

Analyst Meeting for FY2013 Consolidated Results and FY2014 Consolidated Forecasts

Date: May 20, 2014

Presenter: Michio Takeshita, President

Briefing materials:

https://www.ube-ind.co.jp/ube/en/ir/ir_library/presentation/pdf/keiei_change_challenge_2014_en_17111521.pdf

<Questions>

Chemicals & Plastics segment

Q1:

How do you plan on correcting the roughly 4 billion yen loss in caprolactam (CPL), which resulted after shutting down production at the Sakai Factory?

A1:

First of all, we will steadily reduce costs at production bases in Ube, Thailand, and Spain. We will also improve our supply chains for ammonia and cyclohexane. In the case of ammonia, for example, we could jointly procure ammonia or swap products with our subsidiary, Ube Ammonia Industry, Ltd. We will probably aim to break even in CPL in fiscal 2016 with a combination of such strategies.

Q1-2:

The production of ammonia is falling in Japan. When you say “jointly procure,” are you also considering manufacturers overseas?

A1-2:

In terms of ammonia procurement for our domestic use, we have an overwhelming competitive advantage compared to import products and the price on the international market thanks to Ube Ammonia Industry, so we’re not worried. As for ammonia procurement outside the country in Thailand and Spain, that is something in which we would like to get aggressively involved.

Q2:

Regarding CPL, other companies in your industry are focusing on nylon. Won’t there be a collapse in prices for that, too? Or do you have a technological advantage?

A2:

CPL manufacturers have many different forms of business. They are all suffering, but since we have external sales of CPL and internal consumption of polyamide (PA), we can envision a recovery scenario. We also develop various grades of PA with our clients for use in film, automobiles, and compounds, just like we do in our butadiene rubber (BR) products. These kinds of efforts are really important.

Specialty Chemicals & Products segment

Q3:

Your Specialty Chemicals & Products business, which is positioned as a growth driver, is operating at a loss, and is facing extremely difficult business conditions. I'd like to ask about a rather long span following fiscal year 2015. Will there be a comeback in battery materials and polyimide (PI)? Or have falling prices for these two products been firmly established, now that the user map has changed, and will profitability ever return for your Specialty Chemicals & Products business without a number of other items emerging to take their place?

A3:

In the area of specialty chemicals, we had believed that if we had ten products in the 1.0 to 1.5 billion yen range, it would bring in sufficient revenue. At present, however, product life is extremely short in this area. We will have to focus our efforts, including R&D, on products with specific strengths designed to grow our business in this area.

If you consider future markets amid this environment, for example, the market for PI, then I believe there is great potential. Our PI film is receiving increasing recognition in the shift from rigid to flexible substrates and even thinner films. As for the PI chain, new applications are emerging, including separation membranes. In addition, there is likely to be growth in fine chemicals, namely environmentally friendly coatings and non-VOC paints.

For a time, we had set a revenue target of 10 to 15 billion yen in our Specialty Chemicals & Products business, but the scenario for that time has now collapsed. Moving forward, I think we'll have to change our viewpoint while focusing on how quickly we can approach 5 to 10 billion yen.

Q4:

Now a question about separators. You've been getting a good return through timely facility enhancements, but as far as taking advantage of the situation, won't it be difficult to apply your separators to automotive applications without first expanding your product capacity?

A4:

That isn't necessarily so. Keeping an eye on the market while making well-timed investments is the most effective way. It's true that lately, market of the low-priced Chinese market for smartphones, tablets, and Chinese-made electric cars are getting more challenging. Moving forward, we will be launching our 10th and 11th plants, so I would like to plan a comeback.

However, low-end Chinese competition is starting to surface, so entry in the market is not very appealing. We should target slightly higher-level customers.

Q4-2:

Market conditions don't seem tight, but, by increased capacity, do you mean that you plan to move into the market by lowering prices?

A4-2:

No. Automobile applications are taking time, but they will gradually start up. We have to be selective about our customers in marketing our products. At the same time as that, we have to figure out how to lower costs. We are cost competitive in dry process separator film, but all our competitors are trying hard, so we will get involved in cutting costs so that we won't lose.

Q5:

Regarding separators, I heard that a U.S. manufacturer with the same dry process has concluded a long-term agreement with a large Japanese battery manufacturer. I think it's for company T, but what are the chances UBE reaching an agreement with the same company?

A5:

We are keeping an eye on that, but it doesn't mean we should only place importance on that. Currently, our three-layer separators are becoming the de facto standard for automotive applications in Japan. However, this, too, will not last forever, so we will likely have to focus our efforts on ceramic coated separator substrates along with Hitachi Maxell, Ltd. They are highly rated for their safety and reliability. We should be well underway from the latter half of 2014. As part of this, we are also expanding our repertoire through licensing from LG.

Pharmaceutical segment

Q6:

Please tell us about your hopes for Prasugrel and future new products.

A6:

First of all, I think one of the reasons there was no growth in Prasugrel was that we didn't apply for acute coronary syndrome medical management (ACS-MM) (the treatment of ACS patients who are receiving medical treatment) in the U.S. and Europe. As for future projections in Japan, they are likely in line with the thinking of the distributor Daiichi Sankyo Company, Limited.

The antiglaucoma agent we are co-developing with Santen Pharmaceuticals Co., Ltd. is in Phase 2, but since it is an eye medication, we can't expect to ship all that much if it makes it to market, and therefore, license revenue will likely be our focus.

The R&D expenditure of our pharmaceutical business is about 2 billion yen, and while it will be difficult to keep putting out new drugs at the same pace as major

pharmaceutical manufacturers, we need to revise and strengthen our pipeline so there are no interruptions.

Cement & Construction Materials segment

Q7:

What is the current state of cement prices hikes?

A7:

First of all, the price hikes are mainly the result of Ube-Mitsubishi Cement Corporation, our joint venture with Mitsubishi Material Corporation. Spot contract prices are currently climbing, and particularly in Kyushu, we see healthy increases.

For ready-mix concrete, the price of aggregate, which has limited purchasing routes, is climbing, but because cement has many alternate routes, price hikes have had to be postponed.

Now about exports. Since domestic demand is booming, exports (even in the industry as a whole) have shrunk from 10 million to 8 million tons. While export profitability itself has improved, partly as an effect of the weakening yen, profitability is still higher in Japan. Future price hikes in Japan will probably be difficult unless domestic demand further tightens. However, even a one-yen increase would be a big increase in profit since we deal in 14 million tonnes.

Q8:

Now about cement. I understand the idea of creating relationships overseas in anticipation of a future drop in domestic demand. But will it lead to all that large of a profit? Please share your thoughts on that as well as on soil stabilizing cement and waste treatment.

A8:

The export price per tonne of cement has risen from the \$20 level to around \$40, and the exchange rate has gone to about \$1 = ¥100. But still, there is a huge difference between that and the domestic prices of 8,000 to 10,000 yen per tonne. Even when times are good in Japan, we do not recklessly cut overseas sales. We will be supporting our customers by monitoring their businesses in the medium and long term.

Waste treatment stood at 15 billion yen in fiscal year 2013, and in recent years the figure has been growing by about 1 billion per year. That trend is likely to continue. However, we are at full production capacity for cement, and there is little room for growth in the amount of waste we can treat, so we will increase profits by shifting to advanced recycling. That is why we are working on drying sewage sludge and carbonizing waste plastic.

Other topics

Q9:

What are your thoughts on the causes of and countermeasures for the many problems that occurred last year?

A9:

Japanese chemical manufacturers started experiencing frequent problems about two years ago. UBE was no exception. How to reduce them is a critical issue, but there are no quick and easy solutions. There are a variety of conceivable causes, such as facility deterioration and human resources issues. But the one thing I can say for sure is that companies must create a corporate culture in which all concerned parties can maintain concentration. We will refine our efforts thus far, including education and dialogue, as we connect with the next generation.