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Ube Group Unveils New Medium-Term Management Plan “Change & Challenge—Driving Growth”

The Ube Group, led by Ube Industries, Ltd. and its Group companies, today unveiled the outline of a new medium-term management plan for the next three years ending in fiscal 2015. The medium-term management plan has been named “Change & Challenge—Driving Growth”, after completing the previous “Stage Up 2012—New Challenges” medium-term management plan (fiscal 2010–2012). The outline of the new medium-term management plan is described below.

1. Summary of the Previous Medium-Term Management Plan “Stage Up 2012—New Challenges”

Following the impact of the collapse of Lehman Brothers in September 2008, which sent shockwaves through financial markets, the global economy steadily recovered and expanded, driven by markets in China and other developing nations. However, starting in mid-2011, factors such as fiscal worries in Europe and slowing growth in the Chinese market led to a widespread economic slowdown.

The Ube Group performed well above its projections in fiscal 2010, but the company fell short of achieving its fiscal 2012 targets as business conditions significantly worsened after the halfway mark of the medium-term management plan. Contributing factors included over-supply which comes from new and increased caprolactam production in the Chinese market, the slow development of the market for automotive lithium-ion batteries, and poor performance of the electronics and consumer electronics sector in Japan.

Meanwhile, the Ube Group made steady progress in addressing the priority task of improving the company’s financial position, as a result of a comprehensive managing emphasis on cash flow and continuing reduction of interest-bearing liabilities. Accordingly, the Ube Group absorbed costs involved in transforming its business structure, to successfully achieve its medium-term target of a net debt/equity ratio of less than 1.0 times.

Achievement of Numerical Targets

(Billions of yen – except where noted)

		FY2009 Results	FY2010 Results	FY2011 Results	FY2012 Results	FY2012 Target (Final Year of Stage Up 2012 Medium-Term Management Plan)
Key Figures	Net sales	549.5	616.1	638.7	626.0	670.0 or above
	Operating income	27.5	44.4	46.0	29.9	53.0 or above
	Adjusted operating income *1	29.3	47.1	47.9	32.1	55.0 or above
	Net interest-bearing liabilities	244.0	211.1	220.8	210.6	Below 220.0
	Equity capital *2	178.8	187.0	199.4	215.5	225.0 or above
Key Indicators	Net debt/equity ratio (times)	1.4	1.1	1.1	0.98	Below 1.0
	Equity ratio (%)	27.3	28.3	30.0	31.4	30.0 or above
	Return on sales (%)	5.0	7.2	7.2	4.8	7.5 or above
	Return on assets – ROA (%) *3	4.4	7.2	7.2	4.8	7.5 or above
	Return on equity - ROE (%)	4.7	9.4	11.9	4.0	12.0 or above

*1 Adjusted operating income: Operating income + Interest and dividend income + Equity in earnings of unconsolidated subsidiaries and affiliated companies

*2 Equity capital: Net assets – Share subscription rights – Minority interests

*3 ROA: Adjusted operating income / Average total assets

2. Outline of the New Medium-Term Management Plan “Change & Challenge—Driving Growth”

(1) Ube Group Vision

The Ube Group Vision was set as described below based on the principles of “coexistence and mutual prosperity” and “from finite mining to infinite industry” at the time of the foundation of the company.

“Wings of technology and spirit of innovation. That’s our DNA driving our global success. The Ube Group will embrace a frontier spirit in seeking to achieve coexistence with the global community driven by the limitless possibilities of technology, while continuing to create value for the next generation.”

The Ube Group was founded over 100 years ago in the Ube region as a coal mining operation, and has since continued to transform itself as times and industry change. During that time, technology and innovation have been two constant values running through the history of the Ube Group.

Our business activities center around “production” that is backed by technical ingenuity, combined with the ability to grasp modern needs and rise up to challenges without fearing change. The reach of the Ube Group today extends across the globe, yet we continue to hold true to the same common values that are embedded in our very DNA.

The Group Vision describes our ongoing commitment to embrace the pioneering spirit held in our founding principles. It also describes our commitment to co-exist with all stakeholders—including shareholders, customers, business partners, employees, and communities—and co-exist with the global environment, by continuing to create value as a corporate entity.

(2) Strategic Concepts

With the increasing uncertainty and volatility of business conditions, the Ube Group will aim for growth and expansion by emphasizing profits without worsening its financial position, in

order to be better positioned to ensure it will achieve growth over the medium- and long-term. Accordingly, in the three-year period starting from fiscal 2013, the Ube Group will take steps toward laying the foundations for its next leap of growth, in accordance with the positioning of its businesses and their strategic direction. In implementing this strategy, the employees of the Ube Group will embrace the Ube Group Vision and change their methods and approaches by making a break from convention, while willingly tackling new challenges.

(3) Values Prized Among the Ube Group

In the spirit of the founding principles of the Ube Group and the Ube Group Vision, Ube Group employees will share and apply the following three aspirational values in executing their daily work to realize “Change & Challenge—Driving Growth.”

- a. To provide customers additional value as a manufacturer and contribute to the global society
- b. To create and enhance new value by actively seeking new challenges
- c. To comprehend the essential issue deeply and act swiftly, thoroughly, and in a timely manner

(4) Management Strategies

- a. Strengthen the Revenue Base to Enable Sustainable Growth
 - i) Continue the business strategy emphasizing consolidated cash flow, and gradually increase forward-looking investment to achieve sustainable growth over the medium- and long-term while balancing strategic growth businesses with core platform businesses.
 - ii) Among strategic growth businesses, for the battery materials market which is anticipated to deliver strong growth, the Ube Group will prioritize the allocation of business resources to R&D to maintain and strengthen the company’s advantage as a frontrunner. Additionally, the Ube Group will concentrate on capital investment to cope with demand and succeed amid intensifying competition.

In segments that are positioned as strategic growth businesses but have not grown as expected due to poor business conditions, the Ube Group will revise its strategies and narrow the focus as necessary, while endeavoring to rapidly reposition the businesses and steer them toward growth.

- iii) Among core platform businesses, the Ube Group will actively allocate business resources and expand revenues in business segments (such as nylon resins and synthetic rubber) where the Group can leverage a competitive advantage by delivering high added-value and adding performance, and which are forecasted to see growing demand. For businesses whose mission is to maintain and secure steady profits and cash flow, the Ube Group will strengthen the business constitution and enhance the revenue-earning capability by securing cost reductions to address structural changes in business conditions, and restructure supply chains including resources and raw material procurement.
 - iv) The Ube Group will accelerate efforts to develop and foster new businesses in priority areas, focusing on the increasingly important energy and environment segment, aiming to rapidly generate revenues from these businesses.

b. Maximize the Global Strength of the Ube Group

- i) The Ube Group will strengthen its global marketing in order to spread the reach of its products and technologies as much as possible. These efforts will include further expanding the network of offices in developing countries, especially in the chemicals and machinery segments; establishing a marketing framework that is tailored to respective business characteristics and target markets; and reassigning personnel in order to actively develop new customers.

Accordingly, the Ube Group will globally share and use marketing assets including information about customers and product applications. The Group will further strengthen collaboration among Group companies by integrating administrative functions and utilizing and developing human resources, and raise the ability to adapt to activities with a broad regional reach to ensure that all bases are covered by the Group.

- ii) The Ube Group will pursue R&D that is closely bound to the needs of regional users through R&D centers in Japan, Thailand, and Spain, linking this to timely development of new businesses and new products.

c. Address and be Part of the Solution for Resource, Energy, and Global Environmental Issues

- i) As a socially responsible corporation, the Ube Group actively pursues initiatives for realizing a sustainable society, by reducing greenhouse gas emissions and energy consumption including electricity, and conserving biodiversity. In addition, the Ube Group will endeavor to develop technologies and products that help to expand the use of renewable energy, as well as conserve resources and reduce environmental impact, spreading the technologies and products and linking them to business growth.

3. Numerical Targets for New Medium-Term Management Plan

(1) Key Figures

	(Billions of yen)	
	Targets for Fiscal Year 2015	(Ref.) FY 2012 Result
Operating income	55.0 or above	29.9
Equity capital	270.0 or above	215.5

(2) Key Indicators

	Targets for Fiscal Year 2015	(Ref.) FY 2012 Result
Return on sales	7% or above	4.8%
Return on assets – ROA	7% or above	4.8%
Return on equity – ROE	12% or above	4.0%

The Ube Group will target operating income of ¥80.0 billion or more by fiscal 2020.

4. Business Portfolio Segmentation

The Ube Group will focus on differentiated chemicals businesses to achieve growth while leveraging non-chemicals businesses to anchor revenues, ensuring greater stability amid shifting business conditions.

Under the business portfolio strategy of the new medium-term management plan, the Ube Group has identified two types of core platform businesses, targeting active expansion and aiming to strengthen the business platform respectively. The business portfolio has been

revised to position the respective business segments according to the shifting conditions for each business segment.

Developing Field		Aerospace; information electronics; energy and environment
Strategic Growth Businesses		Battery materials; pharmaceuticals; specialty chemicals; specialty plastics; specialty inorganic materials; recycling and renewable energy
Core Platform Businesses	Actively Expand	Synthetic rubber; nylon resins; machinery services
	Strengthen Business Platform	Caprolactam; industrial chemicals; lactam-based fine chemicals; polyimide; gas separation membranes; semiconductor, electronic, and optical materials; cement and ready-mixed concrete; limestone, calcia, and magnesia; molding machinery; industrial machinery; steel products; coal; power; (polyethylene, ABS)

5. Strategies and Challenges in Key Business Segments

(1) Strengthen Profitability in Chemicals Segment

The Ube Group will respond to structural changes in business conditions and review the business models for key businesses, in order to rapidly restore revenues in the chemicals segment for driving growth.

a. Chemicals and Plastics

- Caprolactam

The Ube Group caprolactam business has been striving to strengthen its presence in Asian markets. However, in reaction to structural changes that have affected competition and the supply and demand situation centering on changes in the Chinese market, the Ube Group will reposition the caprolactam business as a cost competitive business that supplies a stable source of nylon raw materials. Accordingly, the Ube Group will cease production of caprolactam at the Sakai Factory by the end of fiscal 2013, and will comprehensively restructure costs at the remaining plants including supply chains for raw materials procurement.

- Nylon resins

The Ube Group will create added value and actively expand the nylon resin business. In addition to strengthening the supply capacity to the extrusion market and developing new grades, the Ube Group will strengthen and expand the compound business which will accelerate development in injection market globally. These strategies will increase the internal consumption of caprolactam to boost revenues and further stabilize the business.

- Industrial chemicals

The Ube Group will enhance the cost competitiveness of carbon monoxide and hydrogen

manufactured by Ube Ammonia Industry, Ltd., and make maximum use of external sales to increase stable revenues.

- Synthetic rubber

The Ube Group will increase the ratio of specialty products and meet steadily growing demand. Following the establishment of the joint venture in Malaysia, the Ube Group will pursue further overseas expansion projects while aiming to secure stable supplies of raw materials at low prices.

b. Specialty Chemicals and Products

With major industry changes occurring in the electronics and consumer electronics sector, which is a key market for specialty chemicals and products, the Ube Group will diversify its global user base and aim to strengthen and expand the revenue base. Additionally, the market for automotive lithium-ion batteries is developing more slowly than expected, so the Ube Group will prioritize R&D investment to raise cost competitiveness while maintaining the company's technical advantages, and also advance development of future materials.

- Battery materials

Competition has intensified in the electrolytes sector with new companies entering the market. The Ube Group will establish a global supply framework through its joint venture and develop new customers in consumer sectors, while preparing its operations for the anticipated full demand in the automotive market. Additionally, the Ube Group will leverage its strengths in additive development to achieve differentiation while also securing comprehensive cost reductions, to further strengthen its position as a leading battery materials provider.

For separators, the Ube Group will leverage its advantage as a frontrunner in the automotive market to actively pursue investment that will strengthen supply capability to keep pace with growing demand, while improving productivity to further raise competitiveness. The Ube Group will also pursue development to improve the performance of ceramic-coated separators that are anticipated to be adopted by the automotive sector.

The Ube Group will consider the effective use of mergers, acquisitions, and alliances while increasing the pace of R&D, and leverage own technology in areas other than electrolytes and separators to develop battery materials and expand the scope of the business.

- Fine chemicals

The Ube Group will pursue a differentiation strategy based on proprietary C1 chemicals technology, and will actively expand the business in the battery materials sector, such as electrolyte solvents that are anticipated to generate growing demand. For eco-friendly coating materials, the Ube Group will expand the capacity for polycarbonate diol (PCD), of which the company holds a leading global market share, and strengthen the marketing of polyurethane dispersion (PUD) in an effort to rapidly develop it into a major business. Although the supply capacity for diol products will decrease temporarily from discontinuing production at the Sakai Factory, the Ube Group will consider new facilities while increasing production through debottlenecking at existing facilities in and outside Japan.

- Polyimide chain

The Ube Group will maintain its strong share in the maturing market for films used in large LCD panels, while expanding sales in the growing market for films used in smartphones and tablets, urgently aiming to improve revenues from the polyimide film business. Additionally, the Ube Group will direct its energies toward developing new materials and applications by leveraging the properties of its exclusive products made from raw material monomers and by proprietary manufacturing processes, to develop new varnishes including for flexible displays, films for flexible solar cells, automotive components, and rechargeable battery materials. The Ube Group will also expand efforts revolving around the polyimide chain such as gas separation membranes and aerospace materials.

In the aerospace materials business, which requires a long process until commercialization, the Ube Group will pursue a long-term strategy while maintaining its technology at a cutting-edge level.

- Other specialty products

The Ube Group will focus on developing new production processes to achieve cost reductions for ceramic powders that are anticipated to generate growing demand due to its purity. For specialty inorganic materials, the Ube Group will accelerate business development, focusing mainly on magnesium oxide and fibrous magnesium oxysulfate (MOS-HIGE) manufactured by Ube Material Industries, Ltd. For gas separation membranes, the Ube Group will endeavor to expand sales by capturing growing demand that is being driven by environmental needs and a global increase in resources development such as for coal, shale gas and oil. For metal organic compounds, the Ube Group will expand its market share in high-end markets such as for automotive and mobile applications, and accelerate global business development.

c. Pharmaceuticals

- Pharmaceuticals

In the licensing business of drugs discovered by UBE, the Ube Group will promote the pipeline expansion and early licensing-out. Additionally, the Ube Group will maximize revenues from existing products through life-cycle management, including applying for approval of an antiplatelet agent in Japan and developing new indications and formulations for an antiallergy agent.

In the contract manufacturing business, the Ube Group will aim to increase new business orders and strengthen the business while implementing comprehensive cost reductions through restructuring of supply chains including international partnerships. Furthermore, the Ube Group will expand and develop its business model through the establishment of manufacturing facilities outside of Japan and manufacturing of generic active ingredients, to achieve steady growth for the entire pharmaceuticals business.

(2) Further Strengthen the Revenue Base in Non-chemicals Segments

The Ube Group will take steps to manage stable cash flows and expand cash flows by strengthening the revenue base.

a. Cement and Construction Materials

The Ube Group forecasts steady cement demand in Japan over the medium term, due to construction throughout Japan both for disaster management and mitigation as well as for aging infrastructure, in addition to demand for reconstruction from the March 11, 2011 earthquake. The Ube Group will endeavor to make certain to capture this demand and take steps to secure suitable prices that enable reinvestment, while making increasing use of advanced recycling methods for waste recycling.

In addition, while further strengthening the calcia and magnesia businesses and optimizing the limestone business by turning Ube Material Industries into a wholly-owned subsidiary, the Ube Group will endeavor to reduce energy costs and secure future raw material resources, strengthening the overall business inclusive of Group companies in order to maximize revenues and cash flows for the medium- and long-term.

b. Machinery

For both molding machinery and industrial machinery, the Ube Group will develop products with a focus on markets in developing countries and implement further cost reductions. The Ube Group will merge its machinery manufacturing and marketing company and servicing subsidiary, to strengthen and expand the machinery servicing business by leveraging its worldwide installed base of machinery. Accordingly, the Ube Group will expand the network of service offices outside of Japan, while maximizing revenues through integration of manufacturing, marketing, and servicing, such as enhancing customer support and strengthening service.

c. Energy and Environment

Since the accident at the Fukushima Daiichi nuclear power plant, demand for coal has remained steady while supply and demand for electricity has remained tight. The Ube Group will seek to procure coal at an even lower cost, while increasing the volume of coal handled and maximizing external sales of excess electricity in order to secure stable revenues.

The Ube Group will apply its proprietary carbonizing technologies, which are currently being validated, to biomass fuels including palm kernel shells (PKS) and rapidly launch a business for the internal and external supply of biomass fuels. The Ube Group will also further strengthen the stable revenue base for the long term, through a mega-solar project utilizing idle land.

6. Capital Expenditures and R&D

(1) Capital Expenditures

For capital expenditures, the Ube Group will prioritize investment in strategic growth businesses, and additionally allocate business resources toward core platform businesses actively that are anticipated to generate increased revenues. The Ube Group plans to implement capital expenditures greater than those under the previous medium-term management plan, including capital investment to strengthen the revenue base through cost reductions and by securing resources and raw materials.

Capital expenditure over three years: ¥140.0 billion

Of the capital expenditures, the Ube Group has identified certain strategic investment projects. These include expanding the production capacity for battery materials, strengthening the nylon resin business, securing cost-competitive caprolactam, expanding the global production capacity for synthetic rubber, and strengthening the business platform for the cement business to secure stable revenues.

As for the specific amount of capital expenditures and timing of implementation, the Ube Group will take into account the urgency of each investment project and the status of cash flow in order to implement flexible investment.

(2) R&D

For R&D, the Ube Group will enhance the level of collaboration between Corporate Research & Development and business divisions, while evaluating research projects earlier in the process. Additionally, the Ube Group will preferentially allocate business resources to the following priority areas: new carbon-based and next-generation chemicals, information electronics, energy and environment, and healthcare. The Ube Group will take steps to strengthen the competitiveness of existing businesses, and develop and commercialize new materials.

R&D expenditure over three years: ¥45.0 billion

7. Environmental Initiatives

The Ube Group has endeavored to reduce greenhouse gas emissions in order to realize a sustainable society, setting the following targets under the previous medium-term management plan and implementing initiatives to conserve energy, transition to different fuel, and recycle waste.

Targets for Fiscal 2015

- CO₂ emissions from energy use: Reduce by 15% compared with fiscal 1990 levels
- Total CO₂ emissions from energy use and non-energy use (excluding emissions from waste): Reduce by 20% compared with fiscal 1990 levels

The Ube Group is endeavoring to ascertain CO₂ emissions throughout its supply chain and assess the amount of greenhouse gases reduced through final products that incorporate Ube Group products. Under the new medium-term management plan, the Ube Group will start considering reduction targets for CO₂ emissions including for business locations outside of

Japan, and will expand Group-wide initiatives. In the area of biodiversity conservation, the Ube Group is working to systematically identify the impact of its business activities on biodiversity.

The Ube Group will continue working to achieve the target of increasing net sales from environmental-related businesses to ¥120 billion by fiscal 2015, as set under the previous medium-term management plan. The Ube Group will achieve this by expanding sales of products that address resource, energy, and global environmental issues, and pursuing technical development and commercialization with the businesses listed as follows.

(1) Materials, Technologies, and Businesses for Renewable Energy

Battery materials such as electrolytes and separators for lithium-ion batteries; materials for photovoltaic and wind power generation such as polyimide and ceramic powders; materials for fuel cells such as gas separation membranes; new biomass fuels such as PKS; and mega-solar projects.

(2) Materials and Technologies That Save Energy and Reduce Environmental Impact

LED materials such as ceramic powders; organic electroluminescent (EL) materials such as polyimide varnishes; technologies and materials that reduce the weight of automobiles and airplanes such as synthetic rubber, nylon resins, molding machinery and aerospace materials; eco-friendly coating materials; and adoption of waste heat recovery at cement plants.

(3) Products and Technologies That Conserve or Enhance the Environment

Recycling technology such as waste processing for cement raw materials and plastics recycling; products that replace naturally-derived products such as Heliofresh; and exhaust and water purification agents such as magnesia.

8. Shareholder Dividends

Ube Industries will endeavor to further improve its financial position and increase equity capital to enable future capital expenditures. However, at the same time, the company will target a dividend payout ratio of 30% or more in order to further increase shareholder dividends.