



Ube Industries, Ltd.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2022

February 2, 2022

Event Summary

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[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. 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 FY2021, followed by a question-and-answer session. The entire meeting is scheduled to take 45 minutes.

Before we begin the conference call, I would like to issue a notification to everyone. All forward-looking statements 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.

Now, let's begin the explanation of the financial results. Executive Director Fujii, if you would.

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 our consolidated financial results for the third quarter of FY2021, which were announced today.

3rd Quarter of the FY2021

Scope of Consolidation

Item	End of FY2020 (A)	End of FY2021 3Q (B)	Difference (B) - (A)	Notes
Number of consolidated subsidiaries	66	67	1	+ UBE Elastomer Co. Ltd. + UBE HIGH CO., LTD - Yamaishi Metal Co., Ltd.
Number of equity method affiliates	26	27	1	+ Mitsubishi UBE Cement Corporation (formerly C Integration Arrangement, Ltd)
Total	92	94	2	

3

Page numbers appear at the bottom right of the document. The first slide, on page three, starts with the consolidated companies. Regarding the number of consolidated subsidiaries, the number of companies increased by two and decreased by one, resulting in an increase of one.

These companies are listed in the right-hand column. One of the companies that was added is UBE Elastomer Co. Ltd. In the second half of this fiscal year, we spun off our synthetic rubber business and made it a consolidated company.

In the third quarter, we established a special purpose company (SPC) to invest in a fine chemical joint venture in China, and it is included among our consolidated subsidiaries.

On the other hand, in the third quarter of this fiscal year, the shares of Yamaishi Metal, the company that left our group, were transferred to Furukawa Co., Ltd.

The number of affiliated companies accounted for by the equity method increased by one. It is Mitsubishi UBE Cement Corporation, which was originally established in the first quarter as C Integration Arrangement Corporation to prepare for the integration of the cement business next fiscal year. It changed its name on January 1.

As for the impact on consolidated business results, we will incur preparation costs as a preparatory company for the integration. This will have an impact on investment profit and loss under the equity method, which will be included in non-operating income and loss.

3rd Quarter of the FY2021

Environmental Factors

Item			FY2020 3Q (A)	FY2021 3Q (B)	Difference (B) - (A)	
Exchange Rate		Yen/\$	106.1	111.1	5.0	
Material Price	Naphtha	CIF	\$/ t	363	673	310
		Domestic	Yen/KL	28,800	53,900	25,100
	Benzene (ACP)		\$/ t	427	977	550
	Australian Coal (CIF)		\$/ t	77.3	156.5	79.3
			Yen/t	8,198	17,387	9,189

4

The next slide, on page four, shows environmental factors. In exchange rates, the yen has weakened slightly compared with the same period last year.

As shown here, the prices of naphtha, benzene, and coal have risen considerably compared with the same period last year.

Major P/L Items

Item	(Billions of yen)			
	FY2020 3Q (A)	FY2021 3Q (B)	Difference (B) - (A)	Percentage change
Net sales ^{*1}	438.9	476.6	37.6	—
		538.6	99.6	22.7%
Operating profit	13.8	32.8	19.0	137.5%
Ordinary profit	10.5	30.6	20.0	189.6%
Profit attributable to owners of parent	8.9	18.0	9.1	101.7%

*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 the Accounting Standard for Revenue Recognition.

5

The next slide, on page five, shows the main items, including profit and loss items.

Net sales totaled JPY476.6 billion in the just-ended third quarter. Sales increased by JPY37.6 billion from the previous year. As the accounting standard for revenue recognition has been applied from the current fiscal year, sales based on the previous standard are shown in parentheses in two columns. On the pre-existing basis, sales were JPY538.6 billion, which is an increase of JPY99.6 billion.

Operating income was JPY32.8 billion. Compared with the same period of the previous year, income increased by JPY19 billion. The rate is 137.5%. Actual ordinary income was JPY30.6 billion, an increase of JPY20 billion from the same period last year. The rate is 189.6%.

Net income attributable to shareholders of the parent company was JPY18 billion. That's an increase of JPY9.1 billion yen from the same period last year. This means a 101.7% increase in profit.

In the first half of FY2020, with the spread of the new coronavirus, demand dropped sharply. In addition to this, last fiscal year was the mandatory maintenance year for ammonia, and our performance deteriorated significantly. We have been in a recovery trend since the second half of last year, and in the third quarter of this fiscal year, which is the three months from October to December, both sales and profits increased on year.

Net Sales and Operating Profit by Segment

(Billions of yen)

	Segment	FY2020 3Q (A)	FY2021 3Q (B)	Difference (B) - (A)	Percentage change
Net sales	Chemicals	179.7	247.6 <i>*1 254.8</i>	67.9 75.1	- 41.8%
	Construction Materials	212.3	161.4 219.0	(50.9) 6.6	- 3.1%
	Machinery	54.5	70.7 67.9	16.2 13.4	- 24.7%
	Others	2.3	2.4 2.4	0.1 0.1	- 7.1%
	Adjustment	(10.0)	(5.7) (5.7)	4.2 4.2	- -
	Total	438.9	476.6 538.6	37.6 99.6	- 22.7%
	Operating profit	Chemicals	1.5	26.0	24.4
Construction Materials		11.0	3.5	(7.5)	(68.2)%
Machinery		1.0	3.2	2.1	200.8%
Others		0.3	0.3	0.0	19.4%
Adjustment		(0.1)	(0.2)	(0.0)	-
Total		13.8	32.8	19.0	137.5%

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

6

The following is a breakdown of net sales and operating income by segment.

In the current fiscal year, the chemicals sector is performing well, backed by strong demand in the first half of the year. In contrast, the construction materials sector struggled due to sluggish domestic demand and soaring coal prices. The situation remained the same in the third quarter. We view it as having become more pronounced.

As for the figures, net sales in the Chemicals Segment increased by JPY67.9 billion YoY.

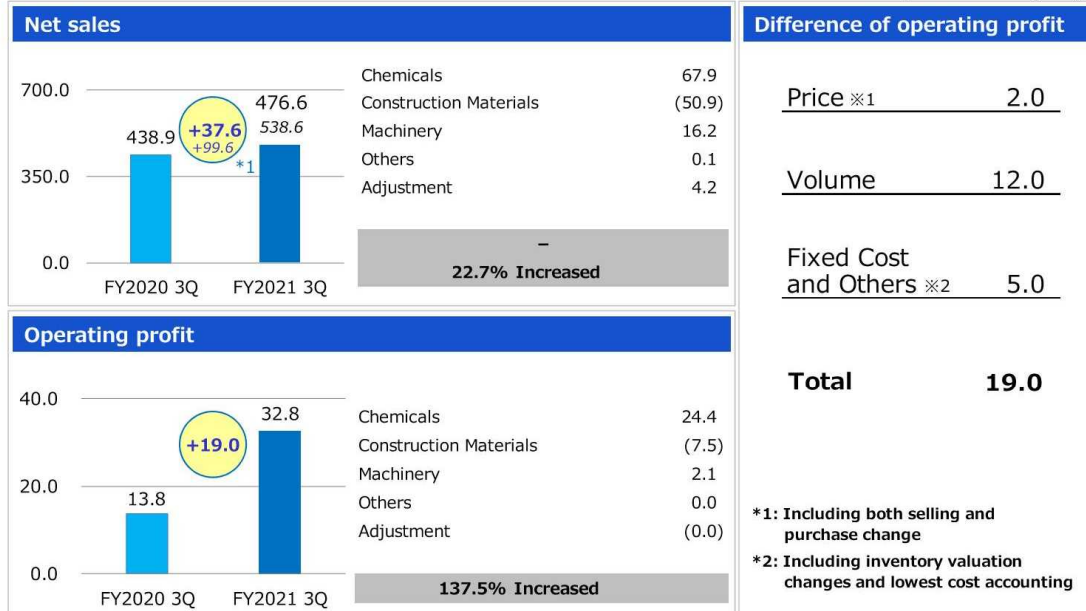
Sales of construction materials decreased by JPY50.9 billion. Since the revenue recognition standard has a large impact on Construction Materials, on the pre-existing basis that was an increase in sales of JPY6.6 billion.

In the Machinery Segment, sales increased by JPY16.2 billion compared with the same period last year, resulting in a total sales increase of JPY37.6 billion, as I mentioned earlier.

As for operating income, shown in the lower part of the table, I said that the overall increase was JPY19 billion. This includes a significant increase of JPY24.4 billion in Chemicals. On the other hand, Construction Materials decreased by JPY7.5 billion. The Machinery Segment reported an increase of JPY2.1 billion.

Analysis - Total

(Billions of yen)



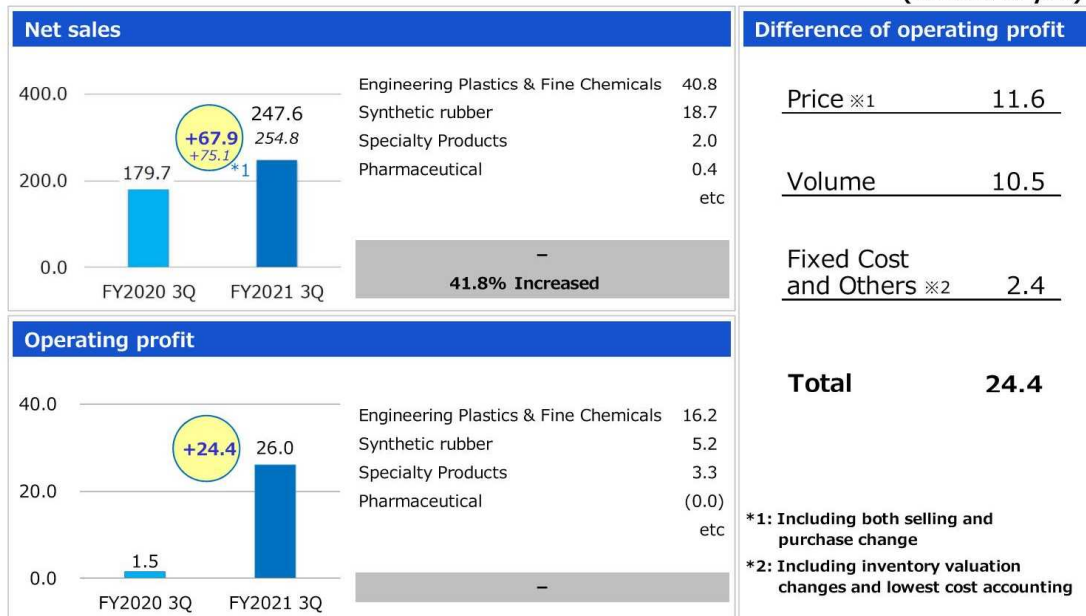
*1: Figures shown in italics are before applying the Accounting Standard for Revenue Recognition.

In the slide on page seven, you can see the breakdown of sales and operating income by segment.

In a breakdown of the difference in operating income, shown on the right, the price difference is a positive JPY2 billion. The volume difference is JPY12 billion. The breakdown of increases in fixed costs and other expenses is JPY5 billion.

Analysis - Chemicals

(Billions of yen)



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

Let's move on to page eight. This is an explanation of the breakdown by segment.

Looking at the overall situation in the chemicals segment, demand is generally recovering, especially in the first half of the fiscal year in the automotive sector, where the impact of the coronavirus pandemic was significant last year.

Sales volume is increasing for almost all products. As you saw earlier, although there has been a sharp rise in raw material prices, we have been able to revise product prices against a backdrop of tightening supply and demand.

We are also expanding sales of functional products such as polyimide in the electronic materials field, separation membranes for the industrial field, and ceramics. In addition, there will be no biennial mandatory maintenance for ammonia this year, which is a positive factor.

The left-hand side of the slide shows sales, which as I said earlier, increased by JPY67.9 billion in the Chemicals Sector. The breakdown by sub-segment is shown here, with the largest increase, of JPY40.8 billion, being in engineering plastics & fine chemicals.

The price of nylon and lactam has improved significantly. As for industrial chemicals, the ammonia market is rising, and volume is also increasing due to the lack of mandatory maintenance.

Synthetic rubber was JPY18.7 billion. The price of synthetic rubber has also risen considerably, and volume has also increased.

Also, sales of specialty products increased by JPY2 billion. In the area of specialty products, the electrolyte business is no longer included in consolidated sales because since the second half of last year we have held equity in the company under a joint venture structure with Mitsubishi Chemical Corporation.

Although this had a negative impact, the increase in sales of specialty products, such as polyimide, separators, separation membranes, and ceramics, is reflected in the increase in sales.

As for pharmaceuticals, there was an increase in royalty income and revenue from contracted products. On the other hand, shipments of our own products were lower than in the previous year, resulting in a net increase of JPY400 million.

As for operating income, which is shown in the lower section, the overall increase in chemicals was JPY24.4 billion. The breakdown by sub-segment is JPY16.2 billion for nylon and fine chemicals. This is the biggest one and includes the widening of the spread of nylon and lactam, etc.

In addition, the volume of industrial chemicals increased due to the absence of mandatory maintenance for ammonia. In addition, prices have been increasing, which has contributed to a significant increase in profits.

Synthetic rubber was JPY5.2 billion. The price has also increased here, and the spread has improved. Particularly in the third quarter, as the price of the raw material butadiene fell, the spread widened, leading to increased profits.

So, profit increased by JPY3.3 billion for specialty products. Regarding specialty products, as I mentioned in the sales section, sales of polyimide and other specialty products in general are expanding. These increases in profit are contributing to growth.

In terms of profit and loss, the pharmaceuticals business is almost at the same level as in the previous year.

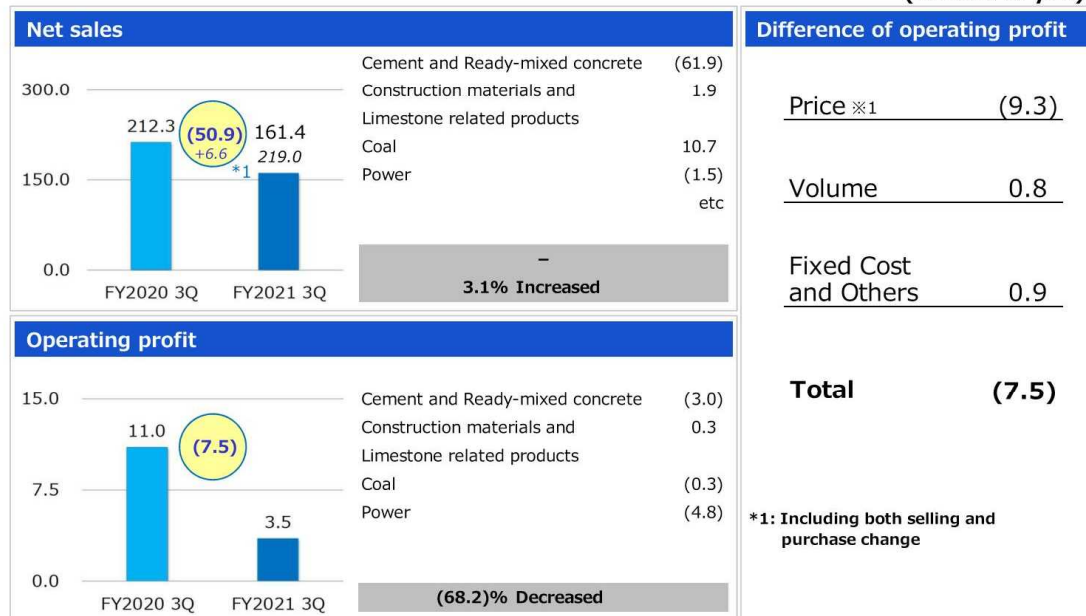
As you can see on the right, the price difference is JPY11.6 billion. The major factor is the improvement in the spread of basic chemical products such as nylon, lactam and synthetic rubber.

On the other hand, there is a JPY10.5 billion increase in volume difference. Overall, the volume of almost all products increased, with specialty products doing particularly well.

In addition, fixed costs and other expenses added JPY2.4 billion, of which JPY2.9 billion is included as a valuation difference on inventories. In total, an increase in profit of JPY24.4 billion was achieved.

Analysis – Construction Materials

(Billions of yen)



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

9

The next slide, on page nine, is on Construction Materials. In general, sales have been significantly affected by the change in accounting standards, so sales have been significantly negative.

In the current fiscal year, domestic demand for cement has been sluggish in general, and weather factors, such as long periods of rain, have also contributed to sluggish growth. As a result, domestic shipments have been sluggish.

Also, the IPP's biennial mandatory maintenance was implemented this year. Here, the higher costs are in comparison to the previous year. The overall situation is that the cost of cement and other energy sector businesses are experiencing very difficult conditions due to the impact of soaring coal prices.

As for the figures, sales in the segment as a whole decreased by JPY50.9 billion, but sales of cement and ready-mixed concrete, which are greatly affected by the accounting standards, decreased by JPY61.9 billion.

As for construction materials and limestone related products, demand is recovering for steel and refractories for Ube Material Industries' products. In these areas, this sector has experienced a positive impact.

The increase of JPY10.7 billion in coal sales is largely due to the soaring price of coal.

In the power business, there was a negative impact of JPY1.5 billion, but this was due to a decrease in the volume of electricity sales as a result of the mandatory maintenance.

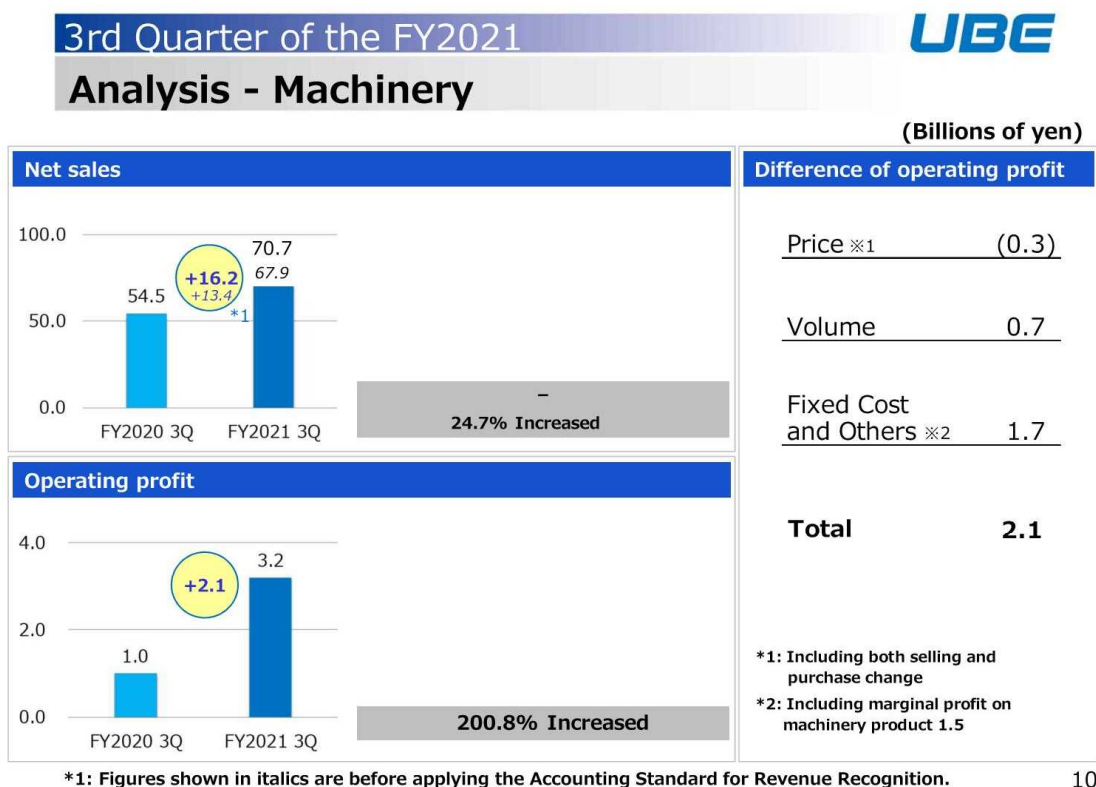
Operating income decreased by JPY7.5 billion for the segment as a whole. This includes a decrease of JPY3 billion in cement and ready-mixed concrete. This is where the impact of higher coal prices and higher costs are significant.

In the construction materials and limestone related products business, as I mentioned in the sales section, there was an increase in sales of products such as calcia and magnesia of Ube Material Industries, but at the same time, energy costs rose, so the increase in profit was limited to JPY300 million.

Coal saw a profit decrease of JPY300 million due to the rise in coal prices. For the power segment, the decrease was mainly due to the IPP mandatory maintenance. It was also affected by the rise in the price of the raw material, coal.

On the right-hand side you can see that the price difference is minus JPY9.3 billion. Soaring prices of raw materials and fuels such as coal and oil are having an effect on electricity, cement, and Ube Material Industries.

The volume difference is an increase of JPY800 million. The increase in volume due to the recovery in demand from Ube Material Industries is having an effect here. In addition, fixed costs and other expenses increased by JPY900 million. This includes IPP mandatory maintenance.



The next slide, on page 10, covers the Machinery Segment.

In terms of the overall picture of the machinery segment, inquiries and demand for automobile-related capital investment projects, which were depressed last fiscal year due to the new coronavirus, are on a recovery track this fiscal year. Although there are regional differences in the state of recovery, China and the US are experiencing steady recovery.

As for industrial machinery, we are making steady progress in the projects for which we have already received orders. In the service business, both orders and sales have been strong. In the steel product business, the price of raw material scrap has soared and remains at a high level, but demand has been steady.

Regarding the figures, the segment as a whole saw an increase of JPY16.2 billion. Sales of molding machines, industrial machinery, and steelmaking increased. Operating income also increased, by JPY2.1 billion. This increase was also due to the increase in sales, and the molding machinery, industrial machinery and steel product businesses all increased their profits.

On the right-hand side you can see the price difference is negative JPY300 million and the volume difference is positive JPY700 million, and these are the effects of volume prices in the steel product business. For fixed and other costs, it was JPY1.7 billion. As shown below in *2, marginal profit in Machinery of JPY1.5 billion is included.

3rd Quarter of the FY2021

Operating Profit – Profit attributable to owners of parent

Item	(Billions of yen)		
	FY2020 3Q (A)	FY2021 3Q (B)	Difference (B) - (A)
Operating profit	13.8	32.8	19.0
Non-operating income (expenses)	(3.2)	(2.2)	1.0
Net interests expenses	0.1	0.2	0.0
Share of profit (loss) of entities accounted for using equity method	0.4	(0.8)	(1.2)
Foreign exchange gains (losses)	(0.8)	0.6	1.5
Others	(2.9)	(2.3)	0.6
Ordinary profit	10.5	30.6	20.0
Extraordinary income (losses)	1.5	(2.5)	(4.0)
Profit before income taxes	12.1	28.0	15.9
Income taxes and profit (loss) attributable to non-controlling interests	(3.1)	(9.9)	(6.8)
Profit attributable to owners of parent	8.9	18.0	9.1
Net income per share	88.73 yen	183.34 yen	94.61 yen

11

Next is operating income, which as I mentioned earlier, was JPY32.8 billion. As for non-operating income and expenses, the actual figure was a negative JPY2.2 billion. Compared with the same period in the previous year, there was an improvement of about JPY1 billion.

The breakdown is as shown here. Equity in earnings of affiliates fell JPY1.2 billion, which was worse than the previous year.

Regarding construction materials, there was deterioration in the performance of Ube-Mitsubishi Cement Corporation, which is a sales company. Then there is the cost of preparing for the integration, which, as I mentioned, is the cost of the integration preparation company that will be done under the equity method. This kind of thing is a negative factor.

Foreign exchange gains and losses increased by JPY1.5 billion compared with the previous year due to a weaker yen.

After subtracting these factors, ordinary income was JPY30.6 billion. As for extraordinary profit and loss, it was minus JPY2.5 billion, which is about JPY4 billion worse than the previous year.

In the previous year, due to the reorganization of group companies there was a gain on the extinguishment of tie-in shares, and due to the reorganization of the electrolyte business there was a gain on the change in equity interest. The difference caused by these gains makes the on-year fall look big.

Finally, net income attributable to shareholders of the parent settled at JPY18 billion.

3rd Quarter of the FY2021

Consolidated Balance Sheet

(Billions of yen)

Item	End of FY2020 (A)	End of FY2021 3Q (B)	Difference (B) - (A)
Current assets	331.7	361.7	30.0
Fixed assets	437.8	432.1	(5.6)
Total assets	769.7	794.0	24.3
Interest-bearing debt	214.7	215.7	1.0
Other liabilities	174.3	200.5	26.2
Total liabilities	389.0	416.3	27.2
Shareholders' equity *1	359.0	356.6	(2.3)
Non-controlling interests and others	21.6	21.1	(0.4)
Total net assets	380.6	377.7	(2.8)
Total liabilities and net assets	769.7	794.0	24.3

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

12

Next, the slide on page 12 shows balance sheet items.

Total assets were JPY794 billion at the end of December. There was an increase of about JPY24.3 billion compared with the end of the previous fiscal year.

Sales, etc. are increasing, and raw material prices are rising. As a result, accounts receivable and inventories have been growing.

Interest-bearing debt was about the same level as at the end of March, at JPY215.7 billion. As for shareholder's equity, the actual figure is JPY356.6 billion, which is JPY2.3 billion lower than the figure at the end of March.

At the end of December, shareholder's equity was slightly lower than the March level due to the payment of dividends and the JPY10 billion share buyback though there are net income for the quarters.

Consolidated Statements of Cash Flows

(Billions of yen)

Item	FY2020 3Q	FY2021 3Q	
A.Cash flows from operating activities	38.6	16.8	Profit before income taxes 28.0 Depreciation and amortization 27.1 Increase / Decrease in working capital (31.9) Income taxes paid (5.0) etc.
B.Cash flows from investing activities	(32.5)	(27.6)	Acquisition of PP&E (25.0) etc.
Free cash flows (A+B)	6.0	(10.7)	
C.Cash flows from financing activities	20.2	(19.5)	Dividends paid (9.1) Buy back of shares (10.0) etc.
D.Net increase/decrease in cash and cash equivalents	27.2	(30.0)	
E.Cash and cash equivalents at end of the quarter	67.8	49.6	

13

Next, on page 13, we will look at cash flow. Actual cash flow from operating activities was JPY16.8 billion. As I mentioned earlier in the balance sheet section, working capital is in a recovery trend, so it is increasing.

Net cash used in investment activities was JPY27.6 billion. As a result, free cash flow was a negative JPY10.7 billion.

Net cash used in financing activities was JPY19.5 billion, due to dividend payments and share buybacks. We took these measures by reducing cash and cash equivalents, and finally the balance in cash equivalents came to JPY49.6 billion at the end of the quarter.

The above is a summary of our financial results for the third quarter. Regarding the forecast for the full year, we announced a revised forecast on October 22, 2021. We have left that number unchanged.

Progress of Major P/L Items

(Billions of yen)

Item	FY2020 Results (A)		FY2021 Forecasts (B)		Difference (B) - (A)	
		3Q Progress		3Q Progress		3Q
Net sales	613.8	438.9 71.5%	635.0	476.6 75.1%	21.1	37.6
Operating profit	25.9	13.8 53.4%	39.0	32.8 84.2%	13.0	19.0
Ordinary profit	23.2	10.5 45.4%	33.5	30.6 91.4%	10.2	20.0
Profit attributable to owners of parent	22.9	8.9 39.1%	19.5	18.0 92.8%	(3.4)	9.1

16

The status of progress toward the full-year forecast is shown on page 16 of the reference materials at the back.

We have made progress of 75% in net sales, 84% in operating income, 91% in ordinary income, and 92% in net income attributable to owners of the parent.

Operating Profit

(Billions of yen)

Segment	FY2021					Full-year (forecast)	Progress
	1Q	2Q	3Q	4Q	Total		
Chemicals	7.6	6.9	11.4	–	26.0	28.0	93.0%
Construction Materials	0.6	1.3	1.4	–	3.5	6.0	58.5%
Machinery	0.7	1.6	0.8	–	3.2	5.0	64.1%
Others	0.0	0.1	0.1	–	0.3	0.4	92.5%
Adjustment	(0.2)	0.1	(0.2)	–	(0.2)	(0.4)	–%
Total	8.9	10.1	13.7	–	32.8	39.0	84.2%

18

As for progress in operating income, the breakdown by segment is shown on page 18 of the reference materials, and if you look at this page, you will see that the chemicals division is driving the upward progress.

In the chemicals business, we have been blessed with a favorable business environment, but overall, we expect such conditions to continue for the time being. Although there are some concerns and downside factors in the future, we believe that there is a very high possibility that we will exceed the planned figures.

Although we expect Machinery to remain almost as forecast, we expect Construction Materials to remain in a difficult situation for the time being. Therefore, we expect that it will be difficult to avoid undershooting the plan in Construction Materials.

Overall, we believe that the positive factors in the chemical segment will be greater than the negative factors. However, there are still many uncertain and fluctuating factors in the business environment, so it is difficult to make a quantitative forecast with some level of accuracy at this time. At this point, we have decided to leave our earnings forecast unchanged. That's all I have to say.

Moderator: Thank you very much.

Question & Answer

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

Please ask your questions in the format of one question to one answer. In order for us to answer questions from as many people as possible, please limit yourself to two questions each at a time. We will now begin the question-and-answer session.

Questioner A: Thank you for taking my questions.

Fujii: Yes, you are welcome.

Questioner A: I would like to ask two questions. Now that I have heard about the progress, I would first like to eliminate the risks, so I would like to focus on Construction Materials. The fact that profits did not increase in the third quarter, which is the original demand period, suggests that the situation is quite severe.

Was the increase in coal prices properly reflected in the cost price in the third quarter, and will the cost of production not increase much in accounting from the third to the fourth quarter? In other words, will the difference between the receipt and payment of variable costs not be too much worse, or will the cost of goods increase further in accounting in the fourth quarter?

In addition, I think you mentioned that the price will be raised in January, but I would appreciate it if you could tell us your thoughts on the situation. Thank you.

Fujii: First of all, as for the reflection of the coal price in accounting, as you understand, it is through inventory, so it will take some time before the actual cost is reflected. As a result, the cost increase factor was greater in the third quarter than in the first half.

As for the price of coal, it soared in the third quarter, and then calmed down somewhat due to China's price policy and other factors, but it has since risen again due to the embargo in Indonesia. We are still in a situation where the level is quite high.

We will have to wait and see how the situation develops in the future, but we expect that the cost increase factors will be more pronounced from the third quarter to the fourth quarter.

As for the price increase, as you know, UBE-Mitsubishi Cement Corporation has announced a price increase of JPY2,200 or more per ton from January shipments, and we are negotiating with our customers.

We believe that our customers have a certain level of understanding of the situation. As for the specific amount and progress, we are still in the process of negotiating, so I will refrain from giving details, but we are working diligently on those matters.

Questioner A: I see. "A certain level of understanding" means that even if the price will not rise in earnest until April, we can expect the price will be supplemented somewhat in the fourth quarter?

Fujii: I am hoping that the current fiscal year will make some contribution, even if it is small.

Questioner A: Yes, I understand. Thank you.

Here is my second question. Chemicals appear to have stayed strong in the third quarter, and looking at the chart on page eight and the tables on pages 19 and 20, it appears that sales of synthetic rubber and other materials related to automobiles were strong in the third quarter as well.

I know that there has been some talk about automobile production adjustments, but I would like to know how you see the risk of a sharp slowdown in the fourth quarter for automobile-related materials.

Also, butadiene prices have been plummeting. What are your thoughts on the impact of this, and could you explain them separately for the third and the fourth quarters? Thank you.

Fujii: First of all, I think what I reported on page 20 of the reference materials is the movement from the second quarter to the third quarter.

In the area of engineering plastics & fine chemicals, the lactam chain is also performing relatively well. One of the major factors is that the price of ammonium sulfate has risen considerably in the third quarter and this makes a positive impact.

In terms of materials related to automobiles, as you pointed out earlier, there is basically no impact on nylon polymers, but there is some impact on nylon composites.

It is not that big of a deal, and we regard it as being limited, but we are seeing a certain amount.

As for synthetic rubber, since there was mandatory maintenance in the second quarter, the third quarter will be larger than the second quarter.

In addition, the spread widened in the third quarter when prices of the raw materials butadiene fell.

As for demand, I think there is an impact from production cutbacks for new vehicles, but on the other hand, secondary demand for replacement tires has been strong, so we are not aware of any particular decrease in demand.

Questioner A: I see. The price of butadiene has dropped considerably recently, but I wonder if the spread is likely to remain high in the fourth quarter.

In the first half, the operating income of synthetic rubber was JPY2.7 billion higher than the same period last year, and for the first three quarters, it is JPY5.2 billion higher than the same period last year, so the operating income for the third quarter is JPY2.5 billion higher than the same period last year.

Is this mainly due to improvement in the spread? I'm sorry, but could you explain a bit more?

Fujii: In the case of butadiene, there is a time lag before the price is reflected in the product price, and the spread widened in the third quarter because the price of raw materials fell while the product price has not fallen that much yet.

In the fourth quarter, the price of butadiene, which has already fallen, will be reflected, and we believe that the product price spread will be reduced.

Also, comparing the third quarter with the third quarter of the previous year in terms of three months, the spread factor is still big here.

Questioner A: I see. Is it correct to assume that it went too far in the third quarter for those reasons, but that even in the fourth quarter, given the contraction in that area, the good progress in Chemicals that you mentioned at the beginning will continue?

Fujii: That's right. As you mentioned, the third quarter was characterized by a combination of favorable business conditions, and given this, we expect the fourth quarter to be somewhat slower but still higher than planned.

Questioner A: Yes, I understand very well. Thank you.

Fujii: Thank you very much.

Questioner B: Thank you for this opportunity.

Fujii: You're welcome.

Questioner B: In the area of Chemicals, I would like to ask about specialty products.

I am looking at pages 19 and 20, the same as the previous person. Sales of specialty products increased by JPY1.3 billion compared with the second quarter, and profits also increased by JPY1.3 billion, which seems to be quite favorable.

Could you please comment on the reason? For example, prices are rising for some things, or products with very high limit margins are increasing, and so on.

Fujii: Yes. The profitability of specialty products in general is relatively high. In particular, some of our products have high-cost price gains, so the growth in profit relative to sales can be significant in such areas.

Many of specialty products in general are also increasing steadily from Q2 to Q3.

As I mentioned earlier about automobile-related products, separators were partially affected by the decline in automobile production, and the third quarter results were about the same as the second quarter results, but other specialty products are growing.

In particular, the polyimide business is recovering from an adjustment phase in the film business in the second quarter. In the area of varnishes, demand for varnishes for flexible OLEDs is increasing due to the increasing use of OLEDs in smartphones, and this is leading to an increase in sales and profits.

Questioner B: Would it be safe to assume that the profit level will remain at the same level in the fourth quarter?

Fujii: I mentioned that we increased the amount of varnish for polyimide, but this was partly due to the increase in inventory ahead of schedule due to the Olympic and Paralympic Games in China.

Given this, we expect there will be some reactionary decline in the fourth quarter, but it will not be a significant decrease.

Questioner B: Secondly, on the topic of engineering plastics & fine chemicals, you mentioned earlier that ammonium sulfate was strong in the third quarter. Could you please tell us more about expectations for ammonium sulfate going into the fourth quarter?

Fujii: Regarding ammonium sulfate, the background is that China has tightened the export of ammonium sulfate, and as a result, the price of nitrogenous fertilizers has risen in general.

However, China does not restrict the export of ammonium sulfate itself, so I think it is possible that ammonium sulfate could be produced in China and then marketed.

Although prices have calmed down somewhat recently, I believe they will remain at a somewhat high level for the time being.

Questioner B: Is it correct to understand that there is unlikely to be a sudden drop?

Fujii: At the moment, we are not expecting a sharp decline.

Questioner B: Yes, that's all. Thank you very much.

Fujii: Yes, thank you very much.

Questioner C: Thank you for taking my question.

Fujii: Yes, you are welcome.

Questioner C: I would also like to ask about Construction Materials on page 20 of the documentation.

First of all, the electric power business saw an increase of JPY600 million in the third quarter, but I heard that it takes three to four months to pass on high coal prices in the case of IPP, so can we assume that this was passed on in the third quarter?

And can we assume that you are already back to the margin situation you should be in? Or is there room for further improvement in the fourth quarter and beyond?

Could you please explain this area?

Fujii: Regarding trends in the power business from the second quarter to the third quarter, there is a quantitative positive factor in that biofuels have increased slightly.

Also, in the case of IPP, the price of coal is usually reflected in the price of electricity sold. There is a time lag, so when coal prices are rising sharply, there will be a negative impact due to the time lag.

In the second and third quarters, the price of coal reached a fairly high level, so the negative factors associated with the time lag are shrinking. This is the reason why there were fewer negative factors in the third quarter than in the second quarter.

If the price of coal stops rising to some extent, the negative factors related to IPP will cease as temporary factors, and the company will return to its normal level of profits and profitability.

On the other hand, when the price of coal starts to fall in the future, we expect to see a positive time lag.

Questioner C: In terms of the situation in the third quarter, have you returned to normal profitability, the level of profit that you should have? Or have they not got back there yet?

Fujii: In that sense, the effects of the time lag have not yet disappeared.

Questioner C: I see. I understand. So, you have a little more room to recover.

Fujii: Yes.

Questioner C: I understand. I'd like to ask you one more question.

On page 20 of the documentation, there is a minus JPY300 million for coal. I understood that the coal business was the purchase and sale of coal and the warehousing business, but why is there a negative factor here?

Fujii: As you pointed out, we have a contract for the purchase and sale of coal in which the price of the coal we purchase is linked to the price of the coal we sell, so basically there should be almost no difference in profit and loss here.

However, in the form of sales, once the product is sold through inventory, a valuation difference may occur in accounting.

So, I hope you can understand that this is not the actual situation, but the impact of the valuation difference in accounting.

Questioner C: So, there is room for improvement here if coal prices settle down a bit in the future.

Fujii: Yes. We believe there is room for improvement and for return, but it is not clear whether this will happen during this fiscal year or whether it will be carried over to the next fiscal year.

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

Fujii: Yes, thank you very much.

Moderator: Thank you very much. We are nearing the end of our time, so I would like to conclude the question-and-answer session.

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

Lastly, Mr. Fujii, Managing Director of Ube Industries, would you like to say a few words?

Fujii: Yes. As I mentioned in my presentation, in the third quarter of this fiscal year, the chemicals business continued to perform well due to a favorable business environment, while the construction materials business became increasingly difficult.

This situation is expected to continue for the time being, but there are also many other concerns such as automobile production, logistics, raw material and fuel prices, and more recently, geopolitical risks. There are many of these causes for concerns, and our view is that the future has become increasingly unclear.

Under these circumstances, we will closely monitor the changes and trends in the circumstances surrounding each business and strive to achieve our earnings forecasts and further increase our earnings while taking prompt action. Thank you very much for joining us today.

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

[END]