taxes and loss attributable to non-controlling interests	(4.1)	(3.1)	0.9
Profit attributable to owners of parent	15.1	8.9	(6.2)
Net income per share	150.16 yen	88.73 yen	(61.43) yen

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The next slide on page 11. Non-operating income/loss, extraordinary income/loss, et cetera.

As for non-operating income and expenses, the actual figure for the third quarter was a negative JPY3.2 billion. Compared to the previous fiscal year, the situation has deteriorated by JPY2.7 billion. The breakdown is shown here. Equity in earnings – losses -- of affiliates accounted for by the equity method has decreased, due to deteriorating business performance. In addition, foreign exchange gains and losses were a little worse than expected. This is where the impact of the strong yen in the third quarter is being reflected.

Then, below that, there is a column for extraordinary gains and losses. The actual figures through to the end of the third quarter were positive JPY1.5 billion. Compared to the same period of the previous year, there was a decrease of JPY5.5 billion, and the difference was plus JPY7.1 billion. In the last fiscal year, we decided to transfer the Golf Course Business, which resulted in the recording of an impairment loss of JPY4.6 billion.

On the other hand, we reorganized the Electrolyte Business in the second half of this fiscal year. As a result, there was a one-time gain on change in equity. If you look at the difference between the positive and negative figures, we have improved by about JPY7.1 billion.

As you can see in the second column from the bottom, profit attributable to owner of the parent company was JPY8.9 billion.

Consolidated Balance Sheet

(Billions of yen)

Item	End of FY2019 (A)	End of FY2020 3Q (B)	Difference (B) - (A)
Current assets	303.9	317.9	13.9
Fixed assets	423.1	423.9	0.8
Total assets	727.2	742.0	14.8
Interest-bearing debt	190.7	223.9	33.1
Other liabilities	182.1	159.9	(22.1)
Total liabilities	372.8	383.8	11.0
Shareholders' equity *1	332.3	337.0	4.6
Non-controlling interests and others	22.0	21.1	(0.8)
Total net assets	354.4	358.2	3.8
Total liabilities and net assets	727.2	742.0	14.8

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

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The next slide on page 12. This is for the balance sheet.

Total assets were JPY742 billion, a slight increase from the end of the previous fiscal year or the end of March. As for liabilities, interest-bearing debt increased by JPY33.1 billion to JPY223.9 billion. We are also issuing bonds to keep a large amount of cash and deposits on hand, due to concerns about the impact of the new coronavirus. As a result, assets and current assets have increased slightly, and interest-bearing liabilities have also increased.

Net assets, or shareholders' equity, was JPY337 billion at the end of the third quarter, an increase of JPY4.6 billion from the end of the previous fiscal year. We also paid an interim dividend, but after deducting that, we have increased it by JPY4.6 billion.

Consolidated Statements of Cash Flows

(Billions of yen)

Item	FY2019 3Q	FY2020 3Q	
A.Cash flows from operating activities	46.1	38.6	Profit before income taxes 12.1 Depreciation and amortization 27.1 Increase in working capital 12.0 Income taxes paid (7.0) etc.
B.Cash flows from investing activities	(31.0)	(32.5)	Acquisition of PP&E (30.7) etc.
Free cash flows (A+B)	15.0	6.0	
C.Cash flows from financing activities	(18.2)	20.2	Increase in interest-bearing debt 29.7 Dividends paid (9.3) etc.
D.Net increase/decrease in cash and cash equivalents	(2.9)	27.2	
E.Cash and cash equivalents at end of the quarter	29.3	67.8	

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The next slide on page 13 is about cash flow.

Cash flows from operating activities generated JPY38.6 billion through to the end of the third quarter. On the other hand, net cash used in investing activities was JPY32.5 billion. After subtracting this amount, free cash flow was JPY6 billion.

Cash flows from financing activities. We have kept interest-bearing debt at a high level, so it is JPY20.2 billion. As I mentioned, after paying out dividends, cash in of JPY20.2 billion, the balance of cash and cash equivalents at the end of the quarter was JPY67.8 billion, and we have secured a large amount of cash.

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

There is no change to the full-year earnings forecast announced on October 23 last year.

The dividend forecast remains unchanged from the previous forecast of JPY90 per share for the full year.

That's all for my explanation.

Question & Answer

Moderator: Thank you. We will now begin the question-and-answer session.

Questioner A: Thank you. First of all, in the area of Chemicals, you mentioned that the main reason for the JPY4.3 billion decrease in the volume difference was a decrease in the volume of Specialty products other than polyimide, but sales decreased by JPY3.9 billion. I would like to confirm that the volume difference may not actually be included here.

With regard to the outlook for the third quarter and the fourth quarter for Specialty Products, can you tell us about the main areas of change?

Fujii: First of all, regarding the volume difference, I mentioned earlier that Specialty Products other than polyimide are the reason for this volume difference. The volume of nylon, lactam, and other products in this area did not decrease significantly compared to the same period last year. The impact of reduced production and other factors has been significant in this area, so to some extent we have been able to secure the quantity while also responding to prices. Therefore, the figures are mainly for Specialty Products.

As for Specialty Products, polyimide has been performing well so far in both COF and FPC applications. As for varnish, we had an adjustment phase in the second quarter due to the global decline in smartphone sales caused by the effect of coronavirus, but we are now on the way to recovery.

Therefore, we expect that there will be no major changes in the business environment for film-related products in the future. In terms of varnish, we are hoping for a further increase in the recovery of smartphones in that area. On the other hand, the impact of Huawei's regulations based on the US-China relationship is still continuing. However, we expect the impact to be limited.

As for battery materials, the Electrolyte Business was transferred to a joint venture with Mitsubishi Chemical in the second half of this fiscal year and will no longer be included in consolidated sales and operating profit. The volume of separators is also on a recovery track. Therefore, we expect that demand will continue to recover and expand steadily in the fourth quarter.

On the other hand, there is a shortage of semiconductors, which may affect the production of automobiles. We think this is a matter of concern to some extent. Other Specialty Products, such as separation membranes and ceramics, although not so large in scale, have been affected by the decline in demand due to the impact of coronavirus, etc. However, we expect a gradual recovery trend to continue in areas other than aviation-related products.

Questioner A: In the first half of the year, I think synthetic rubber was also a negative factor in the volume difference, but in the third quarter, demand came back in line with the recovery of automobiles, so I guess it is not that negative.

Fujii: In the third quarter, the volume of synthetic rubber, especially for domestic tires, has been recovering considerably. So, the volume has already come back quite a bit.

However, the price of butadiene, a raw material, has been declining since last year, bottoming out in July of last year and rising sharply from there. In the third quarter, the price of such raw materials became high, and product prices were not able to keep up, which put pressure on the spread.

Therefore, in the fourth quarter, we expect that the volume will be generally steady, and the price of butadiene has been declining since the end of last year. In that sense, we are expecting a recovery in the fourth quarter in spread.

Questioner A: In general, from what you've said, I think it's safe to say that the fourth quarter are likely to grow to some extent from the third quarter.

Fujii: That is true for Specialty Products and synthetic rubber. Demand for Engineering Plastics & Fine Chemicals has been recovering steadily, and we expect this to continue, but there are some concerns on the supply side.

The ammonia plant in UBE has been temporarily shut down since January 25 last week, due to a problem with the piping system. As you know, ammonia is an upstream process for products such as lactams, nylons, and fines, so it may affect the production of these products. In any case, we are currently making adjustments to minimize the impact on our customers.

As for the outlook for the restoration of this facility, it is not yet clear, but it is expected to take about two to three weeks. The impact on our business performance is not yet clear at this time. I have an image that the negative factors will be around JPY1 billion. We are not sure exactly what is going on, but we are trying to minimize the impact by restoring the system as soon as possible. We are going to do our best to achieve this.

Therefore, although demand for Engineering Plastics & Fine Chemicals is returning, negative factors are likely to occur on the supply side and the production side.

Questioner A: That was the second thing, so let me just confirm one thing about that. Even in the absence of ammonia, can you procure ammonia from another company and make lactam to sell? Is that still too tough for you? Please tell me about lactams in Japan. If they cannot be made in Japan, is it possible to bring them from Thailand? Please include that as well. That is all.

Fujii: We are currently working on a variety of measures, including external procurement of raw materials, so we will continue to examine these possibilities and take measures to minimize the impact.

Questioner A: I understood. Thank you very much.

Questioner B: I am looking at pages 19 and 20 of the materials you gave us, and I would like to confirm the change in profit from Q2 to Q3.

The first point is that sales of Specialty Products in the chemicals segment increased by JPY300 million QoQ, while profits increased by JPY400 million. Regarding these sales, I guess that the sales of about JPY1 billion in Electrolytes in the quarter disappeared, and you added this back up, and then the sales actually increased by JPY1 billion, and based on that, is it correct that profits have increased by about JPY400 million?

Fujii: If you look at the difference between the second quarter and the third quarter, as you understand, the decrease was due to Electrolytes being removed. On the other hand, sales of Specialty Products such as separators and ceramics are on the rise. The level of polyimide and the level of separation membranes are about the same, so your understanding is correct.

Questioner B: Was the Polyimide Business flat in Q2 and Q3?

Fujii: Sales were flat. Profits were up slightly. The reason why sales were almost flat is because of the difference in the composition of the contents.

Questioner B: I see. Is the increase in profit more like a growth in varnish?

Fujii: In terms of volume, both films and varnishes have grown, but the ratio of varnishes is larger.

Questioner B: Thank you very much. In addition, the investment tone for separators was a little more cautious than in the past because of the tough price competition according to the briefing three months ago. Also, since we are talking about EVs and electrification in Japan, has your Company made any plans to be a little more aggressive in this area?

Fujii: In the field of Separators, the market itself is expected to expand significantly, but the Chinese market is where the price competition is very fierce. Even if we are able to secure the volume, we tend not to contribute much to the profit, so we do not follow the price competition in the Chinese market too much but target those who appreciate the performance and quality of our products.

Therefore, the speed of growth in terms of volume and other factors may be a little slower than the market as a whole. However, we have not changed our policy to grow the Separator Business firmly.

Questioner B: Thank you very much. The second point, also on page 20, is about Construction Materials. This is mainly due to the QoQ increase in sales of Cement and Ready-Mixed Concrete, but please explain whether or not there were any changes in the Automobile-related Business, such as the business of Ube Material Industries, from Q2 to Q3.

Fujii: In the area of the increase in Construction Materials from the second quarter to the third quarter, in this area related to Construction materials and Limestone related products, the profit section is on page 20. There was positive JPY400 million in Construction materials and limestone related products.

Ube Material Business in Electrical Materials and Fine Products for automobiles is recovering, and sales to the steel industry are just beginning to pick up. However, the recovery of magnesia clinker for refractories is still slow. Therefore, the recovery in demand for Ube Material products and the growth in volume are considered as factors that contributed to the increase from Q2 to Q3.

Questioner B: I understood. That's all. Thank you very much for the explanation.

Fujii: Thank you very much.

Questioner C: The first point I would like to confirm with you is on synthetic rubber again.

In the table on pages 19 and 20 earlier, I believe the sales of synthetic rubber increased by JPY1.1 billion from the second quarter to the third quarter, and the operating profit increased by JPY1 billion. From the second quarter to the third quarter, I think the price of butadiene has risen, so I would like to ask why sales growth and profit growth are the same in this phase? Based on this, is it correct to assume that a decline in butadiene prices in the fourth quarter will directly contribute to increased profits?

Fujii: From the second quarter to the third quarter, that was due to volume factor attributed to the large recovery mainly in domestic sales volume. Therefore, the increase in sales is mainly due to the increase in volume. On the other hand, the spread has been compressed in some areas due to the soaring price of butadiene, a raw material, et cetera. However, we are aware of the increase in profits due to the increase in volume.

Questioner C: If that is the case, is it possible that from the third quarter to the fourth quarter, the price of raw materials will go down, but the price of products will also go up, including some parts that are subject to the timing difference?

Fujii: We believe that there is a time lag in this area, so the product price will reflect the soaring raw material prices until the third quarter. On the other hand, we are expecting the spread to widen as the price of raw materials itself is decreasing.

Questioner C: One more point. I would like to ask you to add a little bit about ammonia. How long has it been stopped due to the failure? I think next year is the year for skipping regular repairs, but I would like to ask if there will be any kind of regular repairs again in response to this problem. Please let me confirm those two points. Thank you.

Fujii: The ammonia facilities have been stopped or temporarily shut down since last Monday on January 25. We are currently working with all parties concerned to restart the facilities as soon as possible.

There will be no regular inspection next year. Basically, we don't think that we will need to conduct a regular inspection next year because of what happened this time, but we can't say anything definite about that at this point because we don't have a clear view of that yet.

Questioner C: I understood. Thank you very much.

Questioner D: I know that you did not originally announce your Company plan for the third quarter, but after the third quarter results, can you tell us the upside and downside of your assumptions by segment, to the extent possible?

Fujii: In terms of the Chemicals, Construction Materials, and Machinery, we are aware that the Chemical Segment has been performing slightly better than expected. I am getting the impression that the recovery from coronavirus has been a little faster than expected.

As for Construction Materials, we are also aware that the trend has been higher than expected. Normally, sales and profits tend to increase from the second quarter to the third quarter, due to seasonal factors or business characteristics, but this time, the increase was particularly large compared to previous years.

This is partly due to the increase limestone related products in Ube Material Industries, as mentioned earlier, and partly due to the fact that electricity prices have skyrocketed due to the cold wave, which has had an effect on the sale of surplus electricity. That's how we're seeing the upside.

In terms of Machinery, we expect that sales of the machinery will be almost on par with the plan. In the past, shipments were concentrated in the fourth quarter, or rather at the end of the fiscal year, so we need to make sure that we ship as planned. This is how I feel about achieving the planned line.

Questioner D: Just to confirm, in the area of Chemicals, the products that have increased are caprolactam and polyimide, right? Also, regarding Construction Materials, please let me check if there has been any kind of advance shipment in this area?

Fujii: The Chemicals Sector is generally on a recovery track. As for synthetic rubber, as I mentioned earlier, there are fluctuations in the spread between raw material prices and the price of synthetic rubber, but from the point of view of the recovery trend, we are aware that the recovery is in general progressing.

In addition, we are not aware of any major factors with timing difference in Construction Materials.

Questioner D: I understood. The reason that you have kept the full-year plan unchanged is due to the ammonia problem that you mentioned earlier?

Fujii: There are such concerns, and there are also other risk factors, such as the fact that the impact of the coronavirus crisis has not yet subsided on a global scale and the impact of the semiconductor industry on automobile production. On the other hand, there are also positive and expected factors such as construction materials and other chemical products that can take advantage of recovery demand.

Questioner D: I understood very well. Thank you very much for the explanation.

Fujii: Thank you very much.

Moderator: We have run over the scheduled time, so this will conclude the question-and-answer session.

Please note that the Finance & Investor Relations Department will contact you tomorrow, or later, regarding any questions that we were unable to answer today.

Lastly, Managing Executive Officer of UBE INDUSTRIES, LTD. Fujii, would you like to say a few words?

Fujii: As I have just explained or you have just asked, the results for the third quarter include the sluggishness of the first half of the fiscal year, so the progress toward the full-year forecast is low compared to the full-year forecast. However, looking at the second half of the fiscal year alone, we believe that we are slightly ahead of the plan.

As for the future, the first thing we need to do is to quickly fix the current plant problems in the chemicals sector. We will also work to capture the demand for products that continue to recover, including in other sectors. First of all, we would like to make sure that we achieve our current business forecast.

Thank you very much for your participation. Let me finish my explanation.

Moderator: We will close the conference call. Thank you very much for your participation.

[END]