Actions for Achievement

Annual Report **2003**
Year ended March 31, 2003

UBE INDUSTRIES, LTD.

> A Long Tradition of Innovation and Growth

1897 Okinoyama Coal Mines established as anonymous partnership capitalized at ¥45,000.

1914 Shinkawa Iron Works is established as an anonymous partnership capitalized at ¥100,000. UBE's machinery business started from the manufacture of machinery for coal mining.

1923 Ube Cement Production, Ltd. is established, capitalized at ¥3.5 million. We entered the cement business, using coal for fuel and the abundant nearby limestone as raw material.

1933 Ube Nitrogen Industry, Ltd. is established, capitalized at ¥5.0 million. We expanded into the chemical field of synthesizing ammonia by pyrolysis of coal, used in the manufacture of ammonium sulfate.

1942 UBE Industries, Ltd. is established through consolidation of the four companies above, capitalized at ¥69.6 million.

Later UBE entered a wide range of business sectors such as petrochemical, specialty products and aluminum wheels, establishing the operating divisions that would distinguish it as a comprehensive manufacturer of value-added products. With an extensive base of technologies and expertise built up over more than a century, UBE is taking actions for further innovation and growth.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning UBE's future plans, strategies, and performance. These forward-looking statements are not historical facts; rather, they represent assumptions and beliefs based on economic, financial, and competitive data currently available. Forward-looking statements include information preceded by, followed by, or that include the words "project," "predicts," "expects," "anticipates," "could," "may," or similar expressions. Furthermore, they are subject to a number of risks and uncertainties which include, but are not limited to, economic conditions, fierce competition in this industry, customer demand, tax rules and regulations. Readers of this annual report are cautioned not to place undue reliance on these forward-looking statements. Actual results may differ materially from expectations.

Fiscal years end on March 31 of the following calendar year: for example, fiscal 2002 is the year ended March 31, 2003.

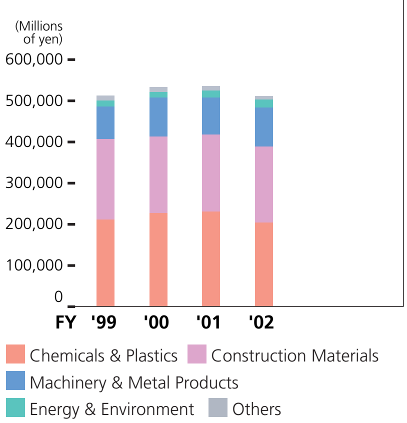
> Consolidated Financial Highlights

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2003 and 2002

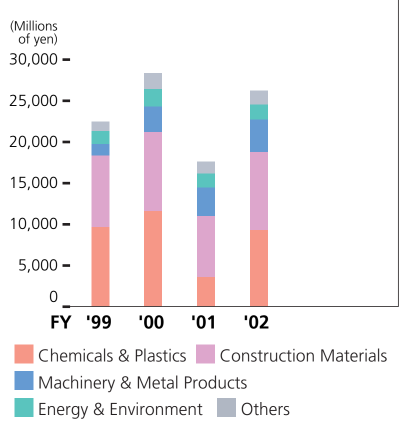
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
For the year:			
Net sales	**¥513,535**	¥537,548	**$4,279,458**
Operating income	**26,399**	17,596	**219,992**
Income before income taxes and minority interest	**18,834**	5,412	**156,950**
Net income	**8,120**	1,002	**67,667**
Capital investment	**32,513**	48,650	**270,942**
Depreciation and amortization	**30,243**	31,011	**252,025**
Research and development expenses	**11,351**	12,923	**94,592**
At year-end:			
Total assets	**745,890**	820,213	**6,215,750**
Stockholders' equity	**96,161**	96,947	**801,342**
Debt	**458,370**	521,028	**3,819,750**
Cash and cash equivalents	**48,521**	45,599	**404,342**
	Yen		U.S. dollars
Per share data:			
Net income, primary (Note 2)	**¥ 9.61**	¥ 1.18	**$ 0.080**
Cash dividends applicable to the period	**3.0**	–	**0.025**
Ratios:			
ROA (%) (Note 3)	**3.5**	2.2	**3.5**
ROE (%)	**8.4**	1.0	**8.4**
Net debt/Equity ratio	**4.3**	4.9	**4.3**
Debt redemption period (year) (Note 4)	**9.4**	13.1	**9.4**
Number of employees at the end of the year	**10,829**	11,983	**10,829**

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120=US$1, the approximate rate of exchange on March 31, 2003.
2. Net income, primary, per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year.
3. ROA=(Operating income + Interest and dividend income + Equity in losses of unconsolidated subsidiaries and affiliated companies) / Total asset
4. Debt redemption period=Net debt / Net cash provided by operating activities

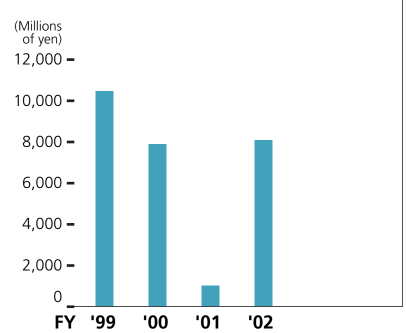
Net Sales



Operating Income



Net Income



Actions with Speed and Reliability

> Message from the President

Kazumasa Tsunemi
Chairman of the Board,
President and CEO

Results for Fiscal 2002, ended March 31, 2003

In view of the harsh global business environment, including slack economic conditions in Japan, I believe UBE recorded generally respectable results. In terms of debt reduction, one of our most important issues, we ended the year ahead of the target we had originally set for ourselves. In addition, although sales were slightly below initial projections, we posted operating and net income figures that exceeded our forecasts.

During fiscal 2002, we reduced debt by ¥62.6 billion, cutting the total from ¥521.0 billion to ¥458.4 billion. Since our original target of debt at the year-end was ¥465.0 billion, the actual reduction exceeded the initial projection by ¥6.7 billion. Net debt, net of cash and cash equivalents, ended the year at ¥409.8 billion. Although a fall in the market value of our marketable securities prevented us from achieving the planned increase in stockholders' equity, we still managed to reduce our net debt to equity to a ratio of 4.3.

Net sales declined relative to the previous fiscal year by ¥24.0 billion, or 4%, to ¥513.5 billion. This actually represented a virtual increase since there was a substantial fall in sales due to changes in the scope of consolidation. These included the merger of our ABS resin operations and the sale of a polypropylene compounding business in the U.S.

Operating income increased by ¥8.8 billion, or 50%, to ¥26.3 billion. Although there was a substantial negative impact from the jump in the price of raw materials, we overcame this through the solid growth of specialty products, which have relatively high margins, and various initiatives to rationalize our operations, which included a voluntary retirement program. Net income rose by ¥7.1 billion, or 710%, to ¥8.1 billion.

We plan to restore the cash dividend of ¥3 per share.

Increasing shareholder value remains one of our foremost priorities. For this reason, maximizing cash flow is one of our key objectives. We have applied a series of performance indices to quantify our goals in terms of improving our financial health and making the most effective use of our asset base. These indices include the return on assets (ROA), the net debt to equity ratio, and the debt redemption period. In actual implementation of plans, what we always keep in mind are our management keywords, "Speed and Reliability." This means accelerating the process of PDCA (plan, do, check, action) and reaching the exact targets that we have set for ourselves. I believe that our actions during fiscal 2002 show that we have met the goals set by our management keywords.

Progress on "New 21•UBE Revised Plan", Medium-Term Management Plan

We are currently implementing our "New 21•UBE revised plan" three-year medium-term management plan that started in fiscal 2001. It has two key objectives: firstly, improvements in our financial structure through an accelerated program of debt-reduction; and secondly, improvements in profitability by strengthening and expanding our "core businesses" in tandem with a comprehensive program of rationalization.

By the end of fiscal 2002, we were on target to achieve our objectives. Both the debt-reduction and restructuring programs are ahead of schedule. The plan for fiscal 2002 called for total cost reduction of ¥10.0 billion through rationalization measures. We not only achieved this, but also added another ¥6.7 billion to the figure. Sales and operating income from our "core businesses" amounted to ¥110.8 billion and ¥10.9 billion, respectively. Here, too, we are making steady progress.

Now we are in the final year of the plan. The business environment and assumptions about business performance, including the price of raw materials, differ substantially from the original projections. Consequently, we do not expect sales and operating income to reach the original target figures, even though we expect increases over their performance in fiscal 2002. We decided to target the year-end debt for fiscal 2003 at ¥410 billion. This is significantly less than the original target of ¥440 billion. We also want to increase cost reductions achieved through the ongoing restructuring program.

We revised our medium-term management plan and lowered our expectations during fiscal 2001 due to the sudden deterioration in economic conditions, which caused a certain disappointment in the stock market for a while. In my view, these events only confirmed my already strongly held view that the most essential mission that senior management has is to make good on the commitments to the shareholders. I will continue to make every effort I can to ensure that we achieve our targets.

K. Tsunemi

Kazumasa Tsunemi
Chairman of the Board,
President and CEO

Q: What progress has been made in reducing debt?

Debt reduction is a high-priority issue and we are constantly progressing ahead of schedule. We succeeded in reducing debt to ¥458.4 billion by the end of fiscal 2002, although our original plan targeted ¥465.0 billion. We have also raised the debt-reduction target for the end of fiscal 2003 to ¥410 billion, lowering the original target of ¥440 billion in our three-year management plan. In terms of net debt, net of cash and cash equivalents, our target is to reduce the total to ¥380 billion at the end of fiscal 2003.

Three sources of funds will provide the main impetus in terms of accelerating our debt reduction: stronger operating cash flows through the expansion of our "core businesses" and improvements in the cost-competitiveness of our "fundamental businesses"; cash flows generated from asset sales; and cash savings through restrictions on new investments and capital expenditures.

By the end of fiscal 2002, our net debt to equity ratio was down to 4.3. We plan to cut this ratio to 3.7, by the end of fiscal 2003, and to reduce it to 2.0 in the long-term.

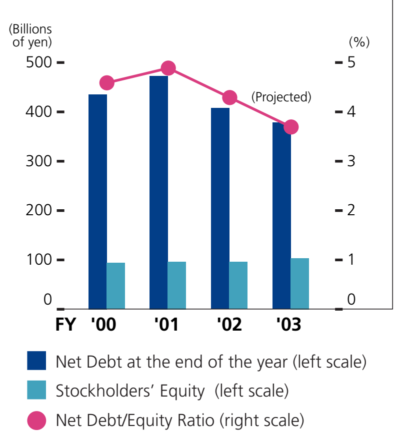
Q: You stated that strengthening and expanding "core businesses" is one of the keys to improved profitability. How do you see this happening in the future?

We classify our business portfolio on both its potential for growth and profitability. Accordingly, we have designated fine chemicals and pharmaceuticals , specialty products, nylon resins, and aluminum wheels as our "core businesses" in which we concentrate our business resources.

What these businesses have in common is they all have the competitive advantage that comes with being able to offer differentiated products that we have developed through our proprietary technology and expertise. We will continue to invest in research and technological development to maintain and sharpen our competitive edge in these areas. I believe we can pursue new opportunities for business expansion by increasing the value added through our technologies.

In this way, we expect to increase the proportion of our "core businesses" in relation to our total operations. As a proportion of sales, "core businesses" generated 21.6% of our total sales in fiscal 2002. We aim to increase this ratio to around 30% over the next two or three years, and in the long-term to 50%.

Net Debt and Stockholders' Equity



Sources for Reduction of Debt (Billions of Yen)

	FY 2003 Projected	2002	2001
Debt at the beginning of the year (A)	**458.4**	521.0	483.8
Depreciation and amortization	**30.0**	31.1	31.0
Ordinary income	**18.0**	16.0	7.7
Sale of property	**19.0**	44.0	26.4
Investment	**(34.5)**	(37.7)	(59.2)
Working capital	**(2.7)**	(1.9)	3.7
Net cash (B)	**29.8**	51.5	9.6
Reversal of cash equivalent / Increase and decrease of subsidiaries / effect of exchange rate changes (C)	**18.5**	11.2	(46.7)
Debt at the end of the year (A–B–C)	**410.0**	458.4	521.0
Cash and cash equivalents at end of the year	**30.3**	48.5	45.6

Q: What progress have you made in cutting costs?

Cost reduction is an essential part of our business given the adverse factors that are afflicting the world economy, including globalization, intense competition from developing nations, and deflationary trend in Japan. That is why all of us are concentrating on coming up with ways to reduce our costs by every conceivable means.

In fiscal 2002, we achieved a total cost reduction of ¥16.7 billion through rationalization measures and other initiatives. Major components included a voluntary retirement program that more than 400 people applied for, significant cost savings in cement production by increasing the use of industrial waste as fuel and raw materials, and other efforts to bring down materials unit costs. We will continue to implement our cost-reduction programs and our target is to achieve a further ¥6.3 billion in savings in fiscal 2003.

As a manufacturer, we will focus mainly on improvements in productivity in order to cut costs including all kinds of process improvements. We will aggressively work on the intensification of cost competitiveness and making improvements in the efficiency of both our R&D activities and in production.

Q: How do you plan to move forward R&D?

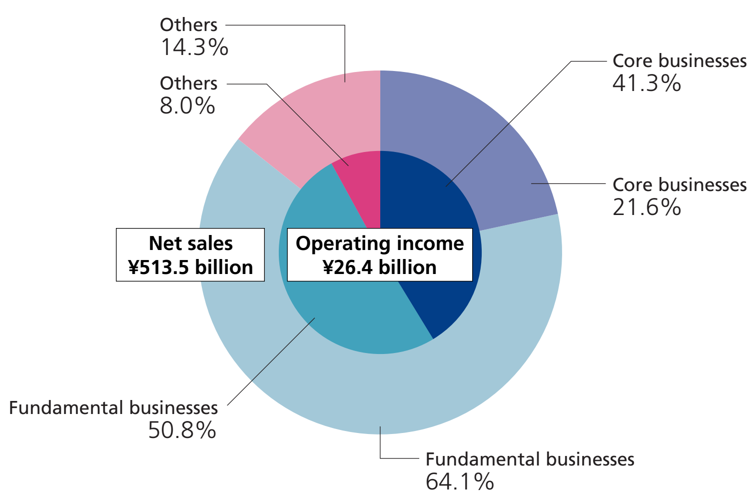
R&D activities are an essential driving force for long-term growth, but we aim to achieve greater efficiencies in R&D while monitoring the ratio of R&D expenses in relation to net sales. On the other hand, we sometimes have to intensify R&D activities so we do not lose the opportunity to commercialize a certain product, especially in our "core businesses" areas like pharmaceuticals, fine chemicals and specialty products. Therefore, we will concentrate our R&D expenses on these areas.

Another ongoing challenge in R&D is the emphasis placed on an individual person's creativity and talent. While we still attach great importance to the concept of R&D as a team effort, we are also pursuing many initiatives to encourage individual employees' unique perspectives and promote creativity. I believe these initiatives will promote future development of our proprietary technologies and products.

Q: How do you see the future image of the company?

We will continue to concentrate our resources on specialty chemicals, where we can utilize our technological advantage to exploit this high value-added business. That was the aim of the two rounds of organizational reforms

Proportion of Sales and Operating Income for FY2002 by Business Category



Core businesses
Fine chemicals and pharmaceuticals
Specialty products
Nylon resins
Aluminum wheels

Fundamental businesses
Caprolactam and industrial chemicals
Cement and construction materials
Machinery
Energy

Others
Non-core businesses
Polyethylen and synthetic rubber
Real estate
New businesses
Environmental businesses
Advanced technological businesses

held in October 2002 and April 2003. We want to make it clear that the chemical business is our flagship while at the same time giving more power and responsibility to the management in our construction materials and machinery & metal products businesses so that they can operate with greater autonomy.

Based on this fundamental stance, I envision UBE as a well-balanced and strong triangle of businesses composed of a chemical business, a construction materials business, and a machinery & metal products business. The chemical business, which also includes the energy & environment businesses, plays a central role while all three support and contribute to each other to allow for the continuous development of the group.

Q: What steps are you taking to improve corporate governance?

We have adopted a corporate executive officer system since fiscal 2001 to separate the directors' oversight functions from the operational functions of executive officers. Through this separation, we speeded up operational decision-making, while clearly positioning the board of directors as an organization that will maximize shareholder value.

Furthermore, we have established a framework that is similar to the Committee System. Although we have not yet elected any independent directors, we have established nomination and compensation committees. I believe that these initiatives for improvement in corporate governance are contributing to greater transparency in management.

We are always considering which corporate governance structure is the most appropriate for us, and how to continue to improve transparency.

Q: What measures are you taking on the regulatory compliance front?

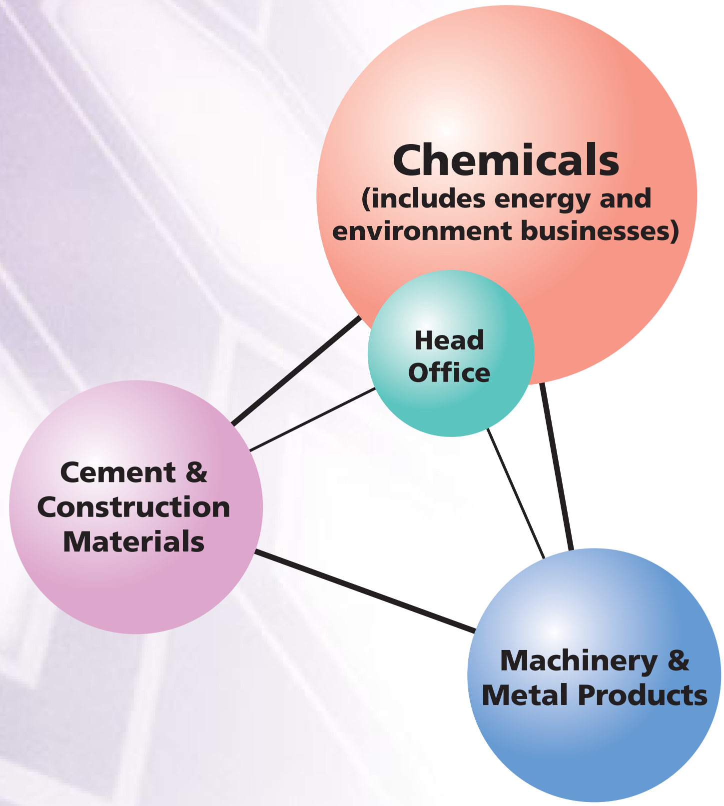
Regulatory compliance continues to be a major influence on the company. All staff, from directors and senior management to employees, have been given a copy of our corporate ethics that they should always have with them and we have set up committees to oversee our compliance in every aspect of our operations and behavior.

To oversee compliance activities across all divisions, we appointed a Chief Compliance Officer (CCO) and established a comprehensive compliance committee in March 2003. At the same time, we set up a group-wide direct reporting system on regulatory compliance issues that allows any employee to report either actual or potential violations of laws and regulations without passing through the normal chain of command. Our first priority in terms of regulatory compliance is on detecting and mitigating compliance risks at the earliest possible opportunity.

Progress in Rationalization (Billions of yen)

Comparison with FY 2001	FY 2003 (Projected)	2002 (Actual)
Fixed Costs		
Labor Costs	¥ 4.5	¥ 3.9
Other Expenses	6.0	5.5
Subtotal	¥10.5	¥ 9.4
Proportional Costs		
Reduction of Raw Materials Cost	¥ 6.0	¥ 3.1
Increase in Use of Industrial Waste	2.5	1.4
Others	4.0	2.8
Subtotal	¥12.5	¥ 7.3
Total	¥23.0	¥16.7

> Review and Outlook for Fiscal 2002

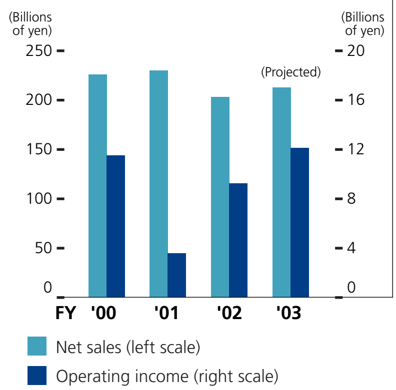


Since its establishment, UBE has enacted many organizational changes for the purpose of increasing its corporate value. Carrying on this tradition, the company realigned operating activities in October 2002 and April 2003 to switch to an operating holding company structure. With this new framework, UBE plans to further concentrate resources on value-added activities that are closely tied to its enormous pool of expertise in the chemicals field, while promoting autonomous management and operations in the two Cement & Construction Materials and Machinery & Metal Products segments.

Results of operations in this "Review and Outlook for Fiscal 2002" section are based on the classification of business segments that existed at the beginning of the fiscal year.

Chemical & Plastics

Net Sales and Operating Income



Major products:

Polyethylene, synthetic rubber
Caprolactam, nylon resins, industrial chemicals
Fine chemicals, pharmaceutical bulk compounds and intermediates
Polyimide, battery materials (electrolytes and separators), high purity chemicals, ceramics, membrane

Position in business portfolio:

Fine Chemicals, Pharmaceuticals, Specialty Products, Nylon Resins: **Core business**
Caprolactam, Industrial Chemicals: **Fundamental business**
Polyolefins, Synthetic Rubber: **Non-core business**

Basic Strategy

Polyolefins and Synthetic Rubber: Our strategy is to concentrate in markets where our products have a competitive advantage by raising the proportion of specialty grades and by reducing costs.

Caprolactam, Nylon, and Industrial Chemicals: The expansion of the nylon business, one of our "core businesses," is our basic strategy. Engineering plastics are one particular area of focus since we believe that the market will grow rapidly. As a result, we aim to bring greater stability to our caprolactam operations by increasing captive use for nylon, while also concentrating efforts on improving the cost competitiveness of our caprolactam.

Fine Chemicals and Pharmaceuticals: The basic strategy is the reinforcement and expansion of businesses through increasing the sales of the existing product line and developing new products by utilizing our competitive advantages in technology and secured raw materials.

Specialty Products: Our strategy is to expand business in this area as one of our "core businesses." We will observe market trends and develop new products with improved performance to meet latent customer needs.

Fiscal 2002: Business Results

Segment sales declined 11.5% year-on-year from ¥231.1 billion to ¥204.4 billion. This was caused primarily by changes in the scope of consolidation as a result of forming an alliance in the acrylonitrile butadiene styrene (ABS) resin business and the sale of the polypropylene compounding business. Excluding the impact from these events, the businesses achieved an overall increase in sales. Although sales of pharmaceuticals declined, shipments of specialty products and nylon resins increased.

Segment operating income jumped 160.5% year-on-year, from ¥3.6 billion to ¥9.3 billion. This reflected a strong

Applications for polyethylene

UBE produces specialty grades of synthetic rubber improvement in the segment's earnings structure through the expansion of relatively high-margin specialty products. This factor outweighed any negative factors including the sharp increases in raw material prices. Restructuring measures, including workforce reductions, also lowered costs.

Fiscal 2002: Actions & Topics

Polyolefins and Synthetic Rubber

We made further progress in slimming down these non-core operations through a series of transactions. In April 2002, we merged the ABS resin operations of Ube Cycon, Ltd. with those of Mitsubishi Rayon Co., Ltd. to form a joint venture called UMG ABS, Ltd. In May 2002, we sold ATC Inc., a manufacturer of polypropylene compounds, to Mitsui Chemicals America, Inc. In November 2002, we sold our amorphous polyalphaolefins (APAO) business to Huntsman Polymers Corporation.

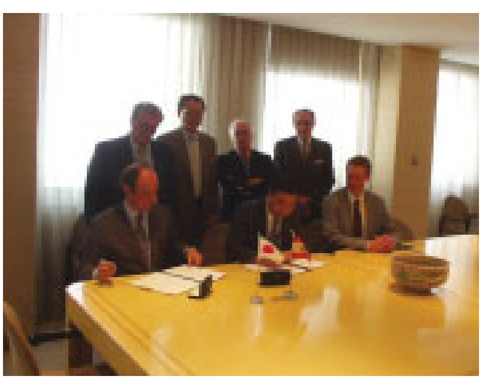
In the polyethylene and polybutadiene businesses, we boosted the proportion of specialty grades for greater differentiation, while simultaneously lowering the cost base through a range of restructuring measures that targeted all operations including manufacturing, sales and distribution. We expanded sales of strategic products in the areas where we are competitive. In the polyethylene sector, such products include linear low-density polyethylene (LLDPE), produced using metallocene catalysis technology, and ethyl vinyl acetate (EVA) co-polymers; in the polybutadiene sector, our specialty is the use in high-impact polystyrene (HIPS).

Caprolactam, Nylon and Industrial Chemicals

Our main focus was to fortify our core nylon resin business. In April 2002, we converted Ube Nylon (Thailand) Ltd. (UNT) into a wholly owned subsidiary. In March 2002, UNT installed a new manufacturing facility for nylon 6 compounds and brought on stream an integrated production process that extends from raw materials to final products. The full consolidation of UNT considerably strengthened the position of our nylon operations, especially within Asia. In Europe, we established a subsidiary in Spain, Ube Engineering Plastics, S.A., to oversee the nylon business, and in March 2003 we started construction of a new production facility for nylon 6. These moves helped to stabilize our caprolactam operations by increasing the captive use of caprolactam to nylon. Through our plants in Japan, Thailand, and Spain, we will integrate caprolactam-nylon operations in three major global markets.

The positioning of our caprolactam business as a "fundamental business" means that our main focus in this sector is to raise cost-competitiveness. Clearing the bottlenecks at Ube Chemical Europe, S.A., in Spain, resulted in an increase in annual production capacity by 5,000 tons in July 2002, raising total capacity to 85,000 tons. In March 2003, we shut down one production line (annual capacity: 20,000 tons) at the Sakai factory in Japan, where cost-competitiveness was relatively low. A concerted strategy of increasing operating efficiency at our highly cost-competitive Thai operations, Thai Caprolactam Public Co., Ltd., boosted annual capacity in Thailand from 80,000 to 100,000 tons.

In the industrial chemicals sector, we stepped up cost-reduction efforts to generate more stable profits. Although raw material prices rose sharply, it was difficult to transfer the higher costs to sales prices in the absence of any tightening in the supply-demand balance. We therefore focused efforts on raising margins by fortifying the production base, notably at our ammonia plant, where we reduced fixed costs and boosted efficiency in our program of periodic maintenance and repairs.



Signing ceremony for construction of a nylon 6 plant in Spain

Applications for nylon 12 (industrial tubes)

Fine Chemicals and Pharmaceuticals

We concentrated on increasing sales and earnings as the balance between supply and demand tightened. Recovery in the semiconductor industry fueled growth in demand for high-grade catechols, and we achieved higher sales of our major products such as diphenols and diols. In response to higher raw material prices, we raised prices mainly in sectors where demand was higher. We also undertook plant rationalization measures in Japan and in Spain at Ube Chemical Europe, S.A. which contributed to reduction of our cost base for diols. Elsewhere in this sector, we sold our non-core agrochemical business to SDS Biotech K.K. in January 2003. We also accelerated the development of new derivatives of diphenol and dimethyl carbonate (DMC) to foster future business expansion.

In the pharmaceuticals sector, we concentrated on launching a new product developed in-house and on the continued expansion of our consignment manufacturing operations. Calblock®, an antihypertensive product developed in collaboration with Sankyo Co., Ltd., received regulatory approval from the Ministry of Health, Labor & Welfare (MLHW) in January 2003, and was launched in Japan by Sankyo in May 2003. This marked the second major launch of products developed in-house following the antiallergic product, Talion®, which was co-developed with Tanabe Seiyaku Co., Ltd. In our contract manufacturing operations, our production facilities for key intermediates used for the new-type anticancer agents passed pre-approval inspection by the U.S. Food and Drug Administration (FDA) in April 2002, which allowed us to start supplying these products during fiscal 2002. Construction is proceeding on a third pharmaceutical plant in response to growing interest from potential customers. This plant is set to commence operations in fiscal 2003.

Sales and operating income from pharmaceuticals in fiscal 2002 were both substantially lower than planned due to negative factors such as inventory build-ups of antibacterial agents in the U.S. The business was also negatively impacted by the increasingly lengthy periods required for new drug approvals as a result of heightened regulatory concerns around the world over possible side effects. While these setbacks did not mean any decline in our competitive advantage, we have been forced to adopt a more conservative stance in framing our future plans because of the increasingly difficult business environment.

Specialty Products

Demand for polyimide grew strongly as IT-related industries recovered. We responded by increasing sales coverage and boosting production capacity. In polyimide films, we concentrated our efforts on increasing sales of base films for dual-layer copper-clad laminates (CCL), which are incorporated into chip-on-film (COF) products used in large LCD panels, as well as of films used for tape-automated bonding (TAB), a field in which we enjoy a virtual global monopoly. Demand for UPISEL-N®, a dual-layer CCL used mainly in mobile phones, also rose strongly, Ube-Nitto Kasei Co., Ltd. (UNK) responded by raising production to full capacity. Construction of our seventh polyimide film manufacturing facility started in September 2002, together with the third plant for biphenyl tetracarboxylic dianhydride (BPDA), which is a major raw material in the production of polyimide. In addition, we decided to invest in a second production facility for dual-layer CCL at UNK, expecting to start operation in fiscal 2003.

Our battery materials business benefited from soaring demand for rechargeable lithium-ion batteries for mobile phones, which boosted sales of electrolytes and separators.

Talion®, a pharmaceutical co-developed with Tanabe Seiyaku Co., Ltd.

The third pharmaceutical plant under construction

Major battery manufacturers were increasing production and we responded with full-capacity production. While improving production efficiency and reducing costs, we continued to introduce new battery materials with higher performance in order to secure both customer satisfaction and profits.

Other businesses

In March 2003, we sold a 51% interest in Ube Agri-Materials, Ltd., which conducted fertilizers and compost businesses, to Mitsubishi Corporation. We chose this alliance-based restructuring as a part of downsizing of our non-core businesses.

Fiscal 2003: Business Plans

In April 2003, to better implement the segment's differing business strategies, we split it into two new segments: Chemicals & Plastics (polyolefins, synthetic rubber, caprolactam, nylon, and industrial chemicals) and Specialty Chemicals & Products (fine chemicals, pharmaceuticals, and specialty products).

For fiscal 2003, we project an increase in sales in the Chemicals & Plastics segment of 1.7%, to ¥153.0 billion, with operating income climbing 41.8% to ¥5.4 billion. In the Specialty Chemicals & Products segment, we forecast a rise in sales of 6.4%, to ¥61.0 billion, with operating income increasing 11.5% to ¥6.8 billion. The projected increases in sales are based mainly on forecasts of higher prices and sales volumes for caprolactam and higher sales volumes of specialty products. We will also try to reduce costs as a result of ongoing rationalization programs.

Polyolefins and Synthetic Rubber

We will maintain our twin focus on raising the proportion of specialty grades and reducing costs. We plan to invest resources to hasten the development of new polybutadiene products, and we will also consider an increase in production capacity at Thai Synthetic Rubbers Co., Ltd.

Caprolactam, Nylon and Industrial Chemicals

The key focus remains expansion of the nylon resin business. Although we do not expect any major increase in demand for nylon 6 in textile applications, higher demand is likely for engineering plastics applications. We are therefore planning to boost nylon polymerization capacity in Japan and quickly begin production in Spain. In nylon 12, we want to develop products that create new demand. In our caprolactam operations, we will continue to become more cost-competitive while improving business stability by boosting the captive use of caprolactam within our nylon production.

Fine Chemicals and Pharmaceuticals

The key target in pharmaceuticals is to enhance our pipeline while increasing consignment production. In fine chemicals, the growth drivers are new product development allied with efforts to achieve steady growth from the existing product line.

Specialty Products

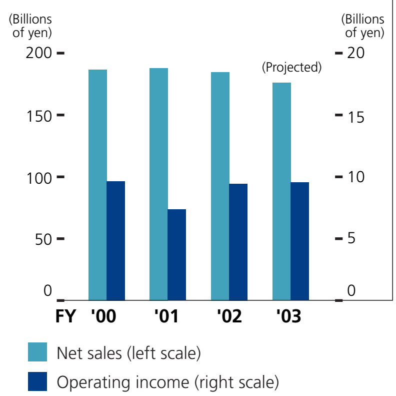
The core focus is on polyimide films, both as base films and dual-layer CCL. During fiscal 2003, we plan to convert UNK, which manufactures dual-layer CCL, into a wholly owned subsidiary. We believe this further strengthens our competitive edge in this field. In battery materials, we will study ways to increase our production capacity while keeping a close eye on market trends.

A dual-layer CCL using polyimide

A thermal blanket using polyimide film

Construction Materials

Net Sales and Operating Income



Major products:

Cement, clinker, ready-mixed concrete, limestone, waterproof materials, building materials and related products

Position in business portfolio:

All businesses in this segment: **Fundamental business**

Basic Strategy

The prime objective of this segment is to generate stable cash flows since the operations within it are categorized in the "fundamental businesses." In order to achieve this objective, we concentrate on strengthening cost competitiveness while reducing capital expenditure to generate stable profits.

In the cement business, we concentrate on reducing costs and improving productivity based on the assumption that domestic demand will continue to decline for some time to come. In particular, we aggressively increase the use of waste as fuel and raw material for cement production processes. We also accelerated the reorganization and rationalization of affiliated ready-mixed concrete suppliers.

In building materials, we concentrate resources on strategic fields to boost operational efficiency, thus increasing this sector's contribution to segment earnings.

Fiscal 2002: Business Results

Segment sales declined 1.8% year-on-year, from ¥189.0 billion to ¥185.6 billion. Cement shipments declined as a result of lower demand in Japan. Although sales of resources like limestone generated good growth, price competition adversely affected unit prices for waterproof materials and building materials.

Despite these declines in sales, operating income climbed 27.6% year-on-year, from ¥7.4 billion to ¥9.5 billion. Cost-cutting initiatives, exemplified by the increased use of waste as fuel and raw material in cement production, helped to raise profits. In addition, the rationalization of all aspects of segment operations, including the building materials businesses, contributed to the twin goals of cutting costs and improving efficiency.

A cement silo operated jointly with Sumitomo Osaka Cement Co., Ltd.

A facility for the treatment of waste plastics at the Isa factory

Fiscal 2002: Actions & Topics

Cement

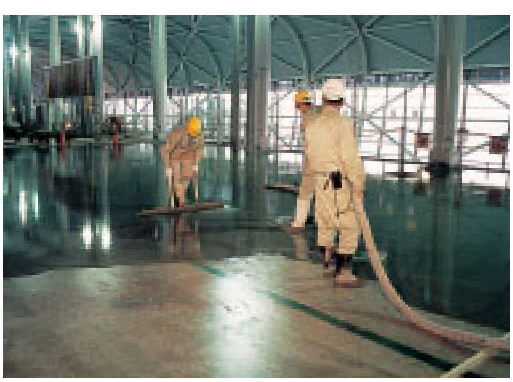
Total domestic demand for cement in fiscal 2002 dropped 6.3% year-on-year, to 63.5 million tons. Responding to these harsh market conditions, we focused our efforts on reducing costs and raising sales prices to secure profit.

In September 2002, the marketing arm of our cement operations, Ube-Mitsubishi Cement Corporation, announced a price increase to correct the sluggish market price. Since Ube-Mitsubishi Cement Corporation's competitors also raised prices, there is now a gradual upturn in market prices.

On the production side, we focused attention on further cost reductions. By expanding the use of waste materials in cement production, we were able to achieve significant cost reductions. We received ¥4.5 billion in fiscal 2002 for waste reprocessing, a rise of 53% over the previous year. In particular, we are expanding the use of waste as a substitute fuel in clinker sintering. In March 2002, our new facility for the treatment of waste plastics opened at the Kanda factory. A similar facility began operating at our Isa factory in March 2003.

As part of our ongoing commitment to boost productivity, we closed the No. 1 kiln at Kanda, a comparatively small and costly facility, in March 2003. This eliminated overcapacity and raised capacity utilization at other facilities.

In April 2002, we decided to suspend studies for the complete integration of our cement manufacturing operations with those of Mitsubishi Materials Corporation. For the time being, we will continue to conduct sales, logistics and R&D under the existing joint venture, while also pursuing cost-cutting initiatives as part of our comprehensive business alliance with Mitsubishi Materials.



UBE's self-leveling material, Quick Ceramic Flow, being used at a construction site

Building materials

Our building materials businesses focus on three areas: resources, waterproof materials, and building materials. In the 2002 fiscal year we tried to improve operational efficiency and to reduce costs through a reorganization of the business structure.

Ready-mixed concrete

We accelerated our program of integrating affiliated ready-mixed concrete suppliers and reduced the number of companies to 14 at the fiscal 2002 year-end, compared with 16 a year earlier. Our reorganization focus shifted during fiscal 2002 from the individual company level to the consolidation of operations at a regional level, which resulted in the rationalization of administrative operations and higher efficiency in logistical operations.

Fiscal 2003: Business Plans

The segment forecasts that sales in fiscal 2003 will decline 4.7%, to ¥177.0 billion, and operating income will increase 1.0%, to ¥9.6 billion. The predicted drop in sales is largely due to projected falls in sales volumes for cement and ready-mixed concrete. We anticipate that further gains from the expanded use of industrial waste will offset the pressure on profits caused by declining sales.

Cement

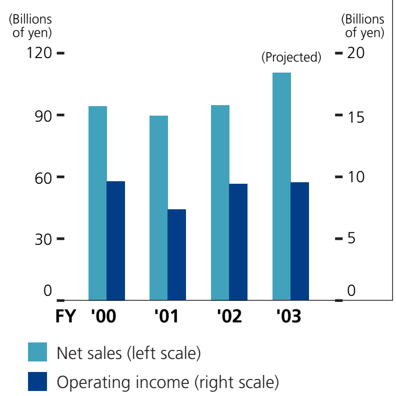
We anticipate that annual demand for cement in Japan will fall by approximately 4% in fiscal 2003 to the 61–62 million-ton range that is likely to create another drop in shipments. Although prices are rising gradually, we do not expect this to counterbalance the effect of lower sales volumes. To maintain stable profits in the face of another fall in sales, we plan to increase the use of waste, especially as fuel, to drive cost cutting measures. In fiscal 2003, the facilities for treatment of waste plastics at both the Kanda and Isa factories will operate at fullcapacity. We also plan to install a new facility at the Isa factory that will use waste wood products as fuel for the boilers in the on-site power plant.

Other construction materials

Although we forecast higher sales of waterproof and other building materials, we expect sales of limestone and other resources to decline. We plan to make the divisional structure more efficient and cost-effective through the consolidation of businesses that handle nonflammable building materials.

Machinery & Metal Products

Net Sales and Operating Income



Major products:

Die-casting machines, injection-molding machines, bulk conveyors/handling systems, bridges, aluminum wheels

Position in business portfolio:

Machinery: **Fundamental business**
Aluminum wheels: **Core business**

Basic Strategy

Ube Machinery Corporation, Ltd. is the core company in our machinery sector. Its strategy combines an ongoing drive to remain price-competitive and in standing out from its rivals through its technical innovations in die-casting machines and injection-molding machines.

We add value by offering customers a total system package that comprises process technology, technical and maintenance support, customer services and software in addition to the actual hardware. An operating set-up that spans the U.S. and China as well as Japan has enabled us to raise the efficiency of both the production and the delivery of products and services to our customers.

Backed by our proprietary casting technology, we can supply aluminum wheels that are light, strong, and beautifully finished. Our major target is the OEM market for large-diameter wheels where our products can underline the competitive advantage of these wheels. Ube Automotive, Ltd. is the key group company. With a global supply capability that derives from production facilities in Japan, the U.S. and Canada, our goal is to be a strategic partner of leading car manufacturers worldwide.

Fiscal 2002: Business Results

Segment sales increased 5.8% year-on-year, from ¥90.0 billion to ¥95.3 billion. In the machinery sector, there was strong demand in China for injection-molding machines, extrusion presses and upright roller mills. Ube Steel Co., Ltd. posted excellent growth in steel billet shipments to South Korea. In the aluminum wheels sector, shipments increased particularly in Japan, where the share of vehicles with large-diameter wheels is steadily increasing.

Segment operating income surged 14.2%, from ¥3.5 billion to ¥4.0 billion. While the start-up of the new aluminum wheels plant in Canada increased costs, sales increases as well as cost reductions generated by our ongoing rationalization efforts contributed to earnings growth.

Fiscal 2002: Actions & Topics

Machinery

We focused on strengthening the machinery business in China, where the market has been expanding rapidly.

An aluminum die-casting machine

Molded components fabricated using in-mold coating technology

Various types of UBE aluminum wheels

Another theme is increasing sales of electrically operated injection-molding machines. New business development was another major focus in this sector.

Our subsidiary in China, Ube Machinery (Shanghai) Ltd., commenced local production of medium and small-sized die-casting machines in April 2002. Previously, the subsidiary had marketed and provided after-sales services for imported machines. The establishment of a new production base enabled us to develop our businesses in the rapidly expanding Chinese market.

In keeping with our position as one of the leading suppliers of large injection-molding machines, we introduced new models that are completely operated by electricity. In May 2002, we launched the world's largest all-electric model with a clamping force of 1,800 tons. In cooperation with Niigata Plastics Machinery Co., Inc., we developed technical aspects and paved the way for the launch of the large-scale electric models.

One expanding area in new business development during fiscal 2002 was total manufacturing system (TMS) solutions for industrial machinery. Utilizing our extensive technologies and facilities, this new business aims to create strategic partnerships with leading contractors, offering production capabilities for a variety of projects. In other business development initiatives, we increased our heavy machinery renovation capability, and also began supplying integrated maintenance, inspection and repair services for bridges.

Aluminum wheels

Besides the start-up of the new manufacturing plant in Canada, the highlights of fiscal 2002 in this sector also included the launch of large-diameter wheel supply capability in Japan and the joint development of new wheel designs.

The first stage of the new plant in Ontario, Canada was completed in March 2002, and commercial shipments began in June. With an initial annual production capacity of 1.1 million units, this plant specializes in large-diameter wheels, which are forecast to become a rapidly growing segment of the market. The plant had almost reached full-scale operation by early 2003.

In Japan, there is a rapid shift toward large-diameter wheels because they offer enhanced steering and braking performance. In May 2002, our Japanese production subsidiary, U-Mold Co., Ltd., introduced a new casting facility for large-diameter wheels. Demand remains strong for this product, and the facility continues to operate at full capacity.

We have also been developing revolutionary new types of aluminum wheel that capitalize on the lightness and strength of our products. In October 2002, we concluded an agreement with leading French tire manufacturer Michelin to develop a wheel specially designed for its PAX system for that allows flat tires to continue to run.

A look insiade the run-flat tire system (PAX system)

Fiscal 2003: Business Plans

The overall segment forecast for fiscal 2003 is a 16.5% gain in sales to ¥111.0 billion, with operating income climbing 31.0% to ¥5.2 billion. We expect shipments of heavy and industrial machinery to China and sales of aluminum wheels in Canada to generate a major part of this growth.

Machinery

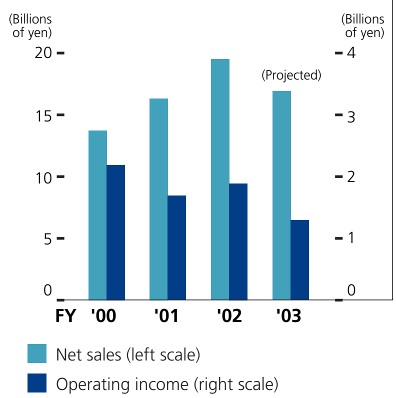
We will focus on expanding our sales in China where the market continues to grow upwards, especially in the construction, auto and household electrical goods sectors. In Japan, we expect the value added by the technical and service aspects of our solutions package will lead to new orders. We will continue our cost-reduction efforts by increasing overseas procurement.

Aluminum wheels

We will continue with our general strategy of diversifying our customer base. Outside Japan, our chief focus is the expansion of our customer base among Japanese car manufacturers in North America and developing new business in Europe. We also plan to upgrade the technical capabilities at our main plant in Japan. As our original aluminum wheel production facility, U-Mold remains as our flagship plant. By capitalizing on the technological and production expertise developed there, we plan to transfer new technologies to our factories in the U.S. and Canada and provide other assistance to improve their production efficiency.

Energy & Environment

Net Sales and Operating Income



Major products:

Coal, electric power, environmental systems

Position in business portfolio:

Coal, electric power: **Fundamental business**
Environmental business: **New business**

Basic Strategy

The coal and electric power sectors not only provide Ube Group companies with low-priced fuel and electricity, but also aim to generate stable profits by sale of electricity and coal to other companies by utilizing our infrastructure.

In the environmental sector, we focus on expansion of businesses into areas such as recycling and soil remediation where we can turn our technological strengths to our advantage.

Fiscal 2002: Business Results

Segment sales increased 19.5% year-on-year, from ¥16.4 billion to ¥19.6 billion. Segment operating income rose by 8.2% on the same basis, from ¥1.7 billion to ¥1.8 billion. This mainly reflected a higher contribution to sales by major environmental projects.

Fiscal 2002: Actions & Topics

In our coal operations, we worked to increase sales and to boost volume in the coal storage business. We received eco-friendly recycled product certification from Yamaguchi Prefecture for Z-Sand, our artificial granular sand that is made using fly ash. This allowed us to begin marketing the product for use in ground reinforcement and riverbank construction projects.

In the electric power sector, UBE Power Center Co., Ltd. continued the construction of a power plant in Ube to supply wholesale energy. The plant is set for completion in March 2004.

In the environmental business, we concentrated on expanding the application of our Ebara-Ube Process (EUP) technology, which is a system for the chemical recycling of waste plastics through a gasification process. The EUP joint venture with Ebara Corporation ensured the completion of an additional gasification recycling facility capable of recycling 65 tons of waste plastics per day, and it began operating in October 2002. In conjunction with Ebara, we secured an order for an EUP plant from Showa Denko K.K. We also made progress with Geo-Melt technology, which detoxifies contaminated soil and transforms it into vitrified glass. As a member of consortium that received an order from the Hashimoto municipal government in Wakayama Prefecture for a dioxin detoxification, we proceeded with the work. Additionally, in conjunction with Konoike Construction Co., Ltd., we introduced a license to use a special thermal extraction and heat-fixing process technology from M-I Drilling Fluids, Inc. of Canada, that will add a further dimension to Geo-Melt's capabilities.

Fiscal 2003: Business Plans

The segment forecasts its sales for fiscal 2003 will decrease 13.3%, to ¥17.0 billion, and operating income will fall 29.9% to ¥1.3 billion, due to the relative absence of contributions from major environmental projects.

Geo-Melt soil detoxification technology at work

A facility employing the Ebara-Ube Process

Research & Development

Basic Policy and Strategy

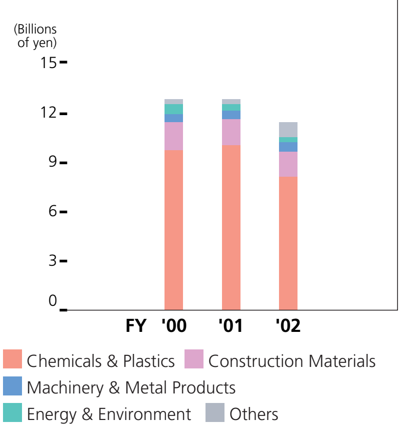
R&D programs at Ube Industries aim to realize the ambitions of each business segment in our three-year management plan by building on a solid base of technical achievements. In more specific terms, R&D activities are directed at four general objectives: strengthening the company's technological base on a long-term basis; developing more advanced technology in each business segment, based on the existing stock of innovations; expanding into peripheral and related areas; and undertaking research into areas that potentially offer entirely new business opportunities.

The fundamental strategy underpinning R&D in "core business" areas is to develop products that can be directly applied to the market while also aiming to create more advanced technologies that can sharpen the company's technological competitive edge.

In those business areas in the "fundamental businesses", the goal of R&D activities is principally to implement improvements and new process development, while the prime aim is to boost cost-competitiveness. In addition, the company invests in R&D programs designed to create new business opportunities, either on the periphery of "core business" areas or in new fields. On the other hand, we continually review R&D activities to maintain the most effective approach and to redirect resources where necessary.

Our intellectual property strategy is to gain full patent protection for our proprietary technologies. This approach encompasses the acquisition of rights to patents held by competing firms in instances where this is necessary to build a dominant or exclusive position in a particular area.

R&D Expenses by Segment



Management Structures

R&D activities are divided among the Corporate R&D, the Business Creation & Development, and R&D sections within each business segment. The Corporate R&D undertakes basic and exploratory research, primarily in chemicals and plastics, as well as process development, pilot plant studies, and production technology improvements. The R&D sections attached to each business segment work on actual product commercialization, product quality improvement, and the development of additional product applications. The Business Creation & Development section aims to seek, nurture and commercialize potential new "core businesses."

The total number of UBE Group staff working in R&D was 726 at the end of fiscal 2002, which represented approximately 7% of the total workforce.

Major Activities and Achievements during Fiscal 2002

Total consolidated R&D expenditures amounted to ¥11.4 billion. The progress achieved in R&D related to each business segment is outlined below.

Chemicals & Plastics

R&D expenditures: ¥8.0 billion (70.7% of total)

Activities in "core" areas focused on specialty products for IT-related applications and the development of pharmaceuticals and pharmaceutical intermediates, primarily targeting the fields of immunology, inflammation and circulatory systems. Areas of new business development targeted specialty products with energy or environment-related applications, such as ultra-heat-resistant inorganic materials. Development of existing products and technology focused on the development of new grades of plastics and synthetic rubber, and various specialty products.

Significant achievements included the development of new types of dual-layer CCL (specialty products). In the pharmaceutical field, besides receiving regulatory approval from the Ministry of Health, Labor & Welfare for an anti-hypertension product, we received U.S. FDA approval for the manufacture of new pharmaceutical intermediates and commenced construction of a third production facility.

Construction Materials

R&D expenditures: ¥1.5 billion (13.3% of total)

Technical development to allow the increased use of industrial waste as raw materials and fuel in cement production continued, supplemented by development work on cement and ready-mixed concrete products with improved performance specifications. Other programs involved the development of products and technologies connected with eco-friendly soil stabilizer. Other R&D activities in the construction materials sector were directed at improving the cost and performance profiles of materials, and at the development of new applications for calcium carbonate and magnesium hydroxide.

Significant achievements included the formulation of techniques to use certain types of soil as raw materials in cement production, and the commercialization of an exhaust gas-processing auxiliary and a special type of mortar designed to allow ventilation.

Machinery & Metal Products

R&D expenditures: ¥0.6 billion (5.2% of total)

Technical development work continued on a casting process technology for aluminum in a semisolid state and on in-mold coating technology for our injection-molding machines. Machine development programs also encompassed foam molding using a high-performance electric injection-molding machine. Developing a system allowing vehicles to run with flat tires formed a major part of the aluminum wheels section, as well as a various technological improvements for advanced products.

Significant achievements included: the practical development of pumps and other pressure-resistant parts for wheel assemblies using a semisolid casting process and further progress in the commercialization of in-mold coating technology for plastic products. The aluminum wheel section completed the development of a 20-inch large diameter wheel and began shipments of it.

Water treatment module employing a photocatalyst

Inside of a photocatalyst filter

Energy & Environment

R&D expenditures: ¥0.3 billion (2.8% of total)

In the coal sector, work focused on efficiency-oriented technological improvements in coal transportation, storage and combustion, including applications for fly ash in civil engineering fields. As part of these projects, we completed a new facility for artificial sand produced from fly ash and started market development in ground reinforcement and riverbank construction. In the environment sector, we developed practical applications for pressurized two-stage gasification systems used in the conversion of waste plastics, and for melting/vitrification technology designed to treat contaminated soil. We also conducted tests for a low-cost, low-impact method of soil decontamination based on indirect thermal extraction and heat-fixing process technology.

Business Creation and Development

R&D expenditures: ¥0.9 billion (8.0% of total)

The three major targeted areas are electronic components, materials for parts used in communications-related applications, and fibers that function as photocatalysts. In the first area, work continues on the development of substrates for super-fine flexible circuitry and a semi-commercial facility for double-sided Chip On Film (COF) products is currently under construction. We are also examining even more intricate and multi-layered chip-mounting processes. In the second area, activities focus mainly on the development of next-generation high-frequency communications devices, for which we are now approaching the full-scale mass production stage at our joint venture, Yokowo-Ube Giga Devices Co, Ltd. The joint venture has developed a voltage-controlled oscillator (VCO) and an integrated antenna filter element for use in mobile phones that is already being supplied to users in this sector. Others include the product and market development of radio wave sensors and power amp modules. In the field of fibrous photocatalysts, we have succeeded in developing processing modules suitable for aqueous treatment. Next year, we expect to complete the development of a photocatalyst that can operate in the visible light spectrum.

Environment, Safety & Health

Management Policy

Our environment, safety and health policy has four key aspects: the maintenance of high levels of safety, environmental preservation, product safety, and working toward improvements in health. We have a strong commitment to the environment and to occupational safety and health. Implementation of various environment, safety and health measures constitutes a major component of our "New 21•UBE Revised Plan" three-year management plan.

Management Structures

The Group Environment and Safety Committee, which is composed of top management, is our senior policy-making body for environment, safety and health issues and it is responsible for drawing up overall plans in these areas. Below this are five separate committees that oversee progress in relevant issues in each business segment, and in R&D. In addition, we have created other committees that are responsible for Ube Group management policy formulation and implementation in four specific areas: global warming countermeasures, earthquake preparedness, environmental safety audits, and environmental safety inspections.

Ongoing Programs

ISO Certification

All parent company sites have obtained ISO14001 and ISO9000-series certification, which are the accepted international standards in environmental management and quality assurance. All Ube Group companies continue to work to earn and uphold this accreditation. We are also training employees to be accredited inspectors so that we can create and maintain a self-inspection safety regime for critical on-site facilities such as boilers and high-pressure gas equipment.

Environmental Preservation

Besides observing all applicable laws and regulations, we are actively implementing numerous measures to tackle atmospheric and water pollution, to reduce chemical emissions, and to reduce or make more effective use of industrial wastes. In terms of our contribution to the prevention of global warming, in fiscal 2000 we formulated a long-term greenhouse gas emission reduction strategic plan, whose target is a minimum 6% reduction in carbon dioxide emission volumes relative to actual fiscal 1990 levels by fiscal 2010. Since fiscal 2001, our global warming countermeasures committee has overseen this program.

Disaster Prevention Measures/Occupational Safety & Health

Site safety and health procedures are designed to protect not only our employees but also the local community. All staff receive safety training, and make great efforts to prevent accidents or major incidents from occurring through the routine observation of safety rules and procedures as part of daily work activities. We also conduct regular emergency drills. We are now introducing detailed risk assessment methods to increase preparedness.

Product Safety

We employ all recommended tools, such as Material Safety Data Sheets (MSDS), the yellow card system and full hazard labeling, to ensure product safety during all stages of production and distribution, including handling and transport. We are also participants in the Long-range Research Initiative (LRI) and the engineering initiative for high production volume (HPV) chemicals, both of which are organized by the International Council of Chemical Associations (ICCA).

Principal Measures Implemented in Fiscal 2002

- Aims:

(1) Promotion of a safety-oriented company culture
(2) Adoption of environment-oriented management stance

- Measures taken:

(1) Occupational safety and health: redesign of health management system
(2) Disaster prevention: company-wide education program; strengthened audit functions
(3) Environmental preservation: reductions in emissions of hazardous chemicals and greenhouse gases

Financial Section

> Consolidated Six-Year Financial Summary

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31

	Millions of yen					
	2003	2002	2001	2000	1999	1998
RESULTS OF OPERATIONS:						
Breakdown of net sales*:						
Chemicals & Plastics	**¥204,383**	¥231,069	¥227,109	¥211,423	¥ —	¥ —
Construction Materials	**185,640**	189,045	187,836	197,125	—	—
Machinery & Metal Products	**95,281**	90,025	94,837	79,753	—	—
Energy & Environment	**19,617**	16,412	13,816	13,440	—	—
Other Businesses	**8,614**	10,997	11,409	13,036	—	—
Net sales	**513,535**	537,548	535,007	514,777	537,712	625,417
Cost of sales	**410,982**	439,971	427,151	413,528	434,987	489,358
Selling, general and administrative expenses	**76,154**	79,981	79,336	78,738	90,284	108,518
Operating income	**26,399**	17,596	28,520	22,511	12,441	27,541
Income before income taxes and minority interest	**18,834**	5,412	13,618	11,875	4,635	16,281
Net income	**8,120**	1,002	7,911	10,514	2,969	4,439
FINANCIAL POSITION:						
Assets:						
Total current assets	**275,073**	294,159	311,412	339,239	380,446	390,611
Total property, plant and equipment, net	**398,783**	422,271	352,338	375,941	395,361	412,588
Total investments and other assets	**72,034**	103,783	117,125	120,907	128,075	109,724
Total assets	**745,890**	820,213	780,875	836,087	903,882	912,923
Liabilities and stockholders' equity:						
Total current liabilities	**359,907**	388,253	362,890	397,345	445,676	484,225
Total long-term liabilities	**273,340**	314,681	304,707	329,857	342,683	313,804
Minority interest	**16,482**	20,332	18,933	19,463	18,469	21,471
Total stockholders' equity	**96,161**	96,947	94,345	89,422	97,054	93,423
GENERAL:						
Per share data (yen):						
Net income, primary**	**9.61**	1.18	9.48	12.65	3.57	5.34
Cash dividends	**3.00**	—	3.00	3.00	2.50	5.00
Stockholders' equity	**114.55**	115.78	112.67	107.59	116.79	112.42
Other data:						
Operating income as a percentage of net sales (%)	**5.2**	3.3	5.3	4.4	2.3	4.4
Return on stockholders' equity (%)	**8.4**	1.0	8.6	11.3	3.1	4.9
Return on total assets*** (%)	**3.5**	2.2	3.7	2.9	1.6	2.9
Shares of common stick issued (thousand)	**845,835**	845,828	845,828	837,857	837,857	837,857
Number of consolidated subsidiaries	**68**	83	81	84	81	85
Number of stockholders	**75,080**	78,199	74,973	74,787	76,648	76,458
Number of employees	**10,829**	11,983	11,834	12,107	12,691	14,461

* Effective from the year ended March 31, 2001, the Company has changed its segmentation to the following: "Chemicals & Plastics," "Construction Materials," "Machinery & Metal Products," "Energy & Environment" and "Other Businesses" due to the adoption of a consolidated business strategy, which enables the continuous disclosure of business conditions.

** Effective from the year ending March 31, 2003, net income, primary, per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Net income per share for the year ended March 31, 2002 has been recomputed based on the same calculation as for the year ended March 31, 2003.

***Return on total assets: (Operating income + interest and dividend income + Equity in losses of unconsolidated subsidiaries and affiliated companies) / Total assets

> Management's Discussion & Analysis

Note: For the purposes of convenience only, Japanese yen amounts in this section have been translated into U.S. dollar amounts at the rate of ¥120 = $1.

OPERATING ENVIRONMENT

In fiscal 2002 (the year ended March 31, 2003), although consumer spending and strong exports to the U.S. and Asia helped to support the Japanese economy, deflationary pressures persisted and corporate investment remained lackluster. The widely anticipated recovery in Japan proved to be feeble at best.

MAJOR POLICIES AND ACTIONS

Our primary focus was on the reduction of debt, increasing operating income and maintaining higher cash flows, which were major focus issues in the "New 21•UBE Revised Plan," consolidated medium-term management plan that started in fiscal 2001. The implementation of these group-wide activities was based on our management keywords, "Speed and Reliability." Speed means the acceleration of the PDCA (Plan, Do, Check, Action) cycle. Reliability means meeting all of our targets.

During fiscal 2002, we implemented a comprehensive rationalization program that resulted in substantial reductions in labor and other costs and expenses. Another program included lower spending on new investments and reduced capital expenditures together with sales of marketable securities and other assets, in an attempt to reduce debt. In September 2002, the company instituted a voluntary early retirement program, which resulted in a workforce reduction of 409. In October 2002 and April 2003, we made organizational reforms to allow for the adoption of an operating holding company structure to clarify our business positioning and to further delegate authority and responsibility.

The company undertook a series of transactions for downsizing, mainly in non-core businesses. In April 2002, we merged the ABS resin operations under Ube Cycon, Ltd. with those of Mitsubishi Rayon Co., Ltd. to form a joint venture called UMG ABS, Ltd. The company sold ATC Inc., a manufacturer of polypropylene compounds, in May 2002 and also sold a 51% interest in Ube Agri-Materials, Ltd., a manufacturer of fertilizers and compost, in March 2003. The company also sold the agrochemical business and the amorphous polyalphaolefin (APAO) business.

CHANGES IN SCOPE OF CONSOLIDATION

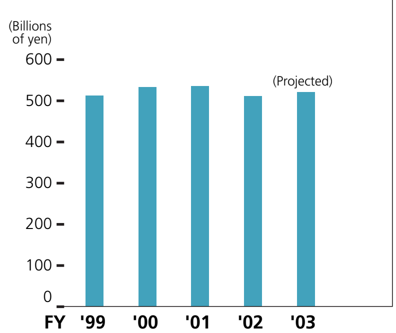
The number of consolidated subsidiaries dropped by 15 to 68 over the course of fiscal 2002. Ube Cycon and ATC were both excluded from consolidation as a result of restructuring moves. We excluded 10 ready-mixed concrete suppliers from the scope of consolidated subsidiaries, as a result of mergers, with immaterial net effect on performance. Although Ube Agri-Materials was reclassified as an equity-method affiliate, it continues to be treated as a consolidated subsidiary for the purposes of the Consolidated Statements of Income. The number of equity-method affiliates decreased by 6 over the year, to 48. Besides addition of UMG ABS and Ube Agri-Materials, other re-organizational moves removed 8 firms from the list.

FISCAL 2002 PERFORMANCE

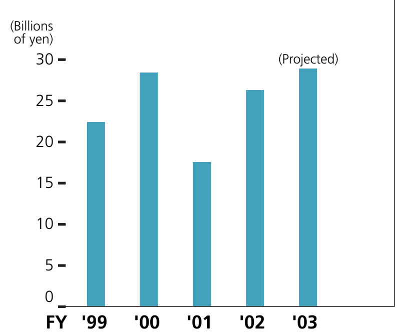
Net sales

Consolidated net sales declined by ¥24.0 billion, or 4.5%, to ¥513.5 billion (US$4,279 million). Since the changes in the scope of consolidation described above resulted in a decline in net sales of ¥30.8 billion, net sales virtually increased by ¥6.8 billion, or 1.3%. Excluding the effects caused by changes in the scope of consolidation, three business segments (Chemicals & Plastics, Machinery & Metal Products, and Energy & Environment) posted an increase in sales, while the other two segments (Construction Materials and Other Businesses) posted a decline.

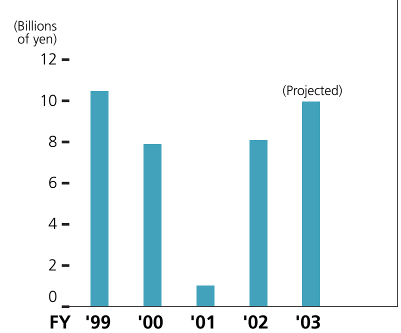
Net Sales



Operating Income



Net Income



Operating income

Operating income rose by ¥8.8 billion, or 50.0%, to ¥26.4 billion (US$220 million). Since the changes in the scope of consolidation resulted in a decline in operating income of ¥2.2 billion, the virtual year-on-year performance was a substantial increase of ¥11.0 billion, or 62.5%. All five business segments (including Other Businesses) posted higher operating income. Although increases in the prices of key raw materials such as naphtha and benzene squeezed margins, this was offset by volume gains. Lower labor costs as well as other cost reductions by increased use of industrial waste in Construction Materials segment also made significant contributions to the gains in operating income.

Other income and expenses

An ordinary net non-operating loss of ¥10.3 billion (US$86 million) was posted, which was ¥0.5 billion larger than the equivalent loss in the previous year. Net interest and dividend income (less interest expenses) was an expense of ¥9.0 billion, although this represented an improvement of ¥2.1 billion relative to the previous year as a result of the reduction in debt. The changes in the scope of consolidation had a positive effect on equity in losses of unconsolidated subsidiaries and affiliates, which improved year-on-year by ¥0.6 billion, to a loss of ¥0.3 billion. These improvements were partially offset by a substantial reduction in gains from technical licensing fees in the Chemicals & Plastics segment.

Net extraordinary income totaled ¥2.7 billion (US$23 million), the net result of extraordinary gains of ¥20.1 billion and losses of ¥17.3 billion. The net figure represented a year-on-year improvement of ¥5.1 billion. Extraordinary gains were results of fixed asset disposals and sales of marketable securities for acceleration of reduction of debt and downsizing of assets. The closure of a caprolactam production facility at Sakai factory and the No.1 cement kiln at Kanda factory (both undertaken as part of restructuring programs) generated losses on the retirement of fixed assets. Extraordinary losses were also incurred as a result of a securities valuation loss that stemmed from significant declines in Japanese stock prices.

Net income

Net income climbed to ¥8.1 billion (US$68 million), an increase of ¥7.1 billion, or 710%, relative to the previous year.

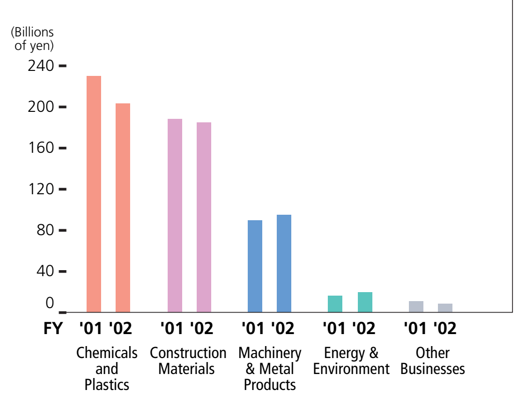
SEGMENT REVIEW

Chemicals & Plastics

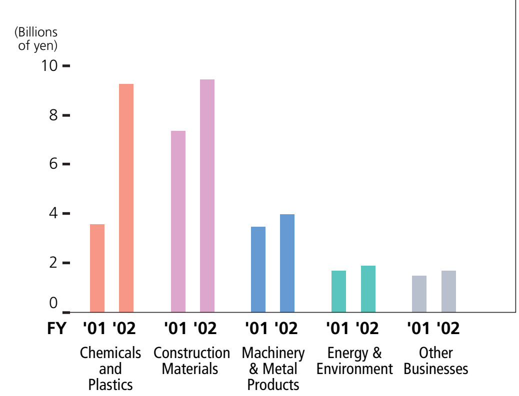
Sales fell by ¥26.7 billion, or 11.5%, to ¥204.4 billion (US$1,700 million). Excluding the decline in sales of ¥30.8 billion caused by changes in the scope of consolidation, there was a virtual increase in sales of ¥4.1 billion. Increases in sales volume were recorded in specialty products, nylon resins, synthetic rubber and other products. On the other hand, shipments of pharmaceutical intermediates slowed as a result of several factors including inventory build-ups in the U.S. of antibacterial agents that the company supplies intermediates on a consignment basis.

Operating income increased by ¥5.7 billion, or 160.5%, to ¥9.3 billion (US$78 million). Since the changes in the scope of consolidation resulted in a decline in operating income of ¥2.2 billion, there was a virtual increase of ¥7.9 billion. Besides gains in accordance with increased sales volumes, cost reduction through a comprehensive rationalization program, which spanned R&D, production, sales and distribution, made a significant contribution.

Sales by Segment



Operating Income by Segment



Construction Materials

Sales declined by ¥3.4 billion, or 1.8%, to ¥185.6 billion (US$1,544 million). The major causes of this decline were decreases in sales of cement by ¥2.7 billion and of ready-mixed concrete by ¥1.5 billion, both a consequence of a year-on-year fall in demand for cement in Japan from 67.8 million tons to 63.5 million tons. Although the shipment of resources like limestone was strong, sales prices of waterproof and other building materials were sluggish.

Operating income increased by ¥2.1 billion, or 27.6%, to ¥9.5 billion (US$79 million). Despite the negative impact from lower sales, a series of rationalization measures led to reductions in fixed costs. An increase in the use of industrial waste as substitute fuel and raw material in cement production also helped cost reduction by earning higher waste processing fees for the segment. Processing fees received rose by 53% compared with the previous year, to ¥4.5 billion.

Machinery & Metal Products

Sales increased by ¥5.3 billion, or 5.8%, to ¥95.3 billion (US$793 million). Sales grew on the back of larger shipments of crushers and mills, bulk conveyors and other industrial machinery, especially in exports to China. Exports of steel billet to South Korea also generated solid growth. In the aluminum wheels sector, sales volumes increased sharply in Japan, driven by a rapid shift to large-diameter wheels. Although fiscal 2002 saw the completion of the new wheel production facility in Canada, start-up operations occupied most of the year and the resulting sales contribution was relatively minor.

Operating income increased by ¥0.5 billion, or 14.2%, to ¥4.0 billion (US$33 million). In the machinery sector, higher sales contributed to growth in operating income. In the aluminum wheels sector, gains arising from higher sales volumes in Japan helped to offset start-up costs for the new facility in Canada. Rationalization measures reduced costs in both sectors.

Energy & Environment

Sales rose by ¥3.2 billion, or 19.5%, to ¥19.6 billion (US$163 million). Most of the gains in sales arose from an increase in the number of relatively large projects in the environment sector, such as the construction of a recycling plant for waste plastics based on Ebara-Ube Process (EUP) technology.

Operating income increased by ¥0.1 billion, or 8.2%, to ¥1.9 billion (US$15 million). The rise in sales in the environmental sector was the primary contributor.

Other Businesses

Sales declined by ¥2.4 billion, or 21.7%, to ¥8.6 billion (US$72 million), mainly due to a fall in sales at real estate operations.

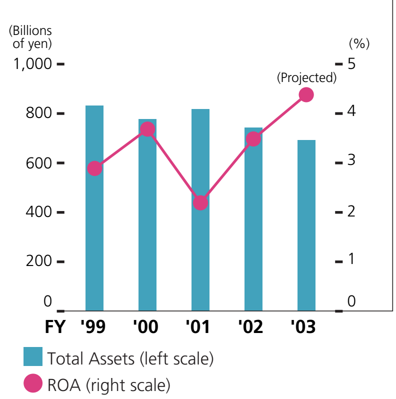
Operating income increased by ¥0.2 billion, or 16.9%, to ¥1.7 billion (US$14 million).

FINANCIAL POSITION

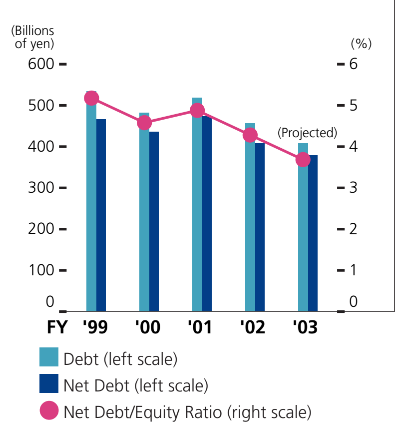
Assets

Total assets declined by ¥74.3 billion to ¥745.9 billion (US$6,216 million). Account receivables and inventories decreased mainly due to the changes in the scope of consolidation. Accordingly, current assets dropped by ¥19.1 billion. Fixed assets decreased by ¥56.0 billion as a result of sales of land and marketable securities to generate funds to repay debt, the plant shutdowns at Sakai and Kanda, and changes in the scope of consolidation.

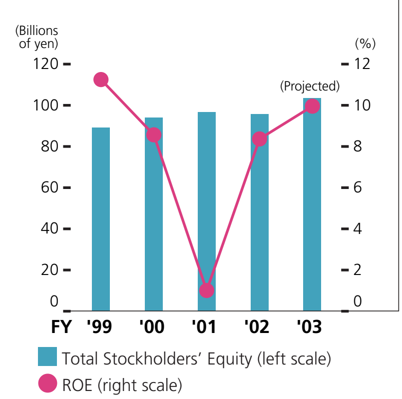
Total Assets & ROA



Debt & Net D/E Ratio



Total Stockholders' Equity & ROE



Debt

Debt decreased by ¥62.7 billion to ¥458.4 billion (US$3,820 million). The reduction consisted of ¥10.8 billion due to changes in the scope of consolidation, ¥47.8 billion as a result of repayments of debt, and ¥4.9 billion arising from foreign currency translation adjustments associated with the appreciation of the yen. Net debt after the deduction of year-end cash and cash equivalents declined by ¥65.6 billion relative to the previous year, to ¥409.8 billion (US$3,415 million).

Stockholders' equity

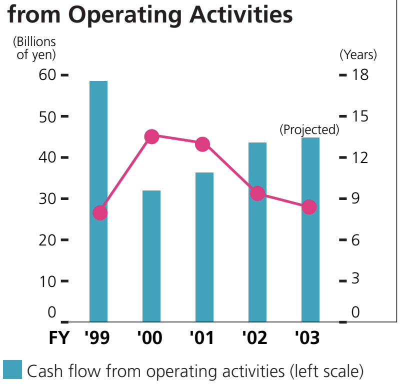
Total stockholders' equity decreased by ¥0.8 billion to ¥96.2 billion (US$801 million). This was primarily due to a decrease of ¥7.1 billion in the unrealized gain on holdings of other marketable securities, created by the decline in Japanese stock prices at the year-end, and to a deterioration of ¥2.4 billion in accumulated foreign currency translation adjustments related to changes in the value of the yen. Together, these factors offset the increase in retained earnings due to the net income of ¥8.1 billion.

CASH FLOWS

Cash and cash equivalents at the end of the year were ¥48.5 billion (US$404 million), ¥2.9 billion higher than at the previous fiscal year-end. Cash flows produced by the increase in income before taxes and minority interest, sales of assets, reduction in working capital and lower level of investments and capital expenditures were mostly allocated to reducing debt.

Net cash provided by operating activities amounted to ¥43.7 billion (US$364 million), an increase of ¥7.3 billion relative to the previous year. Significant contributions to this cash inflow included income before income taxes and minority interest of ¥18.8 billion and depreciation and amortization of ¥30.2 billion.

Cash Flow from Operating Activities



Net cash provided by investing activities amounted to ¥8.5 billion (US$71 million), an increase of ¥37.8 billion relative to the previous year. Significant components of this cash inflow included an outflow of ¥32.6 billion through the acquisition of property, plant and equipment, an inflow of ¥23.8 billion through proceeds from the sale of investment securities, and an inflow of ¥18.2 billion through proceeds from the sale of property, plant and equipment.

Net cash used in financing activities amounted to ¥48.1 billion (US$401 million), an increase of ¥33.7 billion relative to the previous year. Repayments of long-term borrowings and other debt totaled ¥47.8 billion.

PERFORMANCE INDICES

Net Debt/Equity ratio*

The net debt to equity ratio at the year-end improved by 0.6 points, to 4.3, compared with a ratio of 4.9 at the previous year-end. This improvement was due to the steady reduction in debt, despite the decline in stockholders' equity.

Return on assets (ROA)**

ROA was 3.5%, an improvement of 1.3 points relative to the previous year. This resulted from the increase in operating income combined with the decline in total assets.

Return on equity (ROE)***

ROE rose significantly relative to the previous year, by 7.4 points, to 8.4%. This was due to the large increase in net income.

Debt redemption period****

The debt redemption period was shortened by 3.7 years, to 9.4 years. This was due to a decrease in debt combined with an increase in net cash provided by operating activities through reinforcement of businesses.

DIVIDENDS

The company plans to pay a year-end dividend of ¥3 per share. This follows the suspension of a cash dividend for fiscal 2001.

FORECASTS FOR FISCAL 2003

With ongoing uncertainty surrounding the U.S.'s economic prospects, there are also concerns that the recovery in Asia may slow down. The Japanese economic environment is projected to remain difficult amid persistent deflationary pressures, as well as sluggish consumer spending and capital investment.

Basic Assumptions

(1) Exchange rates and materials prices:

We assume an average exchange rate of ¥120/$ and an average price for domestic naphtha of ¥24,500/kl for fiscal 2003.

(2) Changes in the scope of consolidation:

During fiscal 2003, the company expects the number of consolidated subsidiaries to increase by 3, to 71, and the number of equity-method affiliates to decrease by 5, to 43.

(3) Changes in business segment classification and managerial accounting policies:

From fiscal 2003, the company will split the Chemicals & Plastics segment into two segments, Chemicals & Plastics and Specialty Chemicals & Products. The former segment comprises Polyolefins and Synthetic Rubber sector and Caprolactam, Nylon and Industrial Chemicals sector, while the latter segment comprises the Fine Chemicals and Pharmaceuticals sector and Specialty Products sector.

Simultaneously, the company will also alter its managerial accounting policy for the allocation method of head office indirect expenses to segments. This change aims to further clarify the allocation method on an arm's-length basis especially to the Machinery & Metal Products and Construction Materials segments, in accordance with an operating holding company structure. This new approach will have the effect of increasing the proportion of allocation to the Chemicals & Plastics, Specialty Chemicals & Products, and Energy & Environment segments.

Performance projections

Despite economic uncertainties, the company is expecting slight increases in sales and profits for fiscal 2003. Sales are projected to rise by 1.8% to ¥523.0 billion including an anticipated decline in sales of ¥5.5 billion due to changes in the scope of consolidation. Three business segments (Chemicals & Plastics, Specialty Chemicals & Products, and Machinery & Metal Products) expect increases in sales, while the other segments (Construction Materials, Energy & Environment, and Other Businesses) predict sales decreases.

The company forecasts that operating income will rise by 9.9% to ¥29.0 billion. While management foresees some price erosion within the Specialty Chemicals & Products segment and aluminum wheels sector, growth in sales volume is expected to offset this, resulting in higher profits. In the Construction Materials segment, where demand for cement and ready-mixed concrete is forecast to continue to decline, we will endeavor to reduce costs by increasing use of industrial waste. Although we foresee some tendency for rising fixed costs, management plans to continue an extensive rationalization programs.

The company projects a net non-operating loss of ¥1.1 billion and a net extraordinary loss of ¥1.0 billion.

Net income is projected to increase by ¥1.9 billion, or 23.2%, to ¥10.0 billion.

Debt

Management continues to reduce debt, planning the fiscal 2003 year-end debt to fall to ¥410.0 billion, a planned reduction of ¥48.3 billion over the year. While ongoing projects preclude any significant reduction in investment and capital expenditure, the company plans to place heavy restrictions on new investments. A combination of higher operating income and cash proceeds from asset sales will contribute to the accelerated debt-reduction program. The company forecasts that the fiscal 2003 year-end cash and cash equivalents will be ¥30.0 billion. Management plans to reduce net debt by ¥29.8 billion, to ¥380.0 billion.

Performance Indices

Management expects a net debt to equity ratio of 3.7 (an improvement of 0.6 points); ROA of 4.4% (an improvement of 0.9 points); ROE of 10.0% (an improvement of 1.6 points); and a debt redemption period of 8.4 years (a shortening of 1 year).

Dividends

The company plans to pay a fiscal 2003 year-end dividend of ¥3 per share. No interim dividend payment is planned.

* Net Debt/Equity Ratio = Net debt / Total stockholders' equity
** ROA = (Operating income + Interest and dividend income + Equity loss of unconsolidated subsidiaries and affiliated companies) / Total assets
*** ROE = Net income / Total stockholders' equity
**** Debt Redemption Period = Net debt / Net cash provided by operating activities

> Consolidated Balance Sheets

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current assets:			
Cash and cash equivalents	¥ 48,521	¥ 45,599	$ 404,342
Time deposits	2,045	1,983	17,042
Securities (Notes 3 and 6)	46	43	383
Receivables (Note 6):			
Trade notes and accounts	131,346	143,491	1,094,550
Other	13,598	12,414	113,317
Allowance for doubtful receivables	(1,133)	(1,266)	(9,442)
Inventories (Note 4)	69,578	82,016	579,817
Deferred tax assets (Note 12)	6,618	5,480	55,150
Other current assets	4,454	4,399	37,116
Total current assets	275,073	294,159	2,292,275
Property, plant and equipment (Note 6)**:**			
Land	96,201	93,474	801,675
Buildings and structures	243,681	263,955	2,030,675
Machinery and equipment	583,113	620,685	4,859,275
Construction in progress	26,588	22,832	221,567
Accumulated depreciation	(550,800)	(578,675)	(4,590,000)
Total property, plant and equipment, net	398,783	422,271	3,323,192
Investments and other assets:			
Investment securities (Notes 3 and 6)	40,753	66,490	339,608
Long-term loans receivable	3,656	6,279	30,467
Long-term deferred tax assets (Note 12)	6,881	9,516	57,342
Other non-current assets	27,112	30,405	225,933
Allowance for doubtful receivables	(6,368)	(8,907)	(53,067)
Total investments and other assets	72,034	103,783	600,283
Total assets	¥ 745,890	¥820,213	$ 6,215,750

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current liabilities:			
Short-term loans payable (Notes 5 and 6)	¥146,182	¥164,710	$1,218,183
Current maturities of long-term debt (Notes 5 and 6)	73,940	77,654	616,167
Payables:			
Trade notes and accounts	87,016	89,474	725,133
Other	28,868	26,093	240,567
Accrued bonuses	5,529	5,924	46,075
Accrued income taxes	2,389	4,576	19,908
Other current liabilities	15,983	19,822	133,192
Total current liabilities	359,907	388,253	2,999,225
Long-term liabilities:			
Long-term debt less current maturities (Notes 5 and 6)	238,248	278,664	1,985,400
Accrued retirement benefits (Note 16)	8,642	9,673	72,017
Long-term deferred tax liabilities (Note 12)	1,465	1,524	12,208
Other long-term liabilities	24,985	24,820	208,208
Total long-term liabilities	273,340	314,681	2,277,833
Minority interest	16,482	20,332	137,350
Contingent liabilities (Note 7)			
Stockholders' equity (Notes 8 and 18)**:**			
Common stock, without par value:			
Authorized—3,300,000,000 shares			
Issued – 845,835,813 shares at March 31, 2003	43,565	43,564	363,042
Capital surplus	9,606	9,605	80,050
Revaluation surplus on assets	603	620	5,025
Retained earnings	47,301	38,838	394,175
Unrealized gain on holdings of other marketable securities	2,645	9,724	22,042
Accumulated foreign currency translation adjustments	(6,207)	(3,822)	(51,726)
	97,513	98,529	812,608
Treasury stock, at cost	(1,352)	(1,582)	(11,266)
Total stockholders' equity	96,161	96,947	801,342
Total Liabilities and Stockholders' Equity	¥745,890	¥820,213	$6,215,750

> Consolidated Statements of Income

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales	**¥513,535**	¥537,548	**$4,279,458**
Cost of sales	**410,982**	439,971	**3,424,850**
Gross profit	**102,553**	97,577	**854,608**
Selling, general and administrative expenses	**76,154**	79,981	**634,616**
Operating income	**26,399**	17,596	**219,992**
Other income (expenses):			
Interest and dividend income	**1,088**	1,270	**9,066**
Amortization of consolidation differences	**176**	—	**1,467**
Interest expenses	**(10,134)**	(12,457)	**(84,450)**
Equity in losses of unconsolidated subsidiaries and affiliated companies	**(383)**	(991)	**(3,192)**
Other, net (Note 10)	**1,688**	(6)	**14,067**
	(7,565)	(12,184)	**(63,042)**
Income before income taxes and minority interest	**18,834**	5,412	**156,950**
Income taxes (Note 12)**:**			
Current	**3,777**	8,140	**31,475**
Deferred	**6,029**	(4,158)	**50,242**
	9,806	3,982	**81,717**
Minority interest	**(908)**	(428)	**(7,566)**
Net income	**¥ 8,120**	¥ 1,002	**$ 67,667**

	Yen		U.S. dollars (Note 1)
Per share:			
Net income:			
Primary	**¥ 9.61**	¥ 1.18	**$ 0.080**
Diluted	**8.99**	—	**0.075**
Cash dividends applicable to the period	**3.00**	—	**0.025**

See accompanying notes.

> Consolidated Statements of Stockholders' Equity

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2003 and 2002

		Millions of yen				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Unrealized gain on holdings of other marketable securities	Accumulated foreign currency translation adjustments
Balance at March 31, 2001	845,828	¥43,564	¥9,605	¥41,409	¥9,474	¥(8,121)
Increase in earnings due to exclusion of consolidated subsidiaries	—	—	—	12	—	—
Increase in earnings due to exclusion of affiliated companies of equity method	—	—	—	287	—	—
Increase in earnings due to changes in shareholding ratio of consolidated subsidiaries and affiliated companies of equity method	—	—	—	35	—	—
Cash dividends at ¥3.00 per share	—	—	—	(2,531)	—	—
Bonuses to directors and statutory auditors	—	—	—	(82)	—	—
Decrease in earnings due to inclusion of consolidated subsidiaries	—	—	—	(473)	—	—
Decrease in earnings due to merger of consolidated subsidiaries	—	—	—	(200)	—	—
Decrease in earnings due to inclusion of affiliated companies of equity method	—	—	—	(1)	—	—
Transfer to revaluation surplus of assets	—	—	—	(620)	—	—
Net income for the year	—	—	—	1,002	—	—
Net change during the year	—	—	—	—	250	4,299
Balance at March 31, 2002	845,828	43,564	9,605	38,838	9,724	(3,822)
Shares issued for conversion of convertible notes	**7**	**1**	**1**	**—**	**—**	**—**
Increase in earnings due to inclusion/exclusion of consolidated subsidiaries	**—**	**—**	**—**	**307**	**—**	**—**
Increase in earnings due to inclusion/exclusion of affiliated companies of equity method	**—**	**—**	**—**	**28**	**—**	**—**
Increase in earnings due to changes in shareholding ratio of consolidated subsidiaries and affiliated companies of equity method	**—**	**—**	**—**	**109**	**—**	**—**
Transfer from revaluation surplus of assets	**—**	**—**	**—**	**17**	**—**	**—**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(18)**	**—**	**—**
Decrease in earnings due to inclusion/exclusion of consolidated subsidiaries	**—**	**—**	**—**	**(5)**	**—**	**—**
Decrease in earnings due to inclusion/exclusion of affiliated companies of equity method	**—**	**—**	**—**	**(58)**	**—**	**—**
Decrease in earnings due to merger of affiliated companies of equity method	**—**	**—**	**—**	**(37)**	**—**	**—**
Net income for the yea	**—**	**—**	**—**	**8,120**	**—**	**—**
Net change during the year	**—**	**—**	**—**	**—**	**(7,079)**	**(2,385)**
Balance at March 31, 2003	**845,835**	**¥43,565**	**¥9,606**	**¥47,301**	**¥2,645**	**¥(6,207)**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Unrealized gain on holdings of other marketable securities	Accumulated foreign currency translation adjustments
Balance at March 31, 2002	$363,034	$80,042	$323,650	$81,034	$(31,850)
Shares issued for conversion of convertible notes	**8**	**8**	**—**	**—**	**—**
Increase in earnings due to inclusion/exclusion of consolidated subsidiaries	**—**	**—**	**2,558**	**—**	**—**
Increase in earnings due to inclusion/exclusion of affiliated companies of equity method	**—**	**—**	**233**	**—**	**—**
Increase in earnings due to changes in shareholding ratio of consolidated subsidiaries and affiliated companies of equity method	**—**	**—**	**908**	**—**	**—**
Transfer from revaluation surplus of assets	**—**	**—**	**142**	**—**	**—**
Bonuses to directors and statutory auditors	**—**	**—**	**(150)**	**—**	**—**
Decrease in earnings due to inclusion/exclusion of consolidated subsidiaries	**—**	**—**	**(42)**	**—**	**—**
Decrease in earnings due to inclusion/exclusion of affiliated companies of equity method	**—**	**—**	**(483)**	**—**	**—**
Decrease in earnings due to merger of affiliated companies of equity method	**—**	**—**	**(308)**	**—**	**—**
Net income for the year	**—**	**—**	**67,667**	**—**	**—**
Net change during the year	**—**	**—**	**—**	**(58,992)**	**(19,875)**
Balance at March 31, 2003	**$363,042**	**$80,050**	**$394,175**	**$22,042**	**$(51,725)**

See accompanying notes.

> Consolidated Statements of Cash Flows

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash flows from operating activities:			
Income before income taxes and minority interest	**¥18,834**	¥ 5,412	**$ 156,950**
Depreciation and amortization	**30,243**	31,011	**252,025**
Interest and dividend income	**(1,088)**	(1,270)	**(9,067)**
Interest expenses	**10,134**	12,457	**84,450**
Gain on sale of property, plant and equipment, net	**(10,161)**	(3,705)	**(84,675)**
Gain on sale of investment securities	**(7,106)**	(3,153)	**(59,217)**
Decrease in receivables	**3,748**	11,421	**31,233**
Increase (decrease) in inventories	**(909)**	545	**(7,575)**
Increase (decrease) in payables	**4,326**	(10,505)	**36,050**
Early retirement incentive	**5,124**	829	**42,700**
Other, net	**11,138**	12,741	**92,818**
Subtotal	**64,283**	55,783	**535,692**
Interest and dividends received	**1,409**	1,953	**11,742**
Interest payment	**(10,214)**	(12,640)	**(85,117)**
Income tax payment	**(6,708)**	(8,101)	**(55,900)**
Early retirement incentive payments to employees	**(5,124)**	(635)	**(42,700)**
Other, net	**60**	24	**500**
Net cash provided by operating activities	**43,706**	36,384	**364,217**
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	**18,253**	18,019	**152,108**
Acquisition of property, plant and equipment	**(32,598)**	(46,514)	**(271,650)**
Proceeds from sale of securities	**2,042**	425	**17,017**
Proceeds from sale of investment securities	**23,802**	8,475	**198,350**
Acquisition of securities	**(4,957)**	(7,933)	**(41,308)**
Net decrease in loans receivable	**1,969**	428	**16,408**
Others, net	**14**	(2,129)	**117**
Net cash provided by (used in) investing activities	**8,525**	(29,229)	**71,042**
Cash flows from financing activities:			
Proceeds from long-term borrowings	**44,267**	39,768	**368,892**
Proceeds from long-term bonds	**—**	7,000	**—**
Repayments of long-term borrowings	**(76,824)**	(76,532)	**(640,200)**
Repayments of long-term bonds	**(5,000)**	(180)	**(41,667)**
Net decrease (increase) in short term loans payable	**(10,202)**	20,296	**(85,017)**
Cash dividends paid	**(202)**	(4,686)	**(1,683)**
Others, net	**(103)**	(56)	**(858)**
Net cash used in financing activities	**(48,064)**	(14,390)	**(400,533)**
Effect of exchange rate changes on cash and cash equivalents	**(306)**	917	**(2,551)**
Net increase (decrease) in cash and cash equivalents	**3,861**	(6,318)	**32,175**
Adjustment due to change in consolidation scope	**(939)**	5,921	**(7,825)**
Cash and cash equivalents at beginning of the year	**45,599**	45,996	**379,992**
Cash and cash equivalents at end of the year	**¥48,521**	¥45,599	**$404,342**

See accompanying notes.

> Notes to Consolidated Financial Statements

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2003 and 2002

1. Basis of presenting financial statements

(a) Ube industries, Ltd. (the "Company") and its consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, accordingly, have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdiction other than Japan.

Certain modifications have been made to the accompanying financial statements in order to present them in a form which is more familiar to readers outside Japan.

(b) The accompanying financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥120=US$1, the approximate rate of exchange on March 31, 2003. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future converted into U.S. dollars at the above or any other rate.

2. Significant accounting policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Significant companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 5 to 20 years on a straight-line basis.

Investments in companies which are not consolidated or accounted for the equity method are carried at cost.

(b) Accounting for income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(c) Securities

Securities are classified into three categories: trading, held-to-maturity and other categories. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in the unrealized holding gain or loss, net of the applicable income taxes, included directly in stockholders' equity. Non-Marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(d) Derivatives and hedge accounting

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer the recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

Additional information on derivatives is presented in Note 13.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an amount estimated with reference to individual uncorrectable accounts plus an amount calculated by a historical rate determined based on the actual uncorrectable amounts incurred in prior years.

(f) Inventories

Inventories are stated at cost principally determined by the weighted-average method.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed principally by the straight line method for the Company and by the declining-balance method for consolidated subsidiaries at rates based on the estimated useful lives of the respective assets, ranging from 2 to 75 years for buildings and structures and from 2 to 25 years for machinery and equipment.

(h) Leases

Non-cancelable lease transactions are accounted as operating leases (whether such leases are classified as operating leases or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted as finance leases.

(i) Research and development costs

Research and development costs are charged to income when incurred.

(j) Foreign currency translation

Current and non-current monetary accounts denominated in foreign currencies are translated into yen at the current rates. Foreign currency denominated revenues and expenses are translated at the spot exchange rate on the closing date, and any translation difference is accounted for as a profit or loss for the term.

The revenue and expense accounts of the foreign consolidated subsidiaries are translated at the rates of exchange in effect at the balance sheet date. Except for shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Foreign currency translation adjustments are included in shareholders' equity and minority interests.

(k) Accrued retirement benefits

Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet dates.

Net retirement benefit obligation at transition of ¥36,496 million (US$304,133 thousand) is being amortized principally over 13 years.

Prior service cost is being amortized as incurred mainly by the declining-balance method over 5-13 years, which is shorter than the average remaining years of the employees.

Actuarial gain or loss is being amortized in the year following the year incurred mainly by the declining-balance method over 10-13 years, which is shorter than the average remaining years of employees.

(l) Net income per share

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, primary net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year assuming full conversion of convertible notes.

Net income per share for the year ended March 31, 2002 has been recomputed based on this new accounting standard and is restated in the accompanying financial statements.

(m) Employees' bonus allowance

Employees' bonus allowance is maintained at an amount estimated based on the bonus to be paid subsequent to the balance sheet date.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments. Short-term investments included here are readily convertible into cash, exposed to insignificant risk of changes in value and mature or become due within three months of the date of acquisition.

(o) Appropriation of retained earnings

Cash dividends, transfer to legal reserve and bonuses to directors and statutory auditors are recorded in the financial year in which the proposed appropriation of retained earnings is approved by the Board of Directors and/or the stockholders.

(p) Directors and statutory auditors' retirement benefits

The Company and its most consolidated subsidiaries provided for retirement allowances for directors and statutory auditors determined based on their internal regulations for their provision.

(q) Treasury stock and reduction of legal reserves

Effective April 1, 2002, the Company adopted a new accounting standard for treasury stock and reduction of legal reserves. There was no effect of the adoption of this new standard.

3. Securities

Securities and investment securities at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Securities, at cost:			
Bonds and others	¥ 46	¥ 43	$ 383
Investment securities, at cost:			
Unconsolidated subsidiaries and affiliated companies	24,923	24,216	207,692
Others	15,830	42,274	131,916
	¥40,753	¥66,490	$339,608

Information regarding marketable securities classified as other securities as of March 31, 2003 and 2002 were as follows:

Marketable Other securities

	Millions of yen					
	2003			2002		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥1,433	¥6,232	¥4,799	¥10,622	¥29,734	¥19,112
Debt securities	31	32	1	51	52	1
Subtotal	1,464	6,264	4,800	10,673	29,786	19,113
Securities whose acquisition cost exceeds their carrying value:						
Stock	2,648	2,255	(393)	7,061	4,983	(2,078)
Debt securities	45	45	0	2,075	2,012	(63)
Others	534	457	(77)	1,026	719	(307)
Subtotal	3,227	2,757	(470)	10,162	7,714	(2,448)
Total	¥4,691	¥9,021	¥4,330	¥20,835	¥37,500	¥16,665

	Thousands of U.S. dollars		
	2003		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$11,942	$51,933	$39,991
Debt securities	258	267	9
Subtotal	12,200	52,200	40,000
Securities whose acquisition cost exceeds their carrying value:			
Stock	22,067	18,792	(3,275)
Debt securities	375	375	0
Others	4,450	3,808	(642)
Subtotal	26,892	22,975	(3,917)
Total	$39,092	$75,175	$36,083

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2003 and 2002 were summarized as follows:

Millions of yen						Thousands of U.S. dollars		
2003			2002			2003		
Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
¥18,113	¥8,060	¥(1,081)	¥2,319	¥843	¥(25)	$150,942	$67,167	$(9,008)

Other securities without market value at March 31, 2003 and 2002 mainly consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Held-to maturity debt securities:			
Commercial paper	¥ —	¥3,999	$ —
Subtotal	—	3,999	—
Other securities:			
Non-listed equity securities	6,420	4,527	53,500
Others	635	290	5,292
Subtotal	7,055	4,817	58,792
Total	¥7,055	¥8,816	$58,792

4. Inventories

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished goods	¥31,002	¥34,245	$258,350
Work in process	21,856	27,849	182,133
Raw materials and supplies	16,720	19,922	139,334
	¥69,578	¥82,016	$579,817

5. Short-term loans payable and long-term debt

Short-term loans payable represented short-term notes and bank overdrafts, with interest rates average at 1.13% and 1.19% per annum at March 31, 2003 and 2002, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
1.77% notes due 2003	¥ —	¥ 5,000	$ —
2.41% notes due 2005	5,000	5,000	41,667
2.35% notes due 2005	7,000	7,000	58,333
2.66% notes due 2006	7,000	7,000	58,333
1.43% notes due 2006	7,000	7,000	58,333
1.25% convertible notes due 2005, convertible at ¥422 per share	19,811	19,908	165,092
1.40% convertible notes due 2008, convertible at ¥422 per share	19,908	19,911	165,900
Loans principally from banks and insurance companies:			
Secured, at 0.77% to 6.27%, maturing through 2013	133,902	168,760	1,115,850
Unsecured, at 0.75% to 6.41%, maturing through 2030	112,567	116,739	938,059
	312,188	356,318	2,601,567
Less current maturities	73,940	77,654	616,167
	¥238,248	¥278,664	$1,985,400

The annual maturities of long-term debt subsequent to March 31, 2003 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥73,940	$616,167
2005	61,726	514,383
2006	60,008	500,067
2007	47,328	394,400
2008 and thereafter	¥69,186	$576,550

6. Pledged assets

The assets pledged as collateral for short-term and long-term borrowings, guarantees and borrowings of affiliated companies at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Assets pledged as collateral			
Securities	**¥ 23**	¥ —	**$ 191**
Trade notes receivable	**2,028**	1,601	**16,900**
Trade accounts receivable	**441**	616	**3,675**
Property, plant and equipment, at net book value	**204,017**	231,646	**1,700,142**
Investment securities	**5,022**	6,588	**41,850**
	¥211,531	¥240,451	**$1,762,758**

7. Contingent liabilities

At March 31, 2003 and 2002, the company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
As endorser of trade notes discounted or endorsed	**¥ 3,112**	¥ 5,018	**$ 25,933**
As guarantor of indebtedness principally of unconsolidated subsidiaries and affiliated companies	**23,694**	24,186	**197,450**

The guaranteed amount includes similar commitments of ¥16,964 million (US$ 141,367 thousand) and ¥15,786 million at March 31, 2003 and 2002, respectively.

8. Stockholders' equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the regal reserve, until the total of such reserve and the capital surplus account equals 25% of the common share account.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the stockholders or may be transferred to common shares by resolution of the Board of Directors, on October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common shares, the excess may be distributed to stockholders either as a return of capital or as dividends subject to the approval of the stockholders. In addition, the Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the amendment came into effect, the Company's shares had a par value of ¥50.

9. Research and development costs

Research and development costs, all of which were included in selling, general and administrative expenses for the years ended march 31, 2003 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Research and development costs	**¥11,351**	¥12,923	**$94,592**

10. Other income (expenses)

Other income (expenses)—other, net, for the years ended March 31, 2003 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Gain on sale of securities, net	**¥ 7,106**	¥3,156	**$59,217**
Gain on sale of property, plant and equipment, net	**10,161**	3,705	**84,675**
Write-down of investment securities	**(2,783)**	(1,545)	**(23,192)**
Provision for doubtful receivables	**(856)**	(3,634)	**(7,133)**
Early retirement incentive payments to employees	**(5,124)**	(829)	**(42,700)**
Other, net	**(6,816)**	(859)	**(56,800)**
	¥ 1,688	¥ (6)	**$14,067**

11. Supplementary cash flows information

The following is a summary of the transferred assets and liabilities, the relevant acquiring prices and the net cash flows from acquisition of stock of Thai Synthetic Rubbers Co., Ltd. in the year ended March 31, 2002.

	Millions of yen
Current assets	¥1,562
Fixed assets	8,570
Current liabilities	(2,884)
Long-term liabilities	(4,443)
Consolidation adjustment	(164)
Minority interest in consolidated subsidiary	(754)
Foreign currency translation adjustment	(603)
Acquiring price of stock	1,284
Cash and cash equivalents held by subsidiary	(224)
Net cash flow	¥1,060

12. Income taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 41.7% for the years ended March 31, 2003 and 2002.

The effective tax rate reflected in the statements of income for the years ended March 31, 2003 and 2002 differs from the statutory tax rate for the following reasons.

	Percentage	
	2003	2002
Statutory tax rate	**41.7%**	41.7%
Effect of:		
Permanently nondeductible expenses	**1.5**	6.1
Loss carried forward without deferred tax assets	**3.7**	18.5
Investment valuation loss of consolidated subsidiaries and affiliates	**(0.8)**	(7.7)
Reserve for doubtful receivables of consolidated subsidiaries and affiliates	**(1.8)**	(3.1)
Investment profit / loss of affiliated companies of equity method	**0.8**	7.6
Permanently nontaxable items including income dividends	**(2.0)**	(25.7)
Effect of elimination of income dividends through consolidation procedures	**4.1**	35.3
Other	**4.9**	0.9
Effective tax rates	**52.1%**	73.6%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 41.7% to 40.4% effective the fiscal year beginning after March 31, 2004. The effect of this tax rate change was to increase deferred tax assets (net of deferred tax liabilities) by ¥163 million ($1,358 thousand) at March 31, 2003 and to decrease income tax-deferred by ¥105 million ($875 thousand) for the year ended March 31, 2003.

The significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Accrued bonuses	**¥ 1,941**	¥ 1,565	**$ 16,175**
Retirement allowances	**3,490**	3,366	**29,083**
Loss carried forward	**9,473**	9,291	**78,942**
Intercompany profit	**14,223**	24,323	**118,525**
Other	**5,819**	4,998	**48,492**
Gross deferred tax assets	**34,946**	43,543	**291,217**
Valuation allowance	**(8,874)**	(9,107)	**(73,950)**
Total deferred tax assets	**26,072**	34,436	**217,267**
Deferred tax liabilities:			
Deferred gain on real properties	**(11,101)**	(11,840)	**(92,508)**
Reserve for special depreciation	**(152)**	(198)	**(1,267)**
Unrealized gain on holdings of other marketable securities	**(1,890)**	(7,175)	**(15,750)**
Other	**(895)**	(1,751)	**(7,459)**
Total deferred tax liabilities	**(14,038)**	(20,964)	**(116,984)**
Net deferred tax assets	**¥12,034**	¥13,472	**$100,283**

13. Derivative financial instruments

The Company and certain consolidated subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and in interest rates.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding at March 31, 2003 and 2002.

Currency-related transactions

	Millions of yen					
	2003			2002		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Currency swaps:						
Receive/US$ and pay/¥	**¥2,590**	**¥(19)**	**¥(19)**	¥2,590	¥(3)	¥(3)
Total			**¥(19)**			¥(3)

	Thousands of U.S. dollars		
	2003		
	Notional amount	Fair value	Unrealized gain (loss)
Currency swaps:			
Receive/US$ and pay/¥	**$21,583**	**$(158)**	**$(158)**
Total			**$(158)**

Note: The notional amount presented above exclude those entered into to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at the corresponding contracted rates in the accompanying consolidated balance sheets.

14. Segment information

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 are summarized by product group as follows:

	Millions of yen						
Year ended March 31, 2003	Chemicals & plastics	Construction Materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
Sales:							
Outside customers	**¥204,383**	**¥185,640**	**¥ 95,281**	**¥19,617**	**¥ 8,614**	**¥ —**	**¥513,535**
Intersegment sales and transfers	**509**	**3,403**	**3,120**	**6,442**	**477**	**(13,951)**	**—**
	204,892	**189,043**	**98,401**	**26,059**	**9,091**	**(13,951)**	**513,535**
Operating cost	**195,566**	**179,542**	**94,433**	**24,205**	**7,392**	**(14,002)**	**487,136**
Operating income	**¥ 9,326**	**¥ 9,501**	**¥ 3,968**	**¥ 1,854**	**¥ 1,699**	**¥ 51**	**¥ 26,399**
Assets	**¥292,053**	**¥245,429**	**¥104,091**	**¥45,845**	**¥30,574**	**¥27,898**	**¥745,890**
Depreciation of fixed assets	**12,887**	**9,885**	**5,651**	**1,082**	**738**	**—**	**30,243**
Acquisition of fixed assets	**13,720**	**8,455**	**6,522**	**3,205**	**611**	**—**	**32,513**

	Millions of yen						
Year ended March 31, 2002	Chemicals & plastics	Construction Materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
Sales:							
Outside customers	¥231,069	¥189,045	¥ 90,025	¥16,412	¥10,997	¥ —	¥537,548
Intersegment sales and transfers	630	3,688	1,745	6,908	1,059	(14,030)	—
	231,699	192,733	91,770	23,320	12,056	(14,030)	537,548
Operating cost	228,119	185,289	88,296	21,606	10,602	(13,960)	519,952
Operating income	¥ 3,580	¥ 7,444	¥ 3,474	¥ 1,714	¥ 1,454	¥ (70)	¥ 17,596
Assets	¥324,393	¥262,006	¥111,572	¥60,515	¥30,005	¥31,722	¥820,213
Depreciation of fixed assets	14,234	10,261	4,616	874	1,026	—	31,011
Acquisition of fixed assets	15,288	8,901	12,287	10,791	1,383	—	48,650

Year ended March 31, 2003	Chemicals & plastics	Construction Materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
	Thousands of U.S. dollars						
Sales:							
Outside customers	**$1,703,192**	**$1,547,000**	**$794,008**	**$163,475**	**$ 71,783**	**$ —**	**$4,279,458**
Intersegment sales and transfers	**4,242**	**28,358**	**26,000**	**53,683**	**3,975**	**(116,258)**	**—**
	1,707,434	**1,575,358**	**820,008**	**217,158**	**75,758**	**(116,258)**	**4,279,458**
Operating cost	**1,629,717**	**1,496,183**	**786,942**	**201,708**	**61,599**	**(116,683)**	**4,059,466**
Operating income	**$ 77,717**	**$ 79,175**	**$ 33,067**	**$ 15,450**	**$ 14,158**	**$ 425**	**$ 219,992**
Assets	**$2,433,775**	**$2,045,242**	**$867,425**	**$382,042**	**$254,783**	**$232,483**	**$6,215,750**
Depreciation of fixed assets	**107,392**	**82,375**	**47,092**	**9,017**	**6,149**	**—**	**252,025**
Acquisition of fixed assets	**114,333**	**70,458**	**54,350**	**26,708**	**5,093**	**—**	**270,942**

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 by geographic area were as follows:

Year ended March 31, 2003	Japan	Other area	Elimination & Corporate	Consolidated
	Millions of yen			
Sales:				
Outside customers	**¥447,804**	**¥ 65,731**	**¥ —**	**¥513,535**
Intersegment sales and transfers	**16,835**	**2,249**	**(19,084)**	**—**
	464,639	**67,980**	**(19,084)**	**513,535**
Operating cost	**441,249**	**64,797**	**(18,910)**	**487,136**
Operating income	**¥ 23,390**	**¥ 3,183**	**¥ (174)**	**¥ 26,399**
Assets	**¥595,459**	**¥118,351**	**¥32,080**	**¥745,890**

Year ended March 31, 2002	Japan	Other area	Elimination & Corporate	Consolidated
	Millions of yen			
Sales:				
Outside customers	¥461,621	¥ 75,927	¥ —	¥537,548
Intersegment sales and transfers	16,785	882	(17,667)	—
	478,406	76,809	(17,667)	537,548
Operating cost	463,429	73,948	(17,425)	519,952
Operating income	¥ 14,977	¥ 2,861	¥ (242)	¥ 17,596
Assets	¥664,114	¥127,983	¥28,116	¥820,213

Year ended March 31, 2003	Japan	Other area	Elimination & Corporate	Consolidated
	Thousands of U.S. dollars			
Sales:				
Outside customers	**$3,731,700**	**$547,758**	**$ —**	**$4,279,458**
Intersegment sales and transfers	**140,292**	**18,742**	**(159,034)**	**—**
	3,871,992	**566,500**	**(159,034)**	**4,279,458**
Operating cost	**3,677,075**	**539,975**	**(157,584)**	**4,059,466**
Operating income	**$ 194,917**	**$ 26,525**	**$ (1,450)**	**$ 219,992**
Assets	**$4,962,158**	**$986,258**	**$267,334**	**$6,215,750**

"Other area" consists principally of the United States, Germany, Spain and Thailand.

Overseas operations, which represent sales to customers outside Japan, of the Company and its consolidated subsidiaries totaled ¥117,231 million (US$976,925 thousand) and ¥125,930 million for the years ended March 31, 2003 and 2002, respectively.

15. Leases

(a) Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2003 and 2002 which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted as operating leases:

	Millions of yen		Thousands of U.S. dollars
At March 31	**2003**	2002	**2003**
Acquisition costs:			
Machinery and equipment	**¥3,012**	¥2,263	**$25,100**
Other assets	**6,172**	7,082	**51,433**
	¥9,184	¥9,345	**$76,533**
Accumulated depreciation:			
Machinery and equipment	**¥1,514**	¥1,323	**$12,617**
Other assets	**3,383**	3,906	**28,191**
	¥4,897	¥5,229	**$40,808**
Net book value:			
Machinery and equipment	**¥1,498**	¥ 940	**$12,483**
Other assets	**2,789**	3,176	**23,242**
	¥4,287	¥4,116	**$35,725**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,882 million (US$15,683 thousand) and ¥2,099 million, which were equal to the depreciation expenses of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2003 and 2002, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥1,698	$14,150
2005 and thereafter	2,589	21,575
Total	¥4,287	$35,725

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2003 for non-cancelable operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 1,498	$ 12,483
2005 and thereafter	11,402	95,017
Total	¥12,900	$107,500

16. Accrued retirement benefits

The company and its domestic consolidated subsidiaries have noncontributory tax-qualified pension plans and lump-sum retirement benefit plans as defined benefit plans.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligations:			
Present value of projected benefit obligations	**¥66,147**	¥74,596	**$551,226**
Plan assets at fair value	**(21,750)**	(31,059)	**(181,250)**
Unrecognized benefit obligations at transition	**(24,224)**	(26,911)	**(201,867)**
Unrecognized actuarial loss	**(11,807)**	(7,324)	**(98,392)**
Unrecognized prior service cost	**276**	371	**2,300**
Accrued retirement benefits recognized in balance sheets	**¥ 8,642**	¥ 9,673	**$ 72,017**

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Expense (income) of accrued retirement benefits:			
Service cost	**¥3,252**	¥3,650	**$27,100**
Interest cost	**1,831**	2,170	**15,258**
Expected return on plan assets	**(796)**	(993)	**(6,633)**
Amortization of prior service cost	**(95)**	(95)	**(792)**
Amortization of actuarial loss	**1,116**	548	**9,300**
Amortization of benefit obligations at transition	**2,460**	2,538	**20,500**
Expense of accrued retirement benefits	**¥7,768**	¥7,818	**$64,733**

	Percentage	
	2003	2002
Assumptions used in accounting for the above plans were as follows:		
Discount rate	**2.5-3.0%**	2.8-3.5%
Expected rate of return on plan assets	**2.0-3.0**	2.0-3.5

17. Related party transactions

The Company sold goods for resale in the amount of ¥34,265 million (US$285,542 thousand) and ¥36,998 million to Ube-Mitsubishi Cement Corporation (UMCC), its affiliate accounted by the equity method, for the years ended March 31, 2003 and 2002, respectively.

Selling prices were negotiated in accordance with the amounts after deducting UMCC's selling costs and logistics costs from its net sales.

18. Subsequent events

(a) On April 24, 2003, the Company entered into a contract to acquire all shares of UBE-NITTO KASEI CO., LTD, its affiliate accounted by the equity method, from the other shareholders in exchange for the Company's stocks as of October 1, 2003. The Company's number of shares of common stock will increase by 25,365,800 shares, although common stock balance will not increase.

(b) At the general stockholders' meeting of the Company held on June 27, 2003, the appropriations of retained earnings for the year ended March 31, 2003 were approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.00 per share)	¥2,529	$21,075

> Report of Independent Auditors

The Board of Directors
Ube Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Ube Industries, Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ube Industries, Ltd and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Supplemental Information

As described in Note18 to the consolidated financial statements, on April 24, 2003, Ube Industries, Ltd. entered into a share exchange contract to acquire all shares of UBE-NITTO KASEI CO., LTD held by other shareholders.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Shin Nihon & Co.

June 27, 2003

See Note 1 to the consolidated financial statements which explains the basis of presentation of the consolidated financial statements of Ube Industries, Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

> Board of Directors

(As of June 27, 2003)

DIRECTORS

Chairman of the Board

President and Representative Director

Kazumasa Tsunemi

Executive Vice-President and Representative Director

Hiroyuki Koike

Senior Managing Directors

Hiroaki Tamura

Yukuo Suzuki

Tadaaki Hirano

Yasuhisa Chiba

Takashi Matsumoto

Isao Tamura

Kazuhiko Okada

AUDITORS

Hideo Yamamoto

Tadashi Yamamoto

Hiroshi Ikeda

Koichi Fukuda

EXECUTIVE OFFICERS

Chief Executive Officer

Kazumasa Tsunemi*

Vice-President and Executive Officer

Hiroyuki Koike*

Senior Managing Executive Officers

Hiroaki Tamura*

Yasuhisa Chiba*

Isao Tamura*

Kazuhiko Okada *

Managing Executive Officers

Koji Kihira

Nobuyuki Takahashi

Akinori Furukawa

Kazuma Sekiya

Kenichi Abe

Executive Officers

Katsumasa Harada

Masaki Kashibe

Michio Takeshita

Masao Uno

Katsunori Suzuki

Yuzuru Yamamoto

Charunya Phichitkul

Shinobu Watanabe

*Concurrently holds post of director

> Major Consolidated Subsidiaries and Affiliates

(As of March 31, 2003)

<CONSOLIDATED SUBSIDIARIES>

Chemicals & Plastics

Company Name	Business	Voting Rights (%)	Phone	Fax
Ube Film, Ltd.	Manufacture and sales of plastic-film products	72.8	(0836) 88-0111	(0836) 89-0005
Thai Synthetic Rubbers Co., Ltd.	Manufacture and sales of polybutadiene (Thailand)	73.1	+66 (2) 685-3000	+66 (2) 685-3055
Ube Ammonia Industry, Ltd.	Manufacture and sales of ammonia, carbon dioxide, argon, oxygen, and nitrogen	50.6	(0836) 31-5858	(0836) 34-0472
Ube Chemical Europe, S.A.*	Manufacture and sales of caprolactam, ammonium sulfate, and 1,6-hexanediol (Spain)	100.0	+34 (964) 738000	+34 (964) 738075
Thai Caprolactam Public Co., Ltd.	Manufacture and sales of caprolactam and ammonium sulfate (Thailand)	90.9	+66 (2) 678-5450	+66 (2) 678-5480
Ube Engineering Plastics, S.A.	Manufacture and sales of nylon 6 (Spain)	100.0	+34 (964) 738000	+34 (964) 738177
Ube Nylon (Thailand), Ltd.	Manufacture and sales of nylon 6 (Thailand)	100.0	+66 (2) 685-3000	+66 (2) 685-3042
Meiwa Kasei Industries, Ltd.	Manufacture and sales of phenolic resins, UMC nylon, and others	97.5	(0836) 22-9211	(0836) 29-0100
Ube Electronics, Ltd.	Manufacture and sales of satellite-broadcast receiving equipment and dielectric ceramic elements for mobile communications	100.0	(0837) 52-2900	(0837) 52-2880

Construction Materials

Company Name	Business	Voting Rights (%)	Phone	Fax
Kanto Ube Holdings Co., Ltd.	Sales of cement and aggregates as well as accounting for subsidiary	100.0	(03) 5759-7715	(03) 5759-7732
Daikyo Kigyo Co., Ltd.	Manufacture and sales of ready-mixed concrete and concrete secondary products	58.8	(0191) 25-3161	(0191) 25-4163
Hagimori Industries, Ltd.	Manufacture and sales of ready-mixed concrete and concrete secondary products	63.9	(0836) 31-1678	(0836) 21-4554
Ube Material Industries, Ltd.	Production and sales of seawater magnesia, magnesium hydroxide, quicklime, slaked lime, and others	60.8	(0836) 31-0156	(0836) 21-9778
Ube Board Co., Ltd.	Manufacture and sales of boards, corrugated sheets, and OA flooring as well as related responsibilities	100.0	(0836) 22-0251	(0836)22-0271
Ube Construction Materials Sales Co., Ltd.	Sales of ready-mixed concrete, building materials, and others	98.1	(03) 5487-3560	(03) 5487-3567
Ube Shipping & Logistics, Ltd.	Domestic shipping, harbor transportation, shipping-agent services, and customs clearing	81.3	(0836) 34-1181	(0836) 34-1183

*Productos Quimicos del Mediterraneo, S.A. changed its name to Ube Chemical Europe, S.A. on January 1, 2003.

Machinery & Metal Products

Company Name	Business	Voting Rights (%)	Phone	Fax
Ube Machinery Corporation, Ltd.	Manufacture and sales of diecasting machines, injection-molding machines, extrusion presses, industrial machinery, bridge, metal dies, and molds	100.0	(0836) 22-0072	(0836) 22-6457
Ube Machinery Inc.	Service, sales, assembly, and maintenance for metal processing and injection-molding machinery (U.S.A.)	100.0	+1 (734) 741-7000	+1 (734) 741-7017
Ube Techno Eng Co., Ltd.	Service and maintenance of industrial machinery and equipment; manufacture and sales of automation and environment machinery	100.0	(0836) 34-5080	(0836) 34-0666
Ube Steel Co., Ltd.	Manufacture and sales of cast iron and steel products and rolled steel billets	100.0	(0836) 35-1300	(0836) 35-1331
UBE Automotive, Ltd.	Sales of aluminum automobile wheels	100.0	(03) 5419-6295	(03) 5419-6219
U-Mold Co., Ltd.	Manufacture of aluminum automobile wheels	100.0	(0836) 33-3215	(0836) 33-2366
UBE Automotive North America Mason Plant Inc.	Manufacture of aluminum automobile wheels (U.S.A.)	100.0	+1 (513) 459-1760	+1 (513) 459-7060
UBE Automotive North America Sarnia Plant Inc.	Manufacture of aluminum automobile wheels (Canada)	100.0	+1 (519) 542-8262	+1 (519) 542-3666

Energy & Environment

Company Name	Business	Voting Rights (%)	Phone	Fax
Ube C&A Co., Ltd.	Sales of imported steaming coal	75.5	(03) 5419-6331	(03) 5419-6332
UBE Power Center Co., Ltd.	Wholesale of electricity	70.0	(0836) 31-2642	(0836) 31-2799

42 Other Consolidated Subsidiaries

<EQUITY-METHOD AFFILIATES>

Company Name	Business	Voting Rights (%)	Phone	Fax
UMG ABS, Ltd.	Manufacture and sales of ABS resins	42.7	(03) 5148-5170	(03) 5148-5186
Ube Agri-Materials, Ltd.	Manufacture and sales of fertilizers and compost	49.0	(0836) 31-2155	(0836) 31-2158
Ube-Mitsubishi Cement Corporation	Sales of cement and soil-stabilizing cement	50.0	(03) 3435-2650	(03) 3435-2665

45 Other Equity-Method Affiliates

> Organization Chart

(As of July 1, 2003)

- Corporate Auditors
  - Corporate Auditor's Office
- Chairman
- President
  - Chemicals & Plastics Div.
    - Synthetic Rubber Business Unit
    - Polyethylene Business Unit
    - Engineering Plastics Business Unit
    - Caprolactam Business Unit
    - Industrial Chemicals Business Unit
    - Europe Operational Unit
    - Asia Operational Unit
  - Specialty Chemicals & Products Div.
    - Strategy Planning Dept.
    - Polyimide Business Unit
    - High Purity Chemicals Business Unit
    - Specialty Products Business Unit I
    - Specialty Products Business Unit II
    - Business Development Unit
    - Research & Development Unit
    - API & Intermediates Business Unit
    - Fine Chemicals Business Unit
    - Pharmaceuticals Development Dept.
    - New Product Development Unit
  - Energy & Environment Div.
    - Coal Business Unit
    - Power Business Unit
    - Environmental Business Unit
  - Procurement & Logistics Div.
  - Production Div.
    - Production Center
    - Production Technology Center
      - Chiba Petrochemical Factory
      - Ube Chemical Factory
      - Sakai Factory
      - Nishioki Factory
  - Corporate Research & Development
    - Planning & Control Dept.
    - Intellectual Property Dept.
    - Pharmachemical Affairs Dept.
    - Ube Research Laboratory
    - Polymer Research Laboratory
  - Business Creation & Development
  - Auditing Dept.
  - Corporate Planning & Administration Office
    - Investor Relations & Public Relations Dept.
    - Planning & Accounting Dept.
    - Finance Dept.
    - Information Systems Dept.
  - General Affairs & Personnel Office
    - Personnel Dept.
    - General Affairs Dept.
    - Legal Dept.
    - Real Estate Dept.
  - Ube Group Shared Service Center
  - Ube Corporate Service Dept.
  - Environment & Safety Dept.
  - Health Care & Support Center
  - Ube Industries Central Hospital
  - Cement & Construction Materials Company
    - Planning & Control Dept.
    - Group Company Dept.
    - Cement Dept.
    - Construction Materials Div.
    - Resources & Products Div.
    - Production & Technology Div.
  - Machinery & Metal Products Company
    - Machinery Div.
    - Aluminum Wheel Div.

> Investor Information
(As of March 31, 2003)

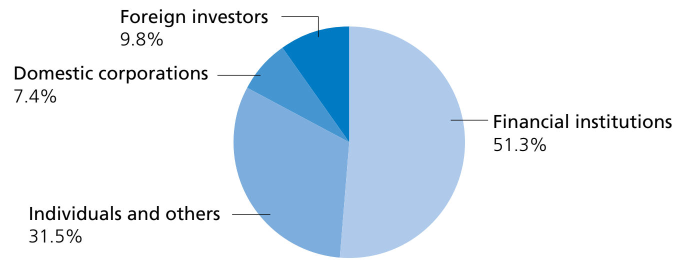
Date of Establishment: 1897

Common Stock:
Authorized: 3,300 million shares
Issued: 845,835,813 shares
(¥43,565 million)

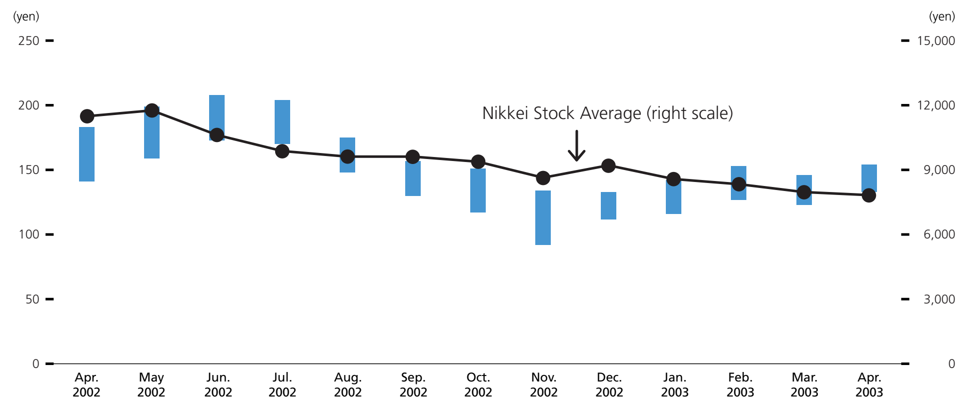
Transfer Agent and Register:
UFJ Trust Bank Ltd.

Number of Stockholders: 75,080

Breakdown of Stockholders



Ube Stock Price Range on Tokyo Stock Exchange



High	183	199	208	204	175	157	151	134	133	142	153	146	154
Low	141	159	173	170	148	130	117	92	112	116	127	123	133

> Network

Domestic Offices

Tokyo Head Office
Seavans North Bldg.,
1-2-1, Shibaura, Minato-ku,
Tokyo 105-8449, Japan
Phone: +81-3-5419-6110
Fax: +81-3-5419-6230

Ube Head Office
1978-96, Kogushi, Ube,
Yamaguchi 755-8633, Japan
Phone: +81-836-31-2111
Fax: +81-836-21-2252

Overseas Offices (Sales & Representative)

Ube America Inc.
55 East 59th Street,
New York, NY 10022, U.S.A.
Phone: +1 212-813-8300
Fax: +1 212-826-0454

Ube Corporation Europe, S.A.
Poligono El Serrallo,
Grao de Castellon 12080, Spain
Phone: +34 964-738065
Fax: +34 964-738074

Ube Europe GmbH
Immermann Hof, Immermannstr. 65B,
40210 Düsseldorf, Germany
Phone: +49 211-178830
Fax: +49 211-3613297

Ube Singapore Pte., Ltd.
150 Beach Road, #20-05 Gateway West,
Singapore 189720
Phone: +65 6291-9363
Fax: +65 6293-9039

Ube (Shanghai) Ltd.
Rooms 2315-16, Bank of China Tower,
200 Yincheng Road, Pudong New Area,
Shanghai 200120, People's Republic of China
Phone: +86 21-5037-2288
Fax: +86 21-5037-2266

Ube (Hong Kong) Ltd.
Rooms 1405-12, Sun Hung Kai Centre,
30 Harbour Road, Hong Kong, S.A.R.,
People's Republic of China
Phone: +852 2877-1628
Fax: +852 2877-1262

Wings of technology Spirit of innovation

UBE

UBE INDUSTRIES, LTD.

Tokyo Head Office
Seavans North Bldg., 1-2-1, Shibaura, Minato-Ku, Tokyo 105-8449, Japan
Phone: +81-3-5419-6110 Fax: +81-3-5419-6230

Ube Head Office
1978-96, Kogushi, Ube, Yamaguchi 755-8633, Japan
Phone: +81-836-31-2111 Fax: +81-836-21-2252

URL: http://www.ube.co.jp

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