UBE INDUSTRIES,LTD.

Annual Report 2007

Year ended March 31, 2007

Stage Up 2009

Delivering Results, Setting New Goals

New 21•UBE Plan II

(April 2004 - March 2007)

New 21•UBE Plan

(April 2001 - March 2004)

In over a century of business operations since its origins as a coal mining venture in Ube, Yamaguchi Prefecture, UBE INDUSTRIES, LTD. has embraced a ceaseless commitment to innovation in manufacturing, while meeting the challenge of finding solutions to modern needs through the creative application of technology and engineering.

A Long Tradition of Growth and Innovation

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

1914 Shinkawa Iron Works is established as anonymous partnership, capitalized at ¥100,000. UBE's machinery business started with 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.

This long-standing tradition and core identity of UBE is captured in its group vision for the 21st century: **"Wings of technology and spirit of innovation. That's our DNA driving our global success."**

Embracing a frontier spirit and optimizing infinite technology, the UBE Group coexists with the world to continue creating values for the new generation. We focus on "competitive edge businesses" to achieve further success.

With an extensive base of technologies and expertise built up over more than a century, UBE is taking decisive actions for further innovation and growth.

Fiscal years are years ended March 31 of the following calendar year: for example, fiscal 2006 in the text is the year ended March 31, 2007.

Contents

Forward-Looking Statements

This annual report contains forward-looking statements regarding UBE's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from information available to the Company at the time of publication.

Certain risks and uncertainties could cause UBE Group actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business, competitive pressures, related laws and regulations, product development programs and changes in exchange rates.

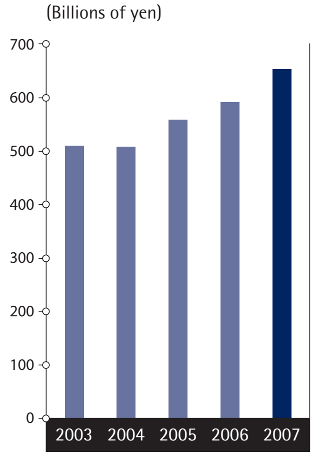
Consolidated Financial Highlights

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			% change	Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**/2006	**2007**
For the year:					
Net sales	**¥655,608**	¥595,391	¥562,708	10.1%	**$5,556,000**
Operating income	**46,862**	42,169	32,312	11.1	**397,136**
Income before income taxes and minority interests	**36,003**	26,634	10,785	35.2	**305,110**
Net income	**22,013**	16,006	9,223	37.5	**186,551**
Capital expenditures	**31,919**	24,734	25,208	29.0	**270,500**
Depreciation and amortization	**30,980**	30,807	30,905	0.6	**262,542**
Research and development costs	**13,020**	12,488	11,496	4.3	**110,339**
At year-end:					
Total assets	**714,871**	700,437	706,686	2.1	**6,058,229**
Net assets	**195,196**	168,363	126,079	15.9	**1,654,204**
Equity capital (Note 2)	**172,593**	149,763	108,383	15.2	**1,462,653**
Interest-bearing debt	**320,016**	341,946	397,955	(6.4)	**2,712,000**
Net debt (Note 3)	**298,738**	321,869	364,539	(7.2)	**2,531,678**
Cash and cash equivalents	**21,278**	20,077	33,416	6.0	**180,322**
	Yen				U.S. dollars
Per share data:					
Net income, primary (Note 4)	**¥ 21.88**	¥ 16.83	¥ 10.07	30.0%	**$ 0.185**
Cash dividends applicable to the period	**4.00**	3.00	2.00	33.3	**0.034**
Equity capital	**171.49**	148.71	115.30	15.3	**1.453**
Ratios:					
Operating margin (%)	**7.1**	7.1	5.7		
ROA (%) (Note 5)	**7.0**	6.4	4.9		
ROE (%)	**13.7**	12.4	9.5		
Net debt/equity ratio (times)	**1.7**	2.1	3.4		
Equity ratio (%)	**24.1**	21.4	15.3		
Number of employees at the end of the year	**10,833**	10,673	11,074	1.5%	

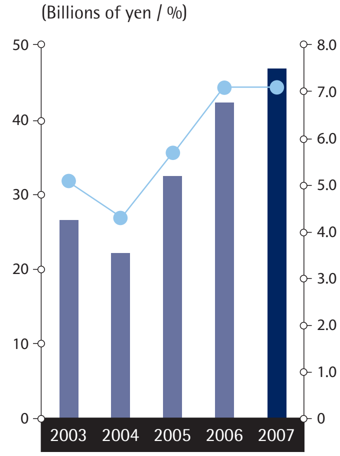
Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118=US$1, the approximate rate of exchange on March 31, 2007.
2. Equity capital = Net assets – Share subscription rights – Minority interests
3. Net debt = Interest-bearing debt – Cash and cash equivalents
4. Net income, primary, per share is computed based on the net income available for distribution to stockholders and the weighted average number of shares of common stock outstanding during the year.
5. ROA = (Operating income + Interest and dividend income + Equity in earnings of unconsolidated subsidiaries and affiliated companies) / Average total assets

Net Sales
(Billions of yen)



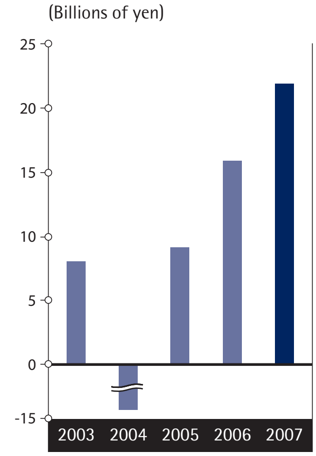
(Years to March 31)

Operating Income / Operating Margin
(Billions of yen / %)



Operating income (left scale)
Operating margin (right scale)
(Years to March 31)

Net Income (Loss)
(Billions of yen)



(Years to March 31)

The UBE Group has launched a new medium-term management plan, Stage Up 2009, to build on the Group's success in improving its financial structure and reforming its earnings structure under the previous management plan, New 21•UBE Plan II. Stage Up 2009 sets more ambitious goals that challenge the entire UBE Group to break through to a higher level of performance.

HIROAKI TAMURA President and CEO

Results for Fiscal 2006 (Year Ended March 31, 2007)

Economic conditions were favorable during fiscal 2006. Although prices of raw materials and fuel such as crude oil and coal remained high, the economies of China and other nations around the world remained firm. In Japan, a high level of private capital investment supported moderate but steady economic recovery led by private-sector demand.

The UBE Group had originally planned to complete the New 21•UBE Plan II medium-term management plan during fiscal 2006, but achieved its initial targets one year ahead of schedule. We therefore worked to further improve performance as we continued to promote improvement of our financial structure and reform of our earnings structure in fiscal 2006.

As a result, the UBE Group increased sales and income for the third consecutive year. Consolidated net sales increased 10.1 percent, or ¥60.2 billion, year-on-year to ¥655.6 billion. Operating income increased 11.1 percent, or ¥4.6 billion, year-on-year to ¥46.8 billion, and net income increased 37.5 percent, or ¥6.0 billion, year-on-year to ¥22.0 billion.

Overview of New 21•UBE Plan II

Fiscal 2006 was the final year of New 21•UBE Plan II. Since we achieved its targets a year ahead of schedule, we set new and higher goals for the final year of the plan. As a result of our continued efforts to improve our financial structure, expand our businesses and strengthen our earnings structure, we were able to exceed the higher targets we set. During the medium-term management plan we executed prior to the start of New 21•UBE Plan II, our operating environment was changing rapidly and we were unable to achieve our initial objectives. The impact on the trust we received from the market prompted intense introspection among the UBE Group. Under the theme of Speed and Trust, we initiated New 21•UBE Plan II with a strong commitment to achieve its objectives. While we received some help from changed conditions in the external environment, the key factors in our success at achieving our goals were our efforts to resolve issues under a policy of business development centered on chemicals and the steady implementation of a Plan, Do, Check, Act (PDCA) cycle that maintains a sense of urgency.

Reforming the earnings structure of the UBE Group was a fundamental objective of New 21•UBE Plan II. We decided that we had to expand our businesses and strengthen our earnings centered on our core businesses. We therefore concentrated management resources in businesses including polyimide, fine chemical, and polyamide resin operations. We expanded production facilities in response to increased demand, and emphasized the development of products with even greater added value. Our businesses expanded as a result.

In fundamental businesses such as caprolactam and cement, we promoted measures to strengthen our earnings base, such as reducing costs to generate stable free cash flow. We also worked to create a stable transaction base with price adjustments in line with trends in raw material prices. As a result, we improved our profitability beyond our targets.

While we were executing New 21•UBE Plan II, the business environment of the aluminum wheel business changed dramatically. We liquidated our aluminum wheel manufacturing company in the United States, one of our operating bases in North America, and created a bipolar organization centered on Japan and Canada. However, factors such as increasingly intense price competition have made the business environment even more challenging, so we are now restructuring this business by raising added value and assiduously reducing costs.

The second fundamental policy of New 21•UBE Plan II was continuous improvement of the UBE Group's financial structure. We enhanced the profitability of our businesses while restraining capital expenditures within 80 percent of depreciation expenses. We then deployed the resulting free cash flow to reduce net debt with the objective of reducing the net debt/equity ratio to under 3.0 times from 4.4 times. Earnings growth generated by expansion in the spread between the price of caprolactam and the cost of its raw materials, in tandem with restrained capital expenditures and factors such as the issue of new shares in March 2006, improved net debt, and the net debt/equity ratio exceeded targets. As a result of these improvements to our financial structure, in September 2006 Rating and Investment Information, Inc., a Japanese bond rating agency, assigned a rating of BBB to UBE's long-term debt for the first time in four years.

Breaking Through to the Next Stage of Performance: New Medium-Term Management Plan Stage Up 2009 Begins

The UBE Group has made rapid improvement by significantly exceeding the targets of its previous plan for improving its earnings capabilities and financial structure. However, I believe that we have not reached a satisfactory level from the viewpoint of the market. We must stay focused on accelerating various reforms that further increase stockholder value.

Medium-Term Management Plan "New 21•UBE Plan II"

(FY2004 - FY2006)

Year ended March 31, 2007

		Targets		Results
Operating margin	:	6.0% or higher	→	7.1 %
Return on assets (ROA[1])	:	5.0% or higher	→	7.0 %
Net debt / equity ratio[2]	:	Under 3.0 times	→	1.7 times
Operating income	:	¥33.0 billion	→	¥46.8 billion

Notes: 1. ROA = (Operating income + Interest and dividend income + Equity in profit of unconsolidated subsidiaries and affiliated companies) / Average total assets
2. Net debt (Interest-bearing debt – Cash and cash equivalents) / Equity capital (Net assets – Share subscription rights – Minority interests)

Recently, important global issues are placing greater demands on corporations. In addition to strengthening internal controls, companies are expected to address safety and the environment in ways such as reducing emissions of CO_2 and implementing the REACH regulations for chemical products. Consideration of all stakeholders at a higher level than previously required is essential for achieving sustainable corporate development.

Given these conditions, we are raising our targets to a higher level based on the achievements under New 21•UBE Plan II. We formulated our new medium-term management plan, Stage Up 2009, with the aim of establishing the solid earnings base that will enable sustainable growth.

The name Stage Up 2009 encompasses two meanings: the creation of a strong foundation and our desire to take on the challenge of breaking through to a new stage of performance. At the start of the twenty-first century, the UBE Group formulated its current Group Vision: "Wings of technology and spirit of innovation. That's our DNA driving our global success." Our basic direction is clear: we will work to develop by focusing on differentiated chemical businesses. We will steadfastly maintain this policy as we work to make the earnings base established under our previous management plan even stronger. We will use this base to conduct our strategic growth businesses, with the aim of achieving the best performance in our history by every indicator. Thus the UBE Group will take on the challenge of breaking through to a level of performance it has not yet experienced.

Establishing a Platform for Profitability that Ensures Sustainable Growth and Sustained Improvement of Financial Position

The three fundamental objectives of Stage Up 2009 are establishing a platform for profitability that ensures sustainable growth, sustained improvement of our financial position, and strengthening of CSR activities. We will continue using Speed and Trust, the slogan of our previous management plan. In order to further improve our earnings and financial structure we will accelerate our PDCA cycle to steadily achieve our targets, while promoting CSR activities to deepen the trust of all our stakeholders.

The most important component of Stage Up 2009 is establishing a platform for profitability that ensures sustainable growth. We are aiming for balanced, sustainable development of the UBE Group as a whole. Specifically, we have restructured our business portfolio to create a solid group of core platform businesses that generate stable earnings and cash flow. We will now work to create highly profitable strategic growth businesses that will drive the UBE Group's development.

Sustained improvement of our financial position is also key. We must assiduously emphasize rigorous management of cash flow to further improve our financial position and take it to a higher level. Over the past three years we have improved profitability, but past improvements to our financial structure have largely been the result of asset sales and equity financing. The UBE Group needs to generate the earnings that are the primary source of cash flow. We must focus intensely on generating cash flow and strengthening profitability, while also promoting continuous and consistent cost reductions. We will also work to steadily generate cash flow by decisively reducing inventories and logistics costs. We will maintain our policy of restraining capital expenditures within the scope of depreciation expenses over the coming three years, and will carefully select investments while allocating resources mainly to strategic growth areas.

Strengthening CSR Activities

Strong relationships with all stakeholders are essential to achieving sustainable growth. In reinforcing its commitment to CSR, the UBE Group is undertaking various efforts to enhance its organization from economic, environmental and social perspectives. Corporate governance is a particular emphasis. We have implemented an executive officer system, established the Nominating Committee and the Evaluation/Compensation Committee under the Board of Directors and executed other initiatives to rapidly strengthen the supervisory functions of the Board of Directors and encourage agile management. Moreover, we have also enhanced management transparency and objectivity. We executed initiatives with the aim of optimizing corporate governance during the three years of New 21•UBE Plan II that included the addition of external directors to the Board of Directors and the establishment of project teams to further enhance internal controls.

CSR is part of the UBE Group's corporate DNA. Since its founding, the UBE Group has been committed to the principles of living and prospering together with all stakeholders throughout its business activities. We conduct diligent efforts to protect the environment and have built strong relationships with local communities. Today, the UBE Group is developing its businesses globally and we are working to pass along our corporate DNA in all of the countries in which we do business by energetically contributing to environmental protection while working in harmony with local communities. Strengthening CSR activities is a core tenet of Stage Up 2009, and we intend to further deepen our current CSR efforts while managing from the perspective of promoting stockholder value in ways such as increasing our market capitalization and enhancing stockholder returns. Our broadly based efforts to deepen CSR activities will include contributing to the environment, assiduous compliance, improving internal controls and corporate governance, and mutually beneficial relationships with local communities.

Objective: Continuously Increase Stockholder Value

The UBE Group increased cash dividends per share for fiscal 2006 by ¥1.00 to ¥4.00. Under Stage Up 2009, we have set a guideline for our consolidated dividend payout ratio of 20 to 25 percent. We aim to continuously increase stockholder value by steadily increasing dividends in tandem with improved performance.

Returning to an earlier point, all of the numerical targets of Stage Up 2009 represent record highs. The UBE Group is literally taking the challenge of breaking through to a new stage of performance. While these targets present high hurdles, the portfolio of businesses for which we formulated Stage Up 2009 are not organized from the top down. Rather, all employees participated in formulating Stage Up 2009, and all employees are therefore aware of their individual responsibilities within the positioning of each business. This should strongly enhance our collective ability to achieve the objectives of our management plan.

Moreover, the UBE Group operates many businesses that are unique, even when viewed from an international perspective. Each of these businesses shares the vision, policies and corporate ethics of the UBE Group, and each recognizes its mission and roles within the Group. We are confident that if we deploy our comprehensive strengths, we will achieve our targets and deepen the trust of our stockholders and all other stakeholders.

We intend to earn even greater support from our stockholders, customers and business partners as the future unfolds.

July 2007

Hiroaki Tamura

HIROAKI TAMURA
President and CEO

From New 21•UBE Plan II to Stage Up 2009

In fiscal 2004, the UBE Group launched a three-year management plan, New 21•UBE Plan II, with the primary objectives of reforming its earnings and financial structures. Our targets for fiscal 2006, the final year of the plan, were consolidated operating income of ¥33.0 billion, an operating margin of 6.0 percent or higher, return on average total assets (ROA) of 5.0 percent or higher, and a net debt/equity ratio under 3.0 times. For fiscal 2005, the second year of the plan, operating income was ¥42.1 billion, the operating margin was 7.1 percent, ROA was 6.4 percent, and the net debt/equity ratio was 2.1 times. Thus we achieved our targets a year ahead of schedule. In the final year of the plan, the UBE Group continued New 21•UBE Plan II with new, higher targets and succeeded in achieving them as well.

Having successfully completed New 21•UBE Plan II, the UBE Group has begun a new medium-term management plan, Stage Up 2009, for the three years from fiscal 2007 to fiscal 2009.

New 21•UBE Plan II

(FY2004 - FY2006)

Speed and Trust

Strategies

- Strengthening and expanding earnings
- Continuous improvement of financial position

New 21•UBE Plan

(FY2001 - FY2003)

Business Concentration and Growth

- Improvements in our financial structure through an accelerated program of debt-reduction.
- Improvements in profitability by strengthening and expanding our "core businesses" in tandem with a comprehensive program of rationalization.

Stage Up 2009 Begins: A Higher Level

(FY2007 - FY2009)

In 2001, the UBE Group determined its Group vision for the 21st century: "Wings of technology and spirit of innovation. That's our DNA driving our global success." Under this vision, the UBE Group clarified its long-term direction and is deploying its strengths to develop its operations with a focus on differentiated, high-value-added chemical businesses.

Building on this Group vision, we looked resolutely into the near future to establish five-year targets to be achieved by fiscal 2011 and formulated the new medium-term management plan Stage Up 2009 as the successor to New 21•UBE Plan II. Stage Up 2009 is positioned as a three-year action plan for the UBE Group as it works toward its goals in fiscal 2011. Designed to move us to the next stage up from the achievements of New 21•UBE Plan II, the new medium-term plan sets higher targets with the goal of establishing a solid earnings base that enables sustainable growth.

Basic Strategies and Numerical Targets

1 Establish a Platform for Profitability that Ensures Sustainable Growth

UBE reassessed its business portfolio to identify core platform businesses that are solidly positioned to generate stable profits and cash flow, and strategic growth businesses with high potential for profits. Core platform businesses will anchor the Group, while strategic growth businesses will drive sustainable growth that is equally balanced across the Group.

2 Sustained Improvement of Financial Position

The UBE Group will implement rigorous management focused on cash flow, while prioritizing capital investment based on the positioning of businesses within its portfolio in order to ensure necessary levels of investment for future growth and expansion.

3 Strengthening CSR Activities

In addition to implementing environmental activities and ensuring rigorous compliance, the Group will strengthen internal controls and corporate governance while ensuring harmonious coexistence with local communities.

Key phrase

Speed and Trust

Management Results and Targets

		Fiscal 2006 (Actual)	Fiscal 2009 (Mid-term target)
Financial indicators	Net debt/equity ratio[1]	1.7 times	**Under 1.3 times**
	Equity ratio[2]	24.1%	**30% +**
Profit indicators	Operating margin	7.1%	**7.5% +**
	Return on total assets	7.0%	**7.5% +**
	Return on equity[3]	13.7%	**12% +**

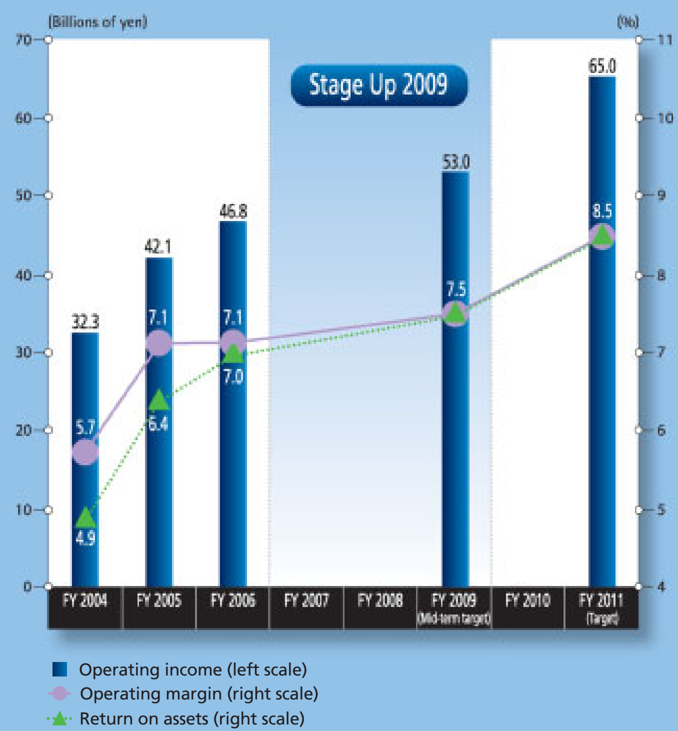
Key Figures for Statements of Income and Balance Sheet

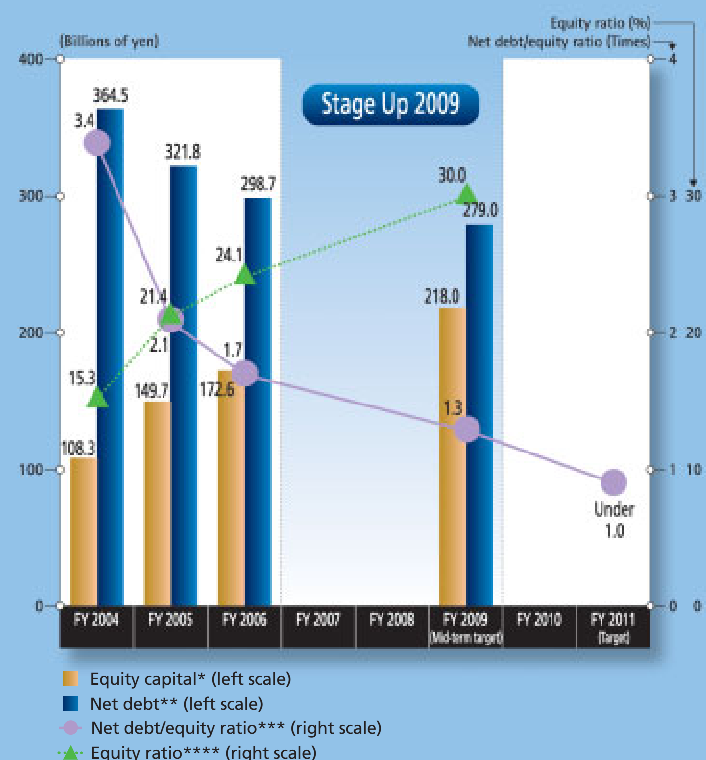
	Fiscal 2006 (Actual)	Fiscal 2009 (Mid-term target)
Net sales	¥655.6 billion	**¥700 billion +**
Operating income	¥46.8 billion	**¥53 billion +** [¥57.5 billion[4]]
Business income[5]	¥49.8 billion	**¥56 billion +** [¥60.5 billion[4]]
Net debt	¥298.7 billion	**Under ¥279 billion**
Equity capital[6]	¥172.6 billion	**¥218 billion +**
Cost reductions (compared with fiscal 2006)	—	**¥19 billion +**

Notes: 1. Net debt (Interest–bearing debt – Cash and cash equivalents) / Equity capital
2. Equity capital / Total assets
3. Net income / Average equity capital
4. Not accounting for changes in the depreciation standard.
5. Business income = Operating income + Interest and dividend income + Equity in earnings of unconsolidated subsidiaries and affiliated companies
6. Equity capital = Net assets – Share subscription rights – Minority interests

Stage Up 2009: Business Strategies

Profitability Data and Financial Position Indicators





* Equity capital = Net assets – Share subscription rights – Minority interests
** Net debt = Interest-bearing debt – Cash and cash equivalents
*** Net debt / Equity capital
**** Equity capital / Total assets

Under Stage Up 2009, the UBE Group will classify its main businesses into four groups, and will work to implement the following strategies for each group.

Strategic Growth Businesses

Strategic growth businesses serve markets with high growth rates. These businesses will enable the UBE Group to expand the scale of its business and generate strong earnings by leveraging its competitive advantages in areas such as technology, product development and marketing. The UBE Group concentrates resources in these businesses in working to rapidly build their scale and increase their earnings. Representative businesses include polyimides, battery materials, semiconductor-related and electronic materials, gas separation membranes, fine chemicals and recycling.

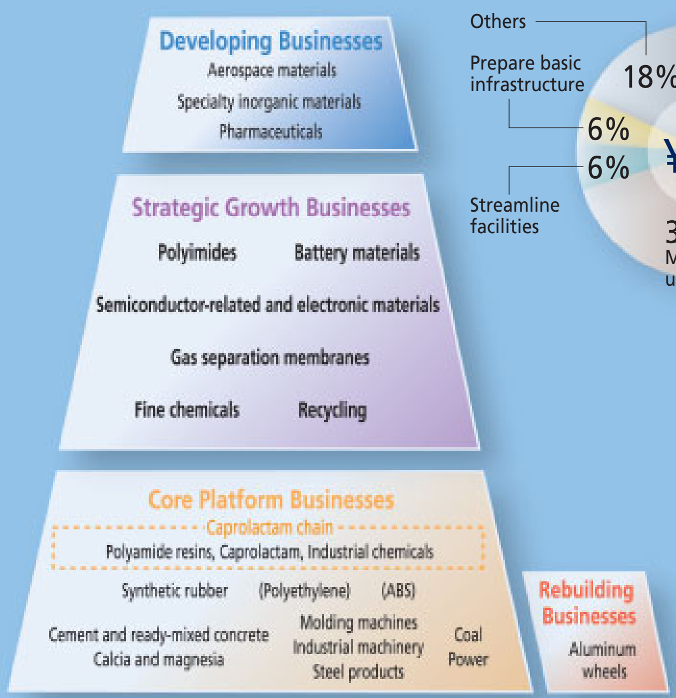
Developing Businesses

Developing businesses have the future potential to achieve the profitability and growth rates of strategic growth businesses, but need three to five years of cultivation. The UBE Group plans to achieve target scale and profitability for developing businesses as quickly as possible within the three-to-five-year time frame. Representative businesses include aerospace materials, pharmaceuticals and specialty inorganic materials.

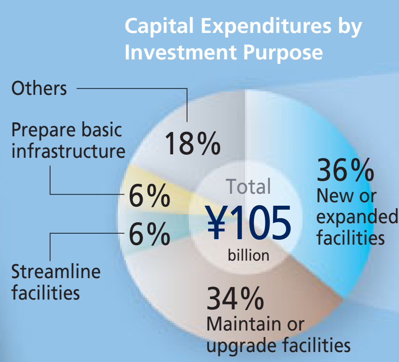
Core Platform Businesses

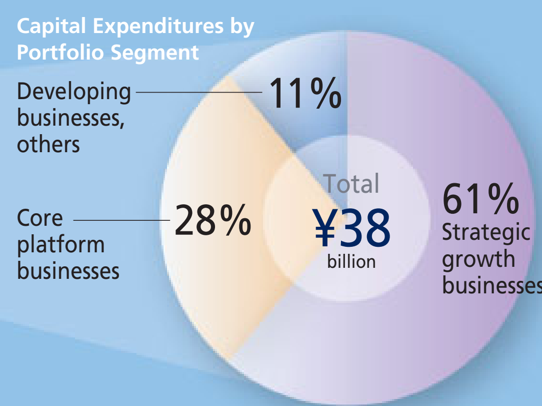
Core platform businesses serve stable, mature markets. The UBE Group generates stable earnings in these businesses through means including outstanding cost and quality competitiveness, a dominant market position, and product differentiation. While investing the resources required to

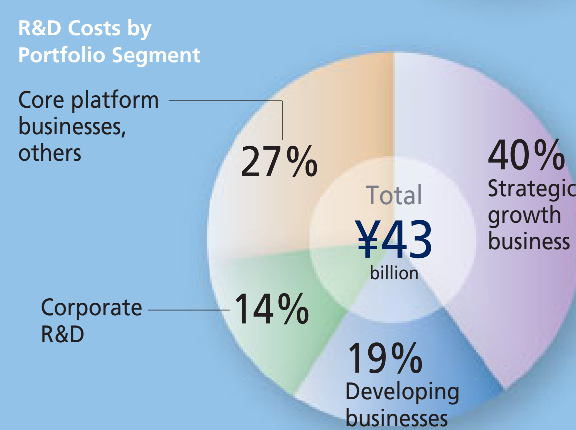
Business Portfolio



Capital Expenditures/R&D Costs







maintain or increase earnings, these businesses work to generate stable earnings and cash flow. Representative business include the caprolactam chain; synthetic rubber; cement and ready-mixed concrete, calcia and magnesia; molding machines, industrial machinery and steel products; and coal and power.

Rebuilding Businesses

Rebuilding businesses require fundamental repositioning to counter continued poor results. The UBE Group works to establish and implement drastic measures to restore earnings in rebuilding businesses, but will take actions such as transforming them into joint businesses, selling them or withdrawing from them if rebuilding is deemed to be too difficult. Rebuilding businesses include aluminum wheels.

Capital Expenditures and R&D Costs

The UBE Group plans capital expenditures totaling ¥105.0 billion over the three years of Stage Up 2009, the same level as depreciation expenses calculated according to the pre-revision standard, to achieve the above numerical targets and execute its business strategies. We will invest approximately 60 percent in new production facilities and capacity expansion in strategic growth businesses.

Moreover, we plan to invest ¥43.0 billion in R&D over the next three years. In addition to R&D associated with business segments, Corporate Research & Development will engage in R&D to create new, next-generation businesses, emphasizing the four fields of IT and electronics (optics), energy (environment), pharmaceuticals and base chemicals.

Business Overview

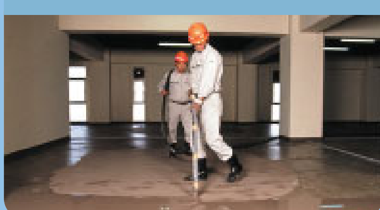
Segment	Share of Net Sales	Share of Operating Income	Share of Assets	Principal Products/Businesses

Chemicals & Plastics

	32%	29%	33%	• Synthetic rubber
				• Caprolactam chain
				  • Caprolactam
				  • Polyamide resins
				  • Industrial chemicals

Specialty Chemicals & Products

	13%	25%	15%	• Specialty products
				  • Polyimide
				  • Battery materials (Electrolytes and separators)
				  • High purity chemicals
				  • Separation membranes
				  • Ceramics
				  • Telecommunications devices
				  • Aerospace materials
				• Fine chemicals
				• Pharmaceuticals
				(Active ingredients, intermediates)

Cement & Construction Materials 	32%	27%	31%	• Cement • Resource recycling • Building materials (Self-leveling materials, plastering materials and waterproofing materials) • Limestone • Ready-mixed concrete • Calcia, magnesia • Specialty inorganic materials

Machinery & Metal Products

	17%	12%	12%	• Machinery
				  • Molding machines
				  (Die-casting machines and injection molding machines)
				  • Industrial machinery, bridges and steel structures
				  • Steelmaking products
				• Aluminum wheels

Energy & Environment 	5%	6%	7%	• Coal • Power

Note: Totals do not equal 100% because the Other Businesses segment has been omitted.

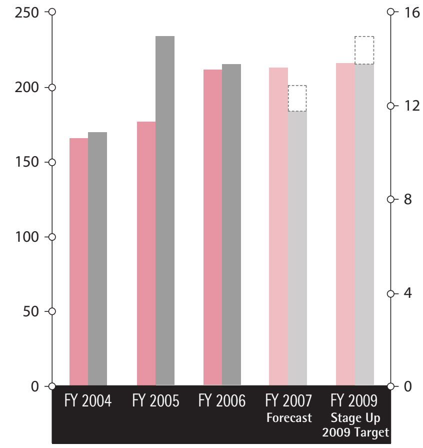
Basic Strategies	Fiscal 2006 Achievements
Synthetic Rubber: Begin operations at our 50,000-ton capacity plant in China to establish a third global base in addition to Japan and Thailand. In order to stably maintain or expand profits, UBE will promote a differentiation strategy by launching production of specialty rubbers in Thailand, adding to existing production in Japan. **Caprolactam Chain:** Secure stable profits in the caprolactam business that are not affected by market fluctuations. Expand production capacity and raise cost competitiveness in the polyamide resin business, which is a core component of the caprolactam chain. Boost sales in priority markets, targeting the automotive market for injection molding and the film market for extrusion. Raise the percentage of caprolactam for captive use to approximately 40 percent. Enhance our stable supply system in the industrial chemicals market as Japan's leading supplier of ammonia.	• Consolidated segment sales increased 19.6 percent to ¥210.4 billion. Operating income decreased 8.0 percent to ¥13.7 billion. • Full production and strong sales continued for all products. • Amid firm demand, UBE secured profits by reflecting high raw material prices in its product prices. • Completion of construction of a polyamide 6 plant in Spain increased annual production by 10,000 tons, for total worldwide production capacity of 105,000 tons/year.
Specialty Products: Expand the current field of business with timely reinforcement of production facilities where rapid growth is expected (polyimide, gas separation membranes, etc.), and maintain our core competence with enhanced cost competitiveness and prompt development of new products. **Fine Chemicals and Pharmaceuticals:** *Fine Chemicals:* Increase production of diol and dimethyl carbonate (DMC), environmentally friendly products for which global demand is growing. Actively conduct development and introduce new technologies for expansion in new business domains such as environmental coating materials. *Pharmaceuticals:* Strengthen the new agent pipeline while increasing earnings by thoroughly reducing costs and increasing the operating rate.	• Consolidated segment sales decreased 1.0 percent to ¥88.3 billion due mainly to withdrawal from the aluminum electrode foil business, but operating income increased 5.0 percent to ¥11.5 billion. • To respond to rapidly increasing demand for applications in flat-panel TVs, UBE completed construction of its 8th polyimide production facility in August 2006, and construction is in progress on the 9th, 10th and 11th facilities. • UBE increased domestic production of 1,6-hexanediol in response to growth in demand for use as a raw material in urethane resins. • Construction began on UBE's second and third polyimide hollow fiber spinning facilities to meet rapid growth in demand for nitrogen gas separation membranes.
Cement and Ready-Mixed Concrete Business: Generate stable earnings and cash flow by continuing to adjust prices and establish a solid business foundation. Work closely with the entire UBE Group to continue to raise cost competitiveness and make the capital expenditures needed to maintain the business and secure stable operations. Also, work together to continue to secure stable limestone resources. **Recycling Business:** Utilize waste in the production process at cement kilns to generate stable profits for the cement business while contributing significantly to the UBE Group's effort to help build a recycling-based society. Further expand waste processing facilities to boost processing capacity. Increase revenue from waste processing by ¥1 billion in each fiscal year, with the goal of achieving target revenues of ¥15 billion by fiscal 2011. **Calcia, Magnesia and Specialty Inorganic Materials Business:** Expand the calcia business throughout Japan, and the magnesia business into new fields. Raise management efficiency in the specialty inorganic materials business, and develop new high-performance, high-quality products, primarily for plasma display panels (PDPs), to launch in the short-term. Increase sales of high purity and ultra-fine single crystal magnesia powder. **Building Materials:** Expand the scale of business by developing new products, technologies and applications focused on self-leveling and plastering materials, where UBE has a competitive advantage.	• Consolidated segment sales increased 8.0 percent to ¥207.8 billion. Operating income rose 27.5 percent to ¥12.4 billion. • Solid domestic demand for cement, together with price adjustments, supported growth in income. • Processing of wastes for use as fuel steadily expanded earnings from waste processing. • Shipments of calcia and magnesia, mainly for steelmaking, were strong.
Machinery Business (Molding Machines, Industrial Machinery, Steel Products): Leverage the advanced and respected technological capabilities of core company Ube Machinery Corporation in the automotive and other industries. Under the unified UM4 management, strengthen our flexible global production and service system to enhance stable profitability in the molding machine and industrial machinery businesses. Create a structure in the steel products business that is not affected by changes in the operating environment. **Aluminum Wheels Business:** In Japan, boost the production capacity for high-value-added large diameter wheels. Promote a cost reduction project and raise the operating margin to 5 percent by fiscal 2009. Develop new machines to improve cost competitiveness, prepare for future replacement of machines, and expand production capacity in North America. In North America, increase the proportion of sales to Japanese automakers. Thoroughly reduce costs by improving the yield, painting in-house and other methods to reduce outsourcing costs. Return the aluminum wheel business in North America to profitability by fiscal 2009.	• Consolidated segment sales increased 11.5 percent to ¥114.2 billion. Operating income rose 49.8 percent to ¥5.5 billion. • The Machinery Business set a new performance record, with strong shipments of steel products and molding machines for automobiles. • Amid widespread demands for lower costs from customers, the aluminum wheel business is undergoing restructuring.
Coal and Power: As a shared infrastructure business of the UBE Group, this business will deliver a stable, competitive supply of energy in the form of coal and electricity to Group companies while maximizing profits and cash flow through outside sales.	• Consolidated segment sales decreased 1.6 percent to ¥30.9 billion. Operating income increased 16.5 percent to ¥2.7 billion. • Diversification of coal sources and contracts mitigated risks associated with high prices. • The independent power producer (IPP) business began using wood biomass fuel at its coal-fired power plants.

Chemicals & Plastics

In fiscal 2006, sales grew for the third consecutive year, as demand for segment products remained firm. Operating income decreased year-on-year due to higher raw material prices, but was still solid at approximately ¥13.0 billion due to our enhanced management of profit margins. In fiscal 2007, the first year of Stage Up 2009, we will generate stable cash flow by further solidifying the earnings structure constructed over the past three years.

Segment Sales and Operating Income

(Billions of yen)



Segment sales (left scale)
Operating income (right scale)
Amount related to change in depreciation standard.

Applications for polybutadiene (Synthetic rubber)

Basic Strategies of Stage Up 2009

Synthetic Rubber: Begin operations at our 50,000-ton capacity plant in China to establish a third global base in addition to Japan and Thailand. In order to stably maintain or expand profits, UBE will promote a differentiation strategy by launching production of specialty rubbers in Thailand, adding to existing production in Japan.

Caprolactam Chain: Secure stable profits in the caprolactam business that are not affected by market fluctuations.

Expand production capacity and raise cost competitiveness in the polyamide resin business, which is a core component of the caprolactam chain. Boost sales in priority markets, targeting the automotive market for injection molding and the film market for extrusion. Raise the percentage of caprolactam for captive use to approximately 40 percent.

Enhance our stable supply system in the industrial chemicals market as Japan's leading supplier of ammonia.

NOBUYUKI TAKAHASHI
Senior Managing Executive Officer

Fiscal 2006 Results

Segment sales increased 19.6 percent, or ¥34.5 billion, year-on-year to ¥210.4 billion. Operating income decreased 8.0 percent, or ¥1.1 billion, year-on-year to ¥13.7 billion, due to the significant negative impact of rising raw material prices.

Shipments of butadiene rubber were favorable as demand remained strong, particularly for use in tires. In addition, shipments of caprolactam and polyamide resin were strong, particularly to Asia. However, this business was significantly impacted by rising raw material prices. Shipments of industrial chemicals were generally firm, centered on ammonia.

Segment earnings decreased year-on-year despite the benefits of thorough rationalization due to factors including a smaller spread between raw material prices and caprolactam sales prices.

Synthetic Rubber Business

Worldwide sales of butadiene rubber are forecast to increase 3-4 percent annually due to strong demand, particularly for use in the tire industry, which is a major market. UBE's butadiene rubber sales volume is number one

Applications for Polyamide 6 & Polyamide 66
(Parts for automobiles)

Applications for Polyamide 6
(Biaxi-oriented polyamide film)

Applications for Polyamide 12
(Tubes, gas pipes and shoe soles, etc.)

in Asia. Tire manufacturers are planning to build new facilities in Asia, particularly in China and Thailand, and they are depending on UBE to supply the butadiene rubber they use as a raw material. Under these conditions, UBE concentrated on expanding the scale of its synthetic rubber business by increasing production capacity, while enhancing profitability through further rationalization. UBE subsidiary Thai Synthetic Rubbers Co., Ltd. (TSL) expanded its production facilities in February 2006, and now operates at full capacity. In addition, in September 2006 UBE made its first large-scale investment in China by taking a 25-percent share in a newly established butadiene rubber manufacturing and sales company that will have an annual production capacity of 50,000 tons. Construction of this company's plant has begun, and is scheduled for completion in 2009.

UBE is working to meet increasing customer demand for high performance by promoting the development and rapid launch of high-performance, differentiated products including metallocene butadiene rubber produced using a metallocene catalyst and nano vinyl cis rubber (VCR). In addition, in 2007 UBE's subsidiary TSL will begin VCR production, which UBE previously only produced in Japan.

In fiscal 2007, the first year of Stage Up 2009, UBE will work to maximize customer satisfaction by shifting toward production of high-value-added products. UBE will do so by upgrading and expanding its stable supply system and enhancing its lineup of specialty rubbers that customers can use to develop high-performance products.

Caprolactam Business

Demand for caprolactam, a raw material used in the manufacture of polyamide, is forecast to grow at an annual rate of 4-5 percent in China and the rest of Asia, driven by demand for use in textiles. In Japan, the United States and Europe, demand for caprolactam for use in textiles is decreasing, but demand for caprolactam for use in resins is increasing. Therefore, worldwide demand for caprolactam is expected to maintain a strong annual growth rate of 2-3 percent. Under these conditions, UBE's caprolactam business will meet customer demand for stable supply from its three global bases for the caprolactam chain in Japan, Thailand and Spain.

UBE is now executing a project with the goal of reducing costs by US$100/t, and will continue to improve production technologies. In marketing, UBE will develop pricing strategies that rapidly reflect the volatile prices of primary raw materials such as benzene with the aim of stable supply at appropriate prices. In addition, UBE will steadily implement strategic marketing focused on the Asian market.

Polyamide Business

Demand for polyamide for use as an engineering plastic for automobile parts, food packaging and other applications is forecast to grow at an annual rate of 5-6 percent worldwide, and 10 percent in Asia. UBE is responding to increasing demand by conducting step-by-step expansion of its polyamide 6 production capacity. In January 2007, a 10,000-ton expansion project was completed in Spain, and work has begun on a 50,000-ton expansion project in Thailand scheduled for completion in 2009.

In addition, UBE established technology bases in Thailand and Spain with the aim of promptly meeting customer needs. In Japan, UBE established a development center for automobile components within the research and development department. Moreover, UBE enhanced its R&D at its three global bases.

Going forward, UBE will execute aggressive scrap-and-build projects in its polyamide 6 business. Moreover, the polyamide 12 market is expected to expand steadily, and UBE will raise its position as a global supplier by assiduously implementing a niche strategy and continuing to develop highly profitable products.

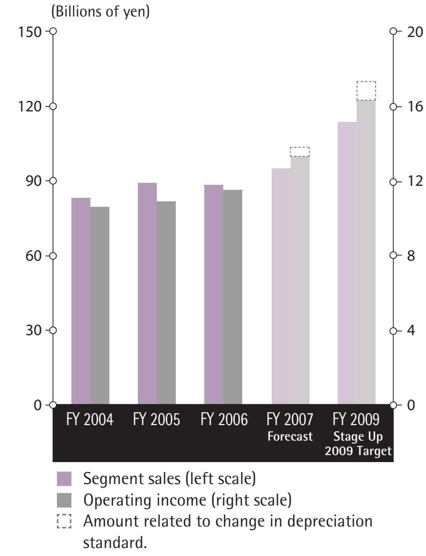
Industrial Chemical Business

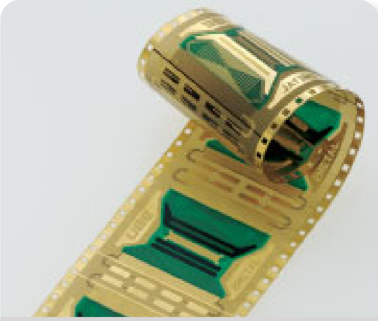
The industrial chemical business produces basic chemicals centered on ammonia, a raw material of caprolactam and other products. The largest ammonia supplier in Japan, UBE will fulfill its responsibilities as a market leader by working to enhance productivity. We will also consider restructuring other product operations in moving to strengthen the overall profitability of the caprolactam chain.

Specialty Chemicals & Products

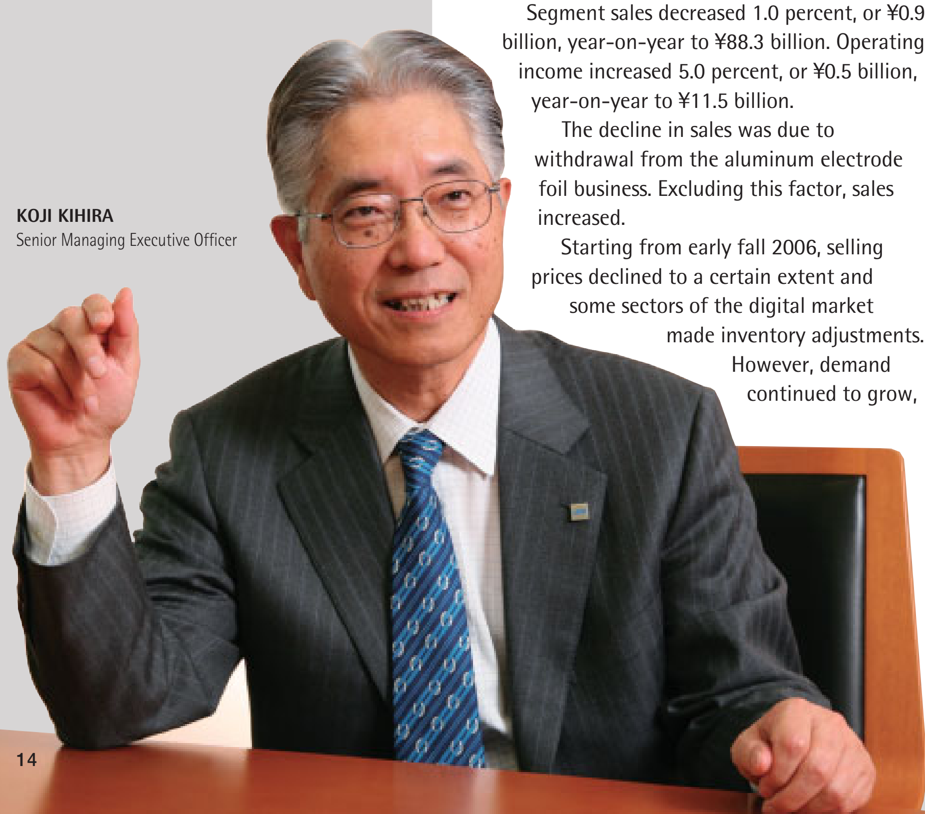
Fiscal 2006 was a year of reinforcing our business by expanding production facilities. In fiscal 2007, the first year of Stage Up 2009, we will tackle issues such as technology, quality, cost and supply by reinforcing our business portfolio with "differentiated and preemptive" as our keywords, to achieve a stable and highly profitable corporate structure.

Segment Sales and Operating Income





Applications for polyimide
(2 Metal COF)



KOJI KIHIRA
Senior Managing Executive Officer

Basic Strategies of Stage Up 2009

Specialty Products: Expand the current field of business with timely reinforcement of production facilities where rapid growth is expected (polyimide, gas separation membranes, etc.), and maintain our core competence with enhanced cost competitiveness and prompt development of new products.

Fine Chemicals and Pharmaceuticals:

Fine Chemicals: Increase production of diol and dimethyl carbonate (DMC), environmentally friendly products for which global demand is growing. Actively conduct development and introduce new technologies for expansion in new business domains such as environmental coating materials.

Pharmaceuticals: Strengthen the new agent pipeline while increasing earnings by thoroughly reducing costs and increasing the operating rate.

Fiscal 2006 Results

Segment sales decreased 1.0 percent, or ¥0.9 billion, year-on-year to ¥88.3 billion. Operating income increased 5.0 percent, or ¥0.5 billion, year-on-year to ¥11.5 billion.

The decline in sales was due to withdrawal from the aluminum electrode foil business. Excluding this factor, sales increased.

Starting from early fall 2006, selling prices declined to a certain extent and some sectors of the digital market made inventory adjustments. However, demand continued to grow, with firm shipments of battery materials and fine chemicals. Also, with the increase in demand for application in nitrogen separation, shipments of gas separation membranes were extremely favorable.

The impact on profits due to the withdrawal from the aluminum electrode foil business was minimal, and operating income increased.

Polyimide Business

UBE polyimide offers unique features including high elasticity, good dimensional stability and a smooth surface. UBE holds a dominant market share for tape-automated bonding (TAB) used in plasma televisions and other products. *UBE UPILEX®* polyimide film is highly evaluated by customers who require high-precision, high-density features for use in large-screen LCD televisions.

In August 2006, construction was completed on the 8th polyimide production facility. However, in order to meet the rapid increase in demand, construction is in progress on the 9th facility, which is scheduled to begin operation in October 2007. UBE also began construction

Nitrogen gas separation membranes

Compact electric vehicle (EV) prototype equipped with new energy storage source

Pharmaceutical products

on its 10th and 11th production facilities at the Sakai Factory. These new facilities will supplement the UBE polyimide production facilities to create a two-factory system. This system will enable UBE to double its production capacity by fall 2008 compared to the beginning of fiscal 2006, and provide a stable supply of polyimide products.

Battery Materials Business

The market for lithium-ion secondary batteries (LIB) is expected to continue to grow at an annual rate of approximately 10 percent. In electrolytes, UBE has specialized in the high-performance LIB market through a focus on development of functional additives. However, UBE will begin preparations to enter the mid-range electrolyte market, where it expects high sales volume. In separators, UBE will maintain and expand its sales volume in the Chinese market, and also develop technologies and reduce costs for applications in Hybrid Electric Vehicles (HEV) in Japan.

Gas Separation Membrane Business

Increasing safety consciousness has marked the market for gas separation membranes, which use polyimide hollow fiber membranes. As a result, demand has been increasing for nitrogen gas separation membranes for anti-explosive applications in areas including oil wells, coal mines and container ships. Furthermore, demand for alcohol dehydration membrane applications, a critical element in refining bio-ethanol, which is attracting attention around the world as an alternative fuel to gasoline, is expected to grow significantly. To meet this rapid increase in demand, in fiscal 2006, UBE decided to build its 2nd and 3rd polyimide hollow fiber spinning facilities. When the 3rd facility is completed in January 2008, the production capacity will be 3.6 times the level at the beginning of fiscal 2006.

Other Specialty Products

In the semiconductor and electronic materials business, demand for high-purity nitric acid, used in silicon wafer cleaning solutions, and boron trichloride, used in semiconductor etching gases, is increasing. In response to this increase in demand, UBE is reinforcing its facilities and focusing on expanding sales of products including organic metallic compounds.

In the ceramics business, UBE offers the only high-purity silicon nitride in the world that is manufactured through chemical synthesis. Demand for this product is expected to grow because it is increasingly considered an important material for saving resources and energy.

In the telecommunications device business, UBE is promoting dielectric ceramics in markets that suit the characteristics of the materials, and is also focusing on applications in base stations, a market that is expected to grow.

In the aerospace materials business, UBE manufactures PETI polyimide resins under license from NASA of the United States. These resins are gaining ground among major aerospace manufacturers for use as a heat-resistant composite material, and expected to enter qualification tests in 2008. In addition, UBE's polyimide foams, *Tyranno Fibers*® and *Tyranno-Hex*®, are evaluated highly in the market as ultra heat-resistant materials.

Fine Chemicals

The fine chemicals business is stepping up business development in high-performance niche markets including caprolactam derivatives (C6 chemicals), diphenol derivatives and specialty chemicals.

In the area of caprolactam derivatives, UBE increased production of 1,6-hexanediol, which is used as a raw material in products including urethane resins, in October 2006 in response to growing worldwide demand. In January 2006, UBE built a new production facility in Spain for 1,5-pentanediol, previously manufactured only in Ube City, Japan.

In the area of diphenol derivatives, full-scale operation commenced in July 2006 for *Heliofresh*®, a marine aroma fragrance synthesized from cathecols, which are replacing currently used plant oil-based fragrances. Such replacements help prevent deforestation, thus contributing to the preservation of forest resources. Hereafter, UBE will promote development of eco-friendly products.

In specialty chemicals, UBE will accelerate production and grade development at its plant for polycarbonatediol, a raw material for high-grade urethane, made from dimethyl carbonate, at Ube Chemical Europe, S.A. in Spain.

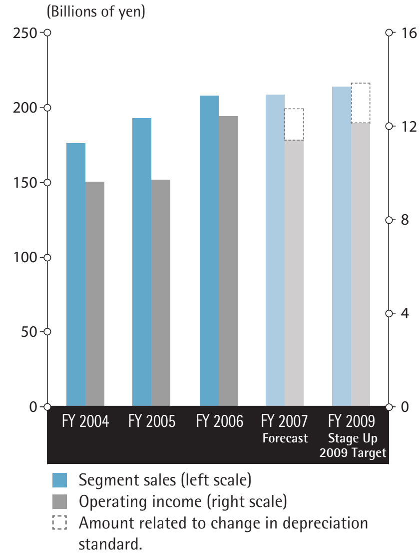
Pharmaceuticals Business

In the in-house pharmaceuticals business, shipments were steady for *Calblock*®, an antihypertensive agent co-developed with Daiichi Sankyo Co., Ltd., and for *Talion*®, an antiallergic treatment co-developed with Tanabe Seiyaku Co., Ltd. In addition, CS-747 ("Prasugrel") is a novel antiplatelet agent created by UBE that Daiichi Sankyo Co., Ltd. and Eli Lilly are jointly developing. CS-747 has advanced to the final stages of Phase III clinical studies in Europe and the United States, and is expected to be launched as a major pharmaceutical.

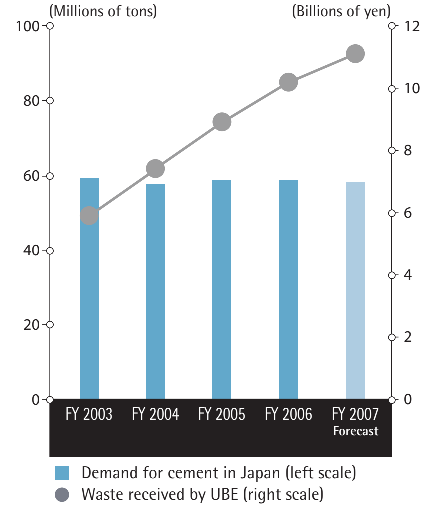
Cement & Construction Materials

Fiscal 2006 performance significantly surpassed results in the previous fiscal year. Demand for cement in Japan remained solid, the specialty inorganic materials business grew, and the resource recycling business steadily expanded. In fiscal 2007, we will work to further improve earnings in each of our four core businesses: 1) cement and ready-mixed concrete; 2) recycling; 3) calcia, magnesia and specialty inorganic materials; and 4) building materials.

Segment Sales and Operating Income



Demand for Cement in Japan and Waste Received



Basic Strategies of Stage Up 2009

Cement and Ready-Mixed Concrete Business: Generate stable earnings and cash flow by continuing to adjust prices and establish a solid business foundation. Work closely with the entire UBE Group to continue to raise cost competitiveness and make the capital expenditures needed to maintain the business and secure stable operations. Also, work together to continue to secure stable limestone resources.

Recycling Business: Utilize waste in the production process at cement kilns to generate stable profits for the cement business while contributing significantly to the UBE Group's effort to help build a recycling-based society. Further expand waste processing facilities to boost processing capacity. Increase revenue from waste processing by ¥1 billion in each fiscal year, with the goal of achieving target revenues of ¥15 billion by fiscal 2011.

Calcia, Magnesia and Specialty Inorganic Materials Business: Expand the calcia business throughout Japan, and the magnesia business into new fields. Raise management efficiency in the specialty inorganic materials business, and develop new high-performance, high-quality products, primarily for plasma display panels (PDPs), to launch in the short-term. Increase sales of high purity and ultra-fine single crystal magnesia powder.

Building Materials: Expand the scale of business by developing new products, technologies and applications focused on self-leveling and plastering materials, where UBE has a competitive advantage.

KAZUMA SEKIYA
Senior Managing Executive Officer

Fiscal 2006 Results

Segment sales increased 8.0 percent, or ¥15.4 billion, year-on-year to ¥207.8 billion. Operating income increased 27.5 percent, or ¥2.6 billion, to ¥12.4 billion.

The cement and ready-mixed concrete business was significantly impacted by the high cost of coal and other fuels. Increased private-sector demand for cement in Japan compensated for a drop in demand for public projects. In addition, UBE steadily expanded recycling of various types of waste as raw materials and fuel. Shipments of calcia and magnesia, primarily for steel, were strong, and shipments of

The new suspension preheater kiln at the Ube Cement Factory

This facility uses a chlorine bypass system, achieving a high bypass ratio

Application of self-leveling materials

specialty inorganic materials, primarily for PDPs, increased. Shipments of self-leveling products for flooring and other building materials were strong.

Cement and Ready-Mixed Concrete Business

In the cement business in Japan, private-sector demand in urban areas compensated for low demand for public projects, and shipment volumes were solid. In fiscal 2007, although private-sector demand is forecast to remain steady, demand for public projects is expected to diminish, while energy costs remain high. UBE aims to ensure profits by continuing to adjust sales prices and securing stable export customers.

In the ready-mixed concrete business, we conducted activities throughout the UBE Group to enhance technological capabilities and management efficiency.

In urban areas, UBE will promote networking and focus on high-strength, high-fluidity concrete. In these fields, UBE will secure high earnings by making its presence felt through industry-leading technological capability. Outside urban areas, UBE will stabilize management through integration, grouping and specialization, while withdrawing from unprofitable businesses.

In August 2006, sales of ready-mixed concrete began at UBE's wholly owned subsidiary Nantong UBE Concrete Co., Ltd. in China. The subsidiary is UBE's first independent overseas cement-related business.

Resource Recycling Business

UBE increased cost performance with resource recycling that helps the Group use waste as raw materials or fuel for cement. UBE increased the volume of the wastes it handles for a fee, including soil from construction, ash from incinerated urban trash and plastics. Under New 21•UBE II, UBE achieved its target for increasing the volume of waste handled one year ahead of schedule. In addition, UBE raised revenues to ¥10.2 billion in fiscal 2006.

In order to support earnings in the cement and ready-mixed concrete business, UBE will use approximately ¥4.0 billion in capital investment over the three years of Stage Up 2009. In addition, the Group will set a new target for increasing revenue from waste processing to ¥15.0 billion by fiscal 2011.

Calcia, Magnesia and Specialty Inorganic Materials Business

Ube Material Industries, Ltd., a Group company, is the leading manufacturer of quicklime and the only producer of magnesia clinkers (refractories) in Japan. Operating efficiently in areas ranging from limestone to quicklime and magnesia gives the UBE Group a strong advantage.

In fiscal 2006, profits in traditional businesses including the calcia and magnesia business increased, due to ongoing management efforts and favorable demand from the steel industry. In addition, the specialty inorganic materials business also developed strongly. This business includes ultra-high purity calcium carbonate for use as a material in electronics and optical devices, and high purity and ultra-fine single crystal magnesia for use in PDPs.

Ube Material Industries, Ltd. will expand its calcia business throughout Japan, and plans to launch a next-generation highly reactive slaked lime product. In the magnesia business, Ube Material Industries, Ltd. will secure earnings by developing into the new non-refractory field and providing a stable supply of high-quality products differentiated from products made in China.

Building Materials

In the building materials business, UBE develops and rapidly markets new products that anticipate market needs while strengthening and expanding sales of existing products. UBE aims to increase earnings by concentrating management resources in the core product areas of self-leveling and plastering.

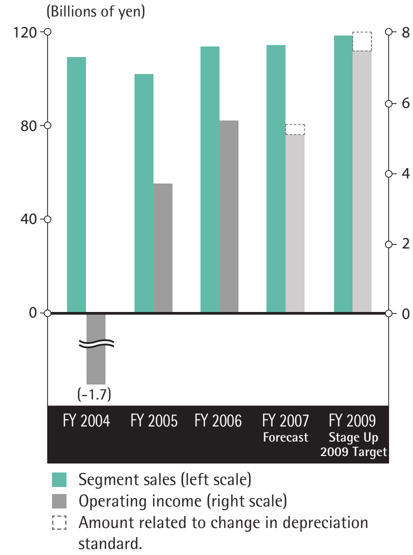
Amid increasing demand for self-leveling materials, which offer excellent smoothness for floor surfaces, UBE launched *Floor Leveler G* for balconies in October 2006. This self-leveling material for outdoor use, an application beyond the purview of previous products, has been enthusiastically received by customers. In addition, UBE began full-scale sales in Japan of *U-Grout* in October. This nonshrink cement-type grout fills and strengthens holes in stationary machine bases, structural components and other items. *U-Grout* is sold through a slurry supply system using a lorry, which is expected to save labor and time, among other benefits.

Machinery & Metal Products

In fiscal 2006, sales and income increased in the machinery and metal products segment, which achieved record earnings. In fiscal 2007, we will maintain a high level of earnings through unified UM4 management.* In the aluminum wheel business, we are rebuilding operations in North America.

* UM4 refers to the four consolidated subsidiaries at the core of the UBE Group's machinery segment: Ube Machinery Corporation, Ltd.; Ube Techno Eng Co., Ltd.; Ube Machinery Inc.; and Ube Machinery (Shanghai) Ltd.

Segment Sales and Operating Income



Basic Strategies of Stage Up 2009

Machinery Business (Molding Machines, Industrial Machinery, Steel Products): Leverage the advanced and respected technological capabilities of core company Ube Machinery Corporation in the automotive and other industries. Under the unified UM4 management, strengthen our flexible global production and service system to enhance stable profitability in the molding machine and industrial machinery businesses. Create a structure in the steel products business that is not affected by changes in the operating environment.

Aluminum Wheels Business: In Japan, boost the production capacity for high-value-added large diameter wheels. Promote a cost reduction project and raise the operating margin to 5 percent by fiscal 2009. Develop new machines to improve cost competitiveness, prepare for future replacement of machines, and expand production capacity in North America.

In North America, increase the proportion of sales to Japanese automakers. Thoroughly reduce costs by improving the yield, painting in-house and other methods to reduce outsourcing costs. Return the aluminum wheel business in North America to profitability by fiscal 2009.

KAZUHIKO OKADA
Representative Director/
Vice-President and Executive Officer

Fiscal 2006 Results

Segment sales increased 11.5 percent, or ¥11.7 billion, year-on-year to ¥114.2 billion. Operating income increased 49.8 percent, or ¥1.8 billion, year-on-year to ¥5.5 billion.

In the machinery business, shipments of die-casting machines and injection molding machines remained strong, centered on the automotive industry. In addition, strong private-sector capital investment supported significant growth in shipments of all types of industrial machinery, and shipments of vertical mills to China were strong. Orders of both molding machines and industrial machinery also remained at a high level. Shipments of steel billets and other steel products, primarily to South Korea, also remained robust.

In the aluminum wheel business, shipments in Japan were strong

An aluminum die-casting machine

Large-capacity all-electric injection molding machine

UBE aluminum wheels

despite intensive price competition. However, performance in North America slumped because of a decrease in shipments and the appreciation of the Canadian dollar. We are working to strengthen sales to Japanese automakers, enhance productivity and implement thorough cost-cutting measures to improve performance in North America.

Machinery Business

Capital investment by Japanese automobile manufacturers remained strong and demand from China and Southeast Asia continued to increase in the machinery market. In response, Ube Machinery Corporation increased molding machine assembly capabilities, and in January 2007 Ube Machinery (Shanghai) Ltd. relocated its molding machine assembly facilities to a new plant in order to double production capabilities in China. In addition, Ube Machinery (Shanghai) established a fifty-fifty joint venture for the manufacture of plastics injection molding machines with Cosmos Machinery Enterprises Limited of Hong Kong. The joint venture is located in Wuxi City, Jiangsu Province, China, and began operations in May 2007. Ube Machinery Corporation promoted development of high-performance die-cast machines that dramatically improve space productivity. In November 2006, Ube Machinery Corporation launched the UH Series of large-scale die-casting machines with the world's smallest footprint to meet market needs. Ube Machinery Corporation created the UH Series by developing the industry's first large-scale die-casting machine without fixed tie rods, and integrating it with clamp hybrid structure technology that has a proven record in the field of large-scale specialty machinery. In addition, the industry has responded enthusiastically to the large-capacity all-electric injection molding machines that Ube Machinery Corporation launched in the previous fiscal year and Diepress molding machines. As a result, earnings improved substantially compared to the previous fiscal year, with molding machines in particular maintaining strong performance year-on-year.

In fiscal 2006, performance in the industrial machinery business was robust. UBE put intense effort into raising productivity and enhancing profitability. Improved market conditions amplified these efforts. Ube Steel Co., Ltd. also performed strongly. It adjusted sales prices to reflect higher prices for the scrap steel it uses as a raw material in producing casting and steel products and billets, and shipments to South Korea and other markets remained strong.

During Stage Up 2009, UBE will work under UM4 unified management to strengthen its global responsiveness and service operations, such as maintenance support and renovation for machinery. In addition, UBE will focus on strengthening and restructuring its system of production bases covering Japan, China and North America and its global service system. Another emphasis will be securing stable profits from the three core areas of molding machines, industrial machinery and steel making products.

Aluminum Wheel Business

UBE inaugurated the aluminum wheel restructuring project under the direct management of President Tamura in January 2006 in Japan, and has been using the collective expertise of the UBE Group to restore the competitiveness of the aluminum wheel business. However, performance remained at a low level due to intensive price competition. In North American operations, the performance of UBE Automotive North America Sarnia Plant Inc. was sluggish because efforts to reduce costs, including in-house operation of painting processes, have not yet been realized. Other factors included decreased shipments and the strong Canadian dollar.

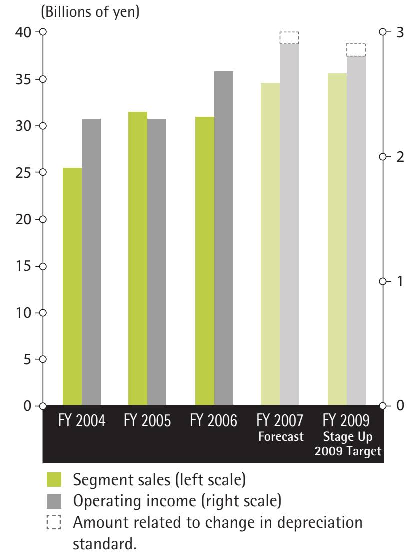
During Stage Up 2009, UBE has targeted an operating margin of 5 percent in Japan by increasing the proportion of more profitable large-diameter wheels and by implementing a major cost reduction initiative. In addition, UBE will develop new machines with strong cost competitiveness. In North America, UBE plans to raise the proportion of sales to Japanese automakers, improve productivity through measures including in-house operation of painting processes and improving the yield, and will thoroughly reduce costs to return the aluminum wheel business to profitability by fiscal 2009.

Energy & Environment

As the global balance of supply and demand for resources and energy becomes increasingly tight, we will enhance our presence as a core platform business through our crucial role of providing a stable supply of energy to the UBE Group. We will continue to strengthen cooperation with other segments to promote the use of non-fossil fuels including wood biomass. Through optimal investments, we will maximize profits and cash flow, thereby contributing to the UBE Group.

MICHIO TAKESHITA
Managing Executive Officer

Segment Sales and Operating Income



Okinoyama Coal Center

Basic Strategies of Stage Up 2009

Coal and Power: As a shared infrastructure business of the UBE Group, this business will deliver a stable, competitive supply of energy in the form of coal and electricity to Group companies while maximizing profits and cash flow through outside sales.

Fiscal 2006 Results

Segment sales decreased 1.6 percent, or ¥0.5 billion, year-on-year to ¥30.9 billion. Operating income increased 16.5 percent, or ¥0.3 billion, year-on-year to ¥2.7 billion.

As an infrastructure business of the UBE Group, we countered the tight market and high prices for coal to deliver a stable supply of energy in the form of coal and electricity. In the electricity business, we improved profitability through measures including the introduction of wood biomass fuel.

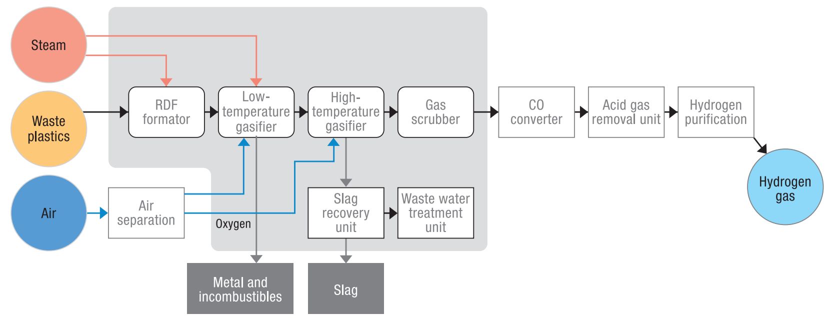
Coal Business

Market prices for coal have been approximately twice their traditional level since a rapid increase from the second half of 2003. In fiscal 2006, UBE mitigated risks associated with these continued high prices by diversifying coal sources and contracts. In addition, UBE worked to avoid increased expenses associated with rising spot freight costs by increasing the proportion of chartered freighters and medium-term freight contracts. As a main source of steady profit growth, UBE increased mainly the volume of consignment orders through its Coal Center. This distribution center provides a stable supply of imported steaming coal to users in Japan.

Looking forward, primary management issues will include cost, quality and stable supply. UBE will expand relationships with reliable main suppliers and shipping companies. While procuring stable supplies of coal that offer good cost performance, UBE will collect accurate information and make

Biomass fuel manufacturing facility at IPP power plant

EUP System Block Flow



The Ebara-Ube Process (EUP) system is a state-of-the-art technology that produces synthetic gas from waste plastics and other organic wastes. Using a combination of low- and high-temperature gasifiers, the technology produces synthetic gas composed chiefly of hydrogen and carbon monoxide for use as raw materials in chemical industries.

timely decisions in working to secure earnings and mitigate risk. In addition to working to further expand capacity at the Okinoyama Coal Center, one of the largest in Japan, UBE aims to increase coal dealing through the center by enhancing its technological services and functions. Moreover, UBE will aggressively develop and offer blended coal under its own brand, drawing on application development in areas such as technologies for use of low-grade coal.

Electricity Business

In the independent power producer (IPP) business, high coal prices created a challenging operating environment. During fiscal 2006, UBE constructed and began operating facilities for wood biomass fuel at its coal-fired power plants. Wood biomass is recognized as an alternative energy for reducing environmental impact by the Renewables Portfolio Standard (RPS), a law promoting the use of new energy sources by the electric industry. The new biomass facilities are expected to contribute to enhancing the profitability of the IPP business. Also, UBE established a system for continuous two-year operation of its facilities for electric power generation. UBE expects this system to increase the quantity of electric power it generates and to lower maintenance costs, which will contribute to improved profitability.

UBE will continue to expand use of non-fossil fuels such as wood biomass, in order to mitigate increased electric power generation costs associated with high coal prices and in response to growing environmental concerns.

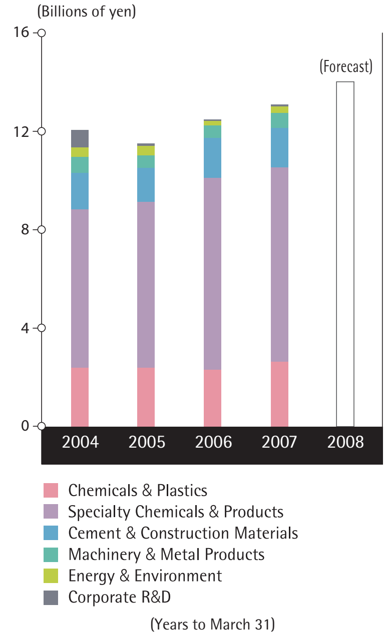
Recycling Business

In the recycling business, UBE recycles biomass fuels used in the electricity business, and operates a plastic waste conversion business in compliance with Japan's Containers and Packaging Recycling Law. In its plastic waste conversion operations, UBE uses the Ebara-Ube Process (EUP) system, a two-stage pressure gasification system developed and commercialized with Ebara Corporation. This breakthrough technology uses a gasifier employing oxygen and steam under pressure to convert waste plastics with unstable chemical composition into hydrogen and carbon monoxide for use as raw materials in chemical production such as the synthesis of ammonia. Moreover, UBE will pursue efficient use of resources by cutting its use of fossil fuels and will contribute to reduced CO_2 emissions. In addition, UBE will continue to improve profitability as it pursues stability in all operations.

R&D Strategy

Based on the Business Portfolio and Target Market & Technology Direction defined in Stage Up 2009, UBE's R&D Portfolio clearly shows the role and direction that R&D will take in the UBE Group. At the same time, we will promote aggressive R&D with greater speed and quality for the Group's rapid advancement through strategic allocation of R&D resources and reform of our R&D structure. In addition, strengthening intellectual property activity and academic-industrial collaboration for more strategic and efficient R&D will help us achieve the objectives of Stage Up 2009.

R&D Costs by Segment



For the business portfolio strategy of Stage Up 2009, we divided the UBE Group's main businesses into four categories — strategic growth businesses, developing businesses, core platform businesses and rebuilding businesses — and will work toward the following objectives:

- Capital expenditures over the three years of the plan will be ¥105.0 billion, equivalent to depreciation (excluding the effect of the change in the depreciation standard). We will invest 60 percent of capital expenditures for new or expanded facilities in strategic growth businesses.
- R&D costs over the three-year period will be ¥43.0 billion, of which 60 percent will be invested in strategic growth businesses and developing businesses.
- Corporate research and development will aim to create new next-generation businesses, with a focus on the fields of IT & electronics (optics), energy (environment), pharmaceuticals and base chemicals.

BUSINESS PORTFOLIO AND MARKET & TECHNOLOGY DIRECTION

In formulating Stage Up 2009, we presented the portfolio that organized the foundation, strengths and future potential of UBE's businesses and technologies to clearly show the role and direction that each business will take for the Group's greater advancement. Based on UBE's proprietary technology platform of organic, polymer, inorganic and other chemical technologies, the UBE Group supplies materials to customers in a broad range of fields from general industry and the automotive industry to IT & electronics. The large arrow in the center of the chart on the following page indicates the UBE Group's future business. Specifically, we will expand from core platform businesses such as the caprolactam chain, construction materials and machinery, which supply customers in general industry and automobile manufacturing, to strategic growth businesses and developing businesses, which include polyimides and battery materials that UBE supplies to customers in industries such as IT & electronics and energy. We also intend to undertake efforts in next-generation fields such as next-generation substrate materials, optical materials, pharmaceuticals and next-generation battery materials as our next target. Details are shown in the R&D Portfolio.

R&D PORTFOLIO

The R&D Portfolio consists of two parts: divisional R&D and corporate R&D. The objectives of divisional R&D and the base chemicals domain of corporate R&D are to strengthen and expand existing business. Those of the rest of corporate R&D are to create new business, focused in three domains: (1) IT & electronics (optics), (2) energy (environment), and (3) pharmaceuticals. These three domains correspond to the "next-generation target domains" section of the UBE Group Business Portfolio and Target Market/Technology Direction. We will target next-generation substrate materials and LED materials in the domain of IT & electronics (optics), and next-generation battery materials in the domain of energy (environment). In the pharmaceuticals field, an antiplatelet drug is close to launch in the U.S.A. and Europe, and our drug discovery research conducted over more than two decades is finally poised to yield commercial results.

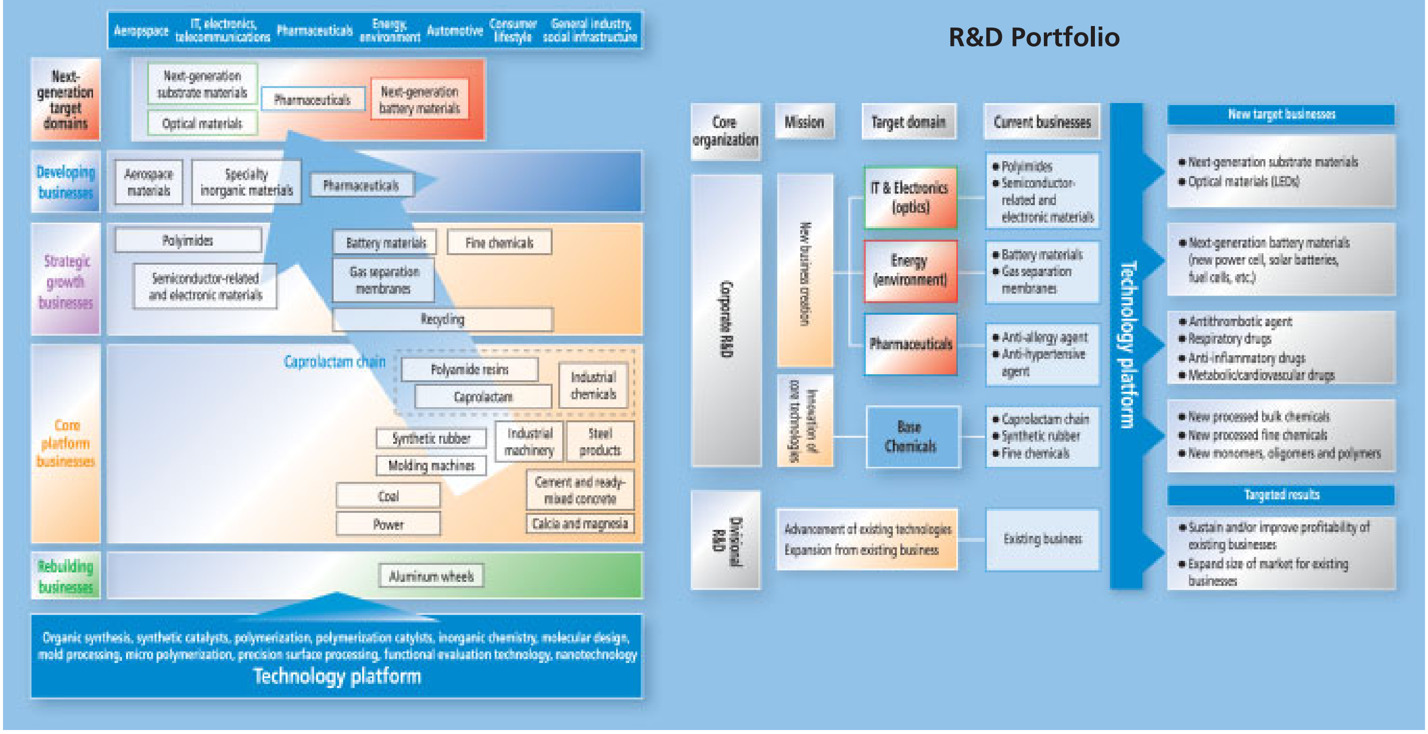
UBE's drug discovery research covers preclinical and Phase I clinical studies. Pipeline management to prioritize the many candidate compounds up to that point is important, but the gaps that tended to occur at the clinical stage are finally beginning to fill in. We are conducting development in the three areas of respiratory, anti-inflammatory and metabolic/cardiovascular drugs based on our original evaluation technology platform.

AN ORGANIZATIONAL STRUCTURE THAT SUPPORTS MORE STRATEGIC AND EFFICIENT R&D

Based on these clear directions and objectives, UBE also changed its research and

YASUHISA CHIBA
Representative Director/Vice-President and Executive Officer/CTO

UBE Group Business Portfolio and Target Market/Technology Direction



development organization in April 2007 to promote more strategic and efficient R&D. The essence of these changes was creating a flat organization across the three fields of organic synthesis, organic materials (polymers), and inorganic materials. The research departments in charge of inorganic specialty materials and organic chemistry, which had been part of the hierarchy in Ube Laboratories, were separated into independent units, the Organic Chemistry Research Laboratory and the Inorganic Specialty Product Research Laboratory, and the Polymer Research Laboratory was renamed the Organic Specialty Materials Research Laboratory. In addition to this simplified organizational structure, we are actively promoting younger-generation employees to manager positions and have established an environment where researchers can concentrate on R&D activities, providing motivation by efficiently linking clearer objectives to results.

AN AGGRESSIVE "THREE-IN-ONE" INTELLECTUAL PROPERTY STRATEGY

An intellectual property strategy is essential to fully mobilize our technology portfolio. UBE considers intellectual property a key asset supporting business operations, and works to create, protect and deploy strategic intellectual property using a "three-in-one" strategy that encompasses business divisions, the Research and Development Division and the Intellectual Property Department. Particularly for specialty materials, which are positioned as developing businesses and strategic growth businesses in our business portfolio, the strength of business opportunities can vary greatly depending on patent strategy. Therefore, we are focusing on acquiring strategic intellectual property linked with R&D and business strategies. We intend to obtain "offensive patents" that build a strong patent network to secure and maintain our competitive advantage and preclude the entry of competitors.

STRONGLY PROMOTING ACADEMIC-INDUSTRIAL COLLABORATION

Aiming for a higher level of research and development, UBE promotes academic-industrial collaboration not only to find research themes and conduct R&D activities that combine industry needs and scientific seeds, but also for R&D human resource development and exchange. In April 2004, we formed a comprehensive collaboration agreement with nearby Yamaguchi University. Three years of R&D cooperation have produced major successes in green/sustainable chemistry that is watched with keen interest, including valuable new technologies and knowledge in the fields of nylon recycling technology and applied technologies for environmentally friendly plastics. UBE also plans to collaborate with overseas universities and research institutions, particularly in Thailand and Spain, which are now key operating bases for the UBE Group, with a view toward cooperating with a wider range of universities and securing future R&D human resources.

MAKOTO UMETSU
Managing Executive Officer

Corporate Social Responsibility

We at the UBE Group work to put into practice our belief that the core focus of a company is to fulfill its social responsibilities through its business, and that earning the trust and understanding of society is fundamental to doing so. Strengthening CSR activities is one of the key management strategies of Stage Up 2009, our new medium-term management plan. The Group will further enhance these activities to deepen the confidence of its every stakeholder – from stockholders and capital markets to customers, business partners, employees, and local communities.

CSR POLICY

The UBE Group engages in various businesses offering products and services that contribute to bettering people's lives. In conducting our business activities, we believe that generating profits is our primary corporate social responsibility (CSR). To do so, gaining the trust and understanding of society is essential. In conducting its business, UBE strives for coexistence with all its stakeholders, building constructive and harmonious relationships with its stockholders, customers, employees, suppliers and the residents of communities near UBE offices and factories, because it is these relationships that sustain the long-term development of the UBE Group.

UBE focuses its CSR efforts in four main areas: corporate governance; compliance; environment, safety and health-related activities; and contribution to society.

In order to further enhance these activities, UBE established a CSR Promotion Secretariat as part of its CSR promotion structure in July 2005, and established basic CSR policies. Activities in fiscal 2006 included an analysis of the current state of CSR activities at UBE, the results of which were used to clarify areas of insufficiency and strengthen plans for upcoming activities. In addition, UBE worked to promote understanding of its activities inside and outside the Group.

STRENGTHENING CORPORATE GOVERNANCE

To achieve stable, long-term enhancement of Group-level corporate value, the UBE Group maintains good corporate governance as the basis for appropriate and sustainable business activities in order to fulfill its responsibilities to and earn the trust of all stakeholders, including stockholders, customers, suppliers, local communities and employees. UBE will continue to study new ways to improve corporate governance, and is working to strengthen and accelerate executive management decisions. The Group is also further enhancing strategic decision-making and corporate governance functions.

UBE set the basic policy for creating its internal control system in May 2006, and is working to maintain and upgrade the system.

MANAGEMENT AND EXECUTIVE SYSTEMS

In fiscal 2001, UBE adopted an executive officer system with the aim of separating governance and management functions. As of May 31, 2007, the management team consists of eight directors and 23 executive officers, of whom five are also directors. The Board of Directors, as a rule chaired by a director not concurrently serving as an executive officer, makes decisions on important management-related matters, in accordance with laws and regulations, the Company's Articles of Incorporation, and the Board Regulations. It also supervises the activities of directors and executive officers to ensure that all duties are being performed appropriately and efficiently. Executive officers carry out business operations in accordance with management policies determined by the Board of Directors, using authority delegated to them by the Chief Executive Officer.

In fiscal 2005, two outside directors were appointed to the Board of Directors. Their role is to bring a third-party perspective to decision-making, thereby ensuring transparency and objectivity in management. The Chairman of the Board is an outside director. Although UBE has not switched to a "company with committees" system, to allow greater flexibility in the activities of the Board of Directors, subsidiary committees responsible for director nomination, evaluation and remuneration have been established. The Nomination Committee (six members) and the Evaluation and Compensation Committee (seven members) are both chaired by outside directors.

To realize an agile reassignment of directors and executive officers and instill an orientation toward results in order to raise short-, medium- and long-term performance, the terms of office for directors and executive officers were shortened to one year as of July 2007.

Compensation and Other Remuneration of Directors and Corporate Auditors

Compensation and other remuneration paid to directors and auditors in fiscal 2006 were as follows.

Numbers of Directors: 8 . . . . ¥333 million
[Numbers of outside directors included in above]: [2] . . . . [¥24 million]
Numbers of Auditors: 4. . . . . ¥92 million
[Numbers of outside auditors included in above]: [2] . . . . [¥34 million]

Note: Compensation and other remuneration include the following:
1. Accrued bonuses for directors and auditors recorded as expenses during fiscal 2006 . . . . ¥45 million
2. Stock options for directors . . . . ¥33 million
3. Retirement bonuses for directors and auditors recorded as expenses during fiscal 2006 . . . . ¥18 million

The retirement bonus system for directors and auditors was abolished as of June 30, 2006.

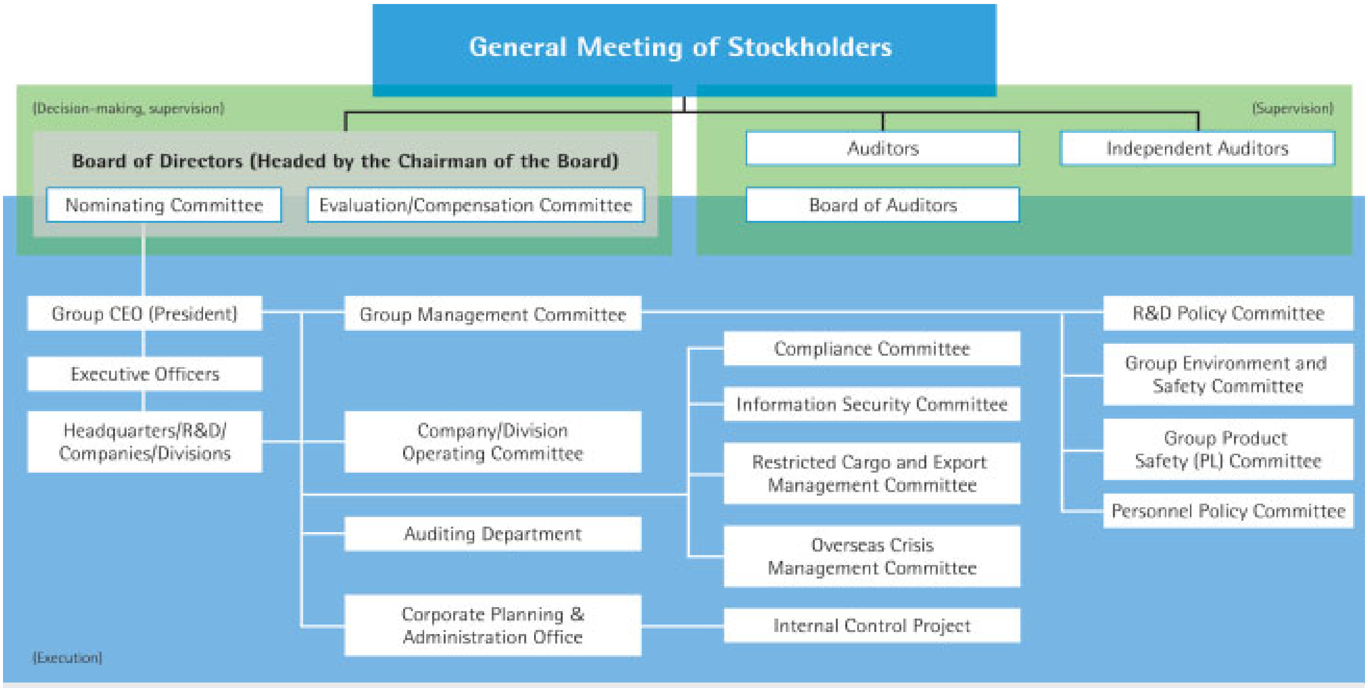
Compensation and other remuneration for auditing paid to Ernst & Young ShinNihon, the Company's independent auditors, in fiscal 2006 were as follows.

- Compensation and other remuneration for fiscal 2006 . . . . **¥56 million**
- Total compensation paid by the Company and its consolidated subsidiaries . . . . . **¥84 million**

AUDIT SYSTEM

The Board of Auditors consists of three standing corporate auditors and one part-time corporate auditor; two of the corporate auditors are internal and two

Corporate Governance Structure



Operation of Group Management and Company Consolidated Management

- **Group Management**
  The Group CEO (President), who is entrusted with the execution of the business operations of the UBE Group by the Board of Directors, articulates policy on business execution and sets the objectives for each company as well as allocating management resources such as personnel, goods and capital needed to attain those objectives. In addition, the resolution of important issues in the execution of business operations that exceed the authority of a single company fall to the Group CEO.

- **Company Management and Execution of Business Operations**
  Companies effectively utilize the management resources allocated, based on a policy aligned with Group management, to execute business operations autonomously with the aim of attaining Company objectives.

Decision-making System

- BOARD OF DIRECTORS
  The Board of Directors deliberates and makes resolutions regarding matters specified by the Company Law, the Company's basic policy and important business execution issues from a medium- to long-term perspective, as the representative of stockholders' concerns for returns. Moreover, the Nominating Committee and the Evaluation/Compensation Committee are made up of some of the members of the Board of Directors, and function as subcommittees, enabling the Board of Directors to operate flexibly.

- GROUP MANAGEMENT COMMITTEE
  The Group Management Committee deliberates and makes decisions concerning matters for which the allocation and coordination of resources within the entire Group is needed and important issues that affect the Group overall. These decisions are made based on the Group Management Guidelines and the Group Management Committee Regulations.

- COMPANY OPERATING COMMITTEE
  The Company Operating Committee deliberates and makes decisions concerning important issues including UBE Industries and Group company business strategy at the company or department level. These decisions are made based on the Group Management Guidelines and the Company Operating Committee Regulations.

are outside corporate auditors. To assess the process of important decision making and the state of business execution, the corporate auditors attend the Board of Directors and other important meetings, examine important accounting documents and receive reports on operations from directors and other officers. The corporate auditors meet the representative directors and the outside directors meet regularly to confirm management policy and exchange opinions on important issues.

Internal audits are conducted by UBE's Audit Department, which reports directly to the President and CEO. Audits cover the entire UBE Group, including overseas subsidiaries. Aspects checked include internal control and compliance with laws, regulations and manuals. The purpose of these audits is to identify potential risks affecting any facet of the UBE Group's business activities. The General Manager of the Audit Department is also a member of Group-wide risk management organizations, including the Compliance Committee and the Information Security Committee, and works closely with these committees to strengthen risk management systems.

The corporate auditors regularly exchange information with the Audit Department and request surveys as necessary. Audit Department staff cooperate closely with the corporate auditors, for example accompanying corporate auditors to assist them with the audit process. The corporate auditors regularly gather information about audit plans and the state of audits in progress from the Company's independent auditors.

PROJECT TEAM FOR CONSTRUCTION OF INTERNAL CONTROL SYSTEM

The Financial Instruments and Exchange Law enacted in June 2006 requires audits

Management Team (As of June 28, 2007)

From left: Koji Kihira, Michitaka Motoda, Kazuhiko Okada, Masao Uno, Hiroaki Tamura, Akinori Furukawa, Yasuhisa Chiba, Kazuma Sekiya, Nobuyuki Takahashi, Yoshiomi Matsumoto and Takashi Matsumoto

DIRECTORS

President and Representative Director

Hiroaki Tamura

Representative Directors

Yasuhisa Chiba

Kazuhiko Okada

Directors

Takashi Matsumoto

Akinori Furukawa

Masao Uno

Yoshiomi Matsumoto*

Michitaka Motoda*

AUDITORS

Hiroshi Ikeda

Masaki Kashibe

Kazuo Yamanaka*

Hiroshi Takimoto*

EXECUTIVE OFFICERS

Group Chief Executive Officer

Hiroaki Tamura

Vice-Presidents and Executive Officers

Yasuhisa Chiba

Kazuhiko Okada

Senior Managing Executive Officers

Koji Kihira

Nobuyuki Takahashi

Akinori Furukawa

Kazuma Sekiya

Managing Executive Officers

Michio Takeshita

Masao Uno

Katsunori Suzuki

Charunya Phichitkul

Yuzuru Yamamoto

Tetsuo Sueshige

Makoto Umetsu

Executive Officers

Ryuichi Deguchi

Nobuyuki Taenaka

Takanobu Kubota

Yukio Fudeuchi

Ryoji Sugise

Tomoki Musumi

Hideyuki Sugishita

Tadashi Matsunami

Shinji Ohara

*Outside Directors or Auditors

by certified public accountants and evaluation by managers of internal controls for financial reporting at listed companies (internal control reporting system). The UBE Group established a project team for construction of an internal control system in April 2006 for application of the law when the system goes into effect in fiscal years starting on or after April 1, 2008. While strengthening internal control, the project team will spend two years in building the structure for evaluating the effectiveness of internal controls for financial reporting.

THOROUGH COMPLIANCE

UBE has established Personal Action Guidelines for corporate ethics, which set the standards for and scope of its corporate activities, as well as the compliance practices to which its executives and employees must adhere. For its new compliance system, in April 2003 UBE established the position of compliance officer and a Compliance Committee, including a consulting attorney, as an advisory body to this officer. In addition, we are working to upgrade and strengthen compliance structures and frameworks, as well as their practices. Our initiatives include the introduction of the "UBE C-Line," a notification channel that allows executives and employees to directly report compliance issues without going through the normal chain of command, for rapid detection and correction of problems.

RISK MANAGEMENT

UBE implements appropriate measures to identify and assess the probability and impact of risks that could affect business activities. The Group Environment and Safety Committee and the Group Product Safety Committee were established to formulate policies for the entire UBE Group and coordinate measures for safety, environmental protection and product safety management. Committees and units established to deal with individual risk categories include the Information Security Committee, the Restricted Cargo Export Management Committee and the Overseas Crisis Management Committee. In addition, UBE works to upgrade its Domestic Emergencies Manual or e-Manual.

ENVIRONMENT, SAFETY AND HEALTH-RELATED ACTIVITIES

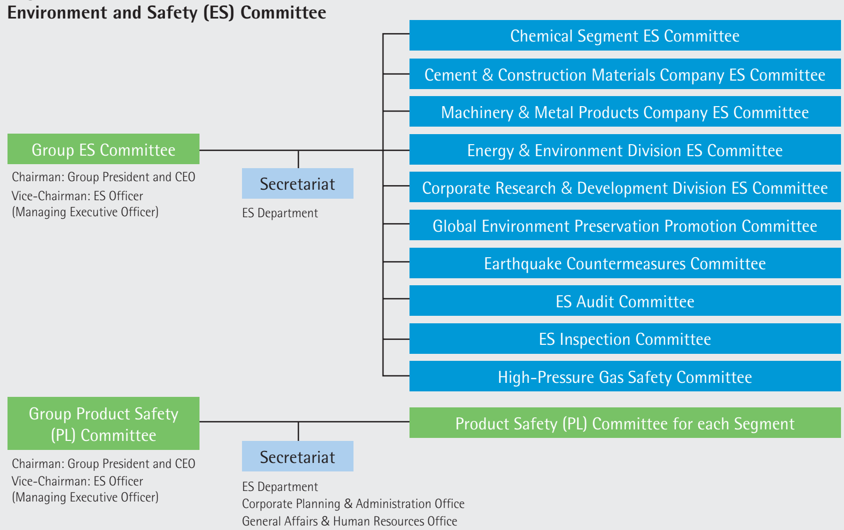
The UBE Group conducts environmental, safety and health-related activities based on Responsible Care programs – voluntary initiatives within the Japanese chemical industry to preserve health, safety and the environment. UBE is aggressively acquiring ISO 14001 and ISO 9000 international certifications for environmental management and quality assurance. The Group has acquired ISO 14001 certification for 44 sites and ISO 9000 certification for 51 sites.

The UBE Group will strive to achieve the following new Stage Up 2009 environmental targets, above and beyond the Group's previous 6 percent reduction target (compared with fiscal 1990 levels) for greenhouse gases: (1) reduce CO_2 emissions by 12 percent (compared with fiscal 1990 levels) by fiscal 2010 through methods including energy conservation, switching fuels and reusing wastes; (2) reduce emissions of greenhouse gases other than CO_2 by 100,000 tons (CO_2 conversion) by fiscal 2010; and (3) achieve both targets 1 and 2 by fiscal 2009, one year ahead of schedule.

CONTRIBUTION TO SOCIETY

Since its founding in 1897, UBE has adhered to its corporate slogan "Living and prospering together," and has conducted a broad range of activities that contribute to society including the establishment of schools, hospitals and other community facilities. We carry this social spirit down to the present through volunteer activities including forest preservation and providing medical services. Activities also include subsidies to scientific institutes and facilities, and cultural activities. Both in Japan and overseas, UBE strives to invigorate local communities through its various activities.

Organization of Group Environment and Safety (ES) Committee



For a detailed explanation of the UBE Group's CSR activities, see the UBE Group CSR Report:
http://www.ube-ind.co.jp/english/eco/csr_report.htm

Consolidated Six-Year Financial Summary

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

	Millions of yen					
	2007	2006	2005	2004	2003	2002
RESULTS OF OPERATIONS:						
Breakdown of net sales by product group:						
Chemicals & Plastics	**¥210,402**	¥175,868	¥164,935	¥149,381	¥150,504	¥231,069
Specialty Chemicals & Products	**88,368**	89,280	83,066	65,880	57,345	—
Cement & Construction Materials	**207,820**	192,408	175,797	173,738	185,640	189,045
Machinery & Metal Products	**114,206**	102,468	109,769	101,693	95,281	90,025
Energy & Environment	**30,987**	31,498	25,443	16,296	19,617	16,412
Other Businesses	**3,825**	3,869	3,698	4,385	5,148	10,997
Net sales	**655,608**	595,391	562,708	511,373	513,535	537,548
Cost of sales	**527,990**	474,997	453,250	411,209	410,982	439,971
Selling, general and administrative expenses	**80,756**	78,225	77,146	78,147	76,154	79,981
Operating income	**46,862**	42,169	32,312	22,017	26,399	17,596
Income (loss) before income taxes and minority interests	**36,003**	26,634	10,785	(9,463)	18,834	5,412
Net income (loss)	**22,013**	16,006	9,223	(13,635)	8,120	1,002
FINANCIAL POSITION:						
Assets:						
Total current assets	**286,991**	268,559	275,421	257,220	275,073	294,159
Total property, plant and equipment, net	**359,886**	357,519	360,787	377,106	398,783	422,271
Total investments and other assets	**67,994**	74,359	70,478	65,172	72,034	103,783
Total assets	**714,871**	700,437	706,686	699,498	745,890	820,213
Liabilities and net assets*:						
Total current liabilities	**314,833**	291,293	320,446	337,954	359,907	388,253
Total long-term liabilities	**204,842**	240,781	260,161	258,594	273,340	314,681
Minority interests	**22,525**	18,600	17,696	17,194	16,482	20,332
Total net assets	**195,196**	168,363	126,079	102,950	112,643	117,279
GENERAL:						
Per share data (yen):						
Net income (loss), primary**	**21.88**	16.83	10.07	(16.07)	9.61	1.18
Cash dividends applicable to the period	**4.00**	3.00	2.00	—	3.00	—
Equity capital***	**171.49**	148.71	115.30	98.77	114.55	115.78
Other data:						
Operating margin (%)	**7.1**	7.1	5.7	4.3	5.1	3.3
Return on assets (ROA)**** (%)	**7.0**	6.4	4.9	3.3	3.5	2.2
Shares of common stock issued (thousand)	**1,008,993**	1,008,993	942,993	871,201	845,835	845,828
Number of consolidated subsidiaries	**68**	66	70	71	83	83
Number of stockholders with voting rights	**63,322**	71,626	74,020	79,223	75,080	78,199
Number of employees	**10,833**	10,673	11,074	11,397	10,829	11,983

* See pages 32-33 regarding presentation and calculation of assets and equity.

** Effective from the year ended March 31, 2003, "Net income, primary, per share" is computed based on the net income available for distribution to stockholders 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.

*** Equity capital per share = (Net assets –Share subscription rights – Minority interests) / (Number of shares of common stock – Number of shares of treasury stock)

**** ROA = (Operating income + interest and dividend income + Equity in earnings of unconsolidated subsidiaries and affiliated companies) / Average total assets

Financial Review

FINANCIAL ANALYSIS

Under New 21•UBE Plan II, the medium-term management plan for the three-year period beginning with fiscal 2004, the UBE Group worked for continuous improvement of its financial position, one of the plan's core strategies. As a result, the Group achieved the plan's targets a year ahead of schedule in fiscal 2005. To achieve further improvement of its financial position, in addition to securing earnings, the Group set the following revised targets for fiscal 2006, the final year of New 21•UBE Plan II. Based on a policy of keeping capital expenditures within 80 percent of depreciation expenses for the three-year period, the Group worked continuously to maximize operating income, and as a result, exceeded all the revised targets for fiscal 2006.

Revised Targets and Results

	Fiscal 2006 Revised Targets	Fiscal 2006 Results
Net debt[1]/equity ratio (Times)	1.9	1.7
Operating margin (%)	6.7	7.1
Return on assets (ROA)[2] (%)	6.1	7.0

Notes: 1. Net debt = Interest-bearing debt – Cash and cash equivalents
2. ROA = (Operating income + Interest and dividend income + Equity in earnings of unconsolidated subsidiaries and affiliated companies) / Average total assets

SCOPE OF CONSOLIDATION

The UBE Group included 68 consolidated subsidiaries as of March 31, 2007, an increase of 2 subsidiaries from a year earlier. The UBE Group added the newly established subsidiaries Hagimori Distribution Co., Ltd. and Rayong Fertilizer Trading Co., Ltd. to the scope of consolidation, and made a former affiliate accounted for using the equity method, Ube (Hong Kong) Ltd., into a consolidated subsidiary. In addition, the UBE Group liquidated Ube Automotive North America Mason Plant, Inc. and removed it from the scope of consolidation. These changes in the scope of consolidation did not have a material effect on the consolidated financial statements.

OPERATING PERFORMANCE

Overview of Fiscal 2006

The global economy, including the economy of China, remained firm during fiscal 2006, ended March 31, 2007, despite continued increases in the cost of raw materials and fuel such as crude oil and coal. The Japanese economy continued to recover moderately, supported by private demand and a high level of private capital investment.

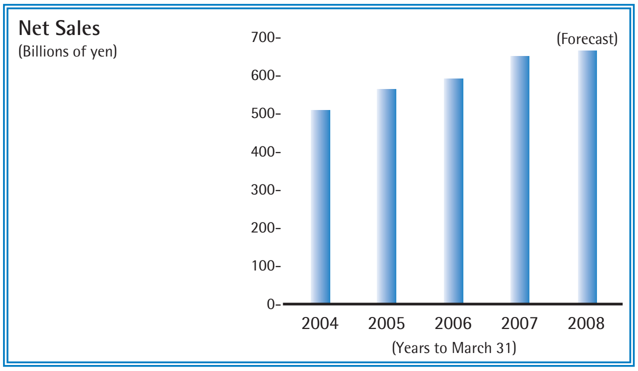
The UBE Group completed a three-year medium-term management plan, New 21•UBE Plan II, during fiscal 2006. Having achieved the targets of this plan a year ahead of schedule, the UBE Group promoted further strengthening of earnings and improvement of its financial position during the year as it worked to enhance performance. Consequently, the UBE Group's net sales and earnings increased during fiscal 2006, and net income reached a record ¥22.0 billion.

OPERATING RESULTS

Net Sales

Net sales increased 10.1 percent, or ¥60.2 billion, compared with the previous fiscal year to ¥655.6 billion. Sales volume increased, and the UBE Group adjusted prices to reflect increases in the prices of raw materials.

Overseas sales increased 16.4 percent, or ¥28.0 billion, compared with the previous fiscal year to ¥198.6 billion. The ratio of overseas sales to net sales increased 1.6 percentage points compared with the previous fiscal year to 30.3 percent.



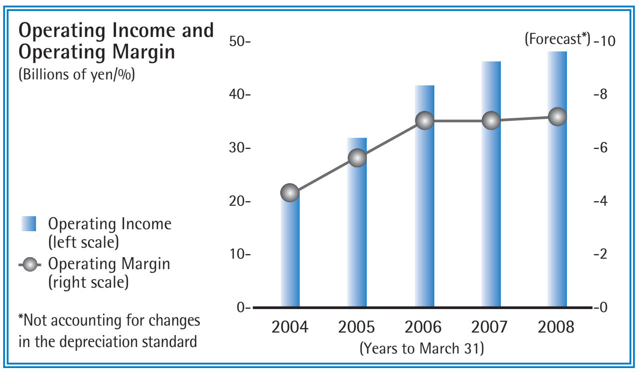
Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased 11.2 percent, or ¥52.9 billion, compared with the previous fiscal year to ¥527.9 billion as a result of factors including higher raw material and fuel prices. The ratio of cost of sales to net sales increased 0.7 percentage points to 80.5 percent. Selling, general and administrative (SG&A) expenses increased 3.2 percent, or ¥2.5 billion, compared with the previous fiscal year to ¥80.7 billion. The ratio of SG&A expenses to net sales improved 0.8 percentage points to 12.3 percent.

Research and development costs, all of which are included in SG&A expenses, increased 4.3 percent, or ¥0.5 billion, compared with the previous fiscal year to ¥13.0 billion. The ratio of research and development costs to net sales decreased 0.1 percentage point to 2.0 percent.

Operating Income

Operating income increased 11.1 percent, or ¥4.6 billion, compared with the previous fiscal year to ¥46.8 billion. The operating margin was 7.1 percent, unchanged from the previous fiscal year. By segment, operating income decreased in the Chemicals & Plastics segment, but increased in all of the UBE Group's other segments, including the Cement & Construction Materials segment. Overall operating income increased substantially as a result. Additional segment information follows below.



Other Income (Expenses)

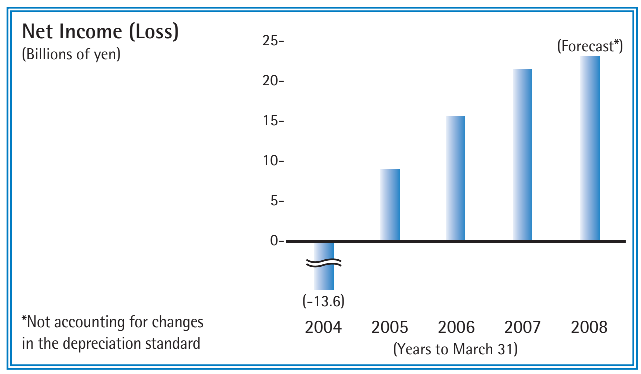
Other expenses decreased ¥4.6 billion from the previous fiscal year to ¥10.8 billion. Net interest expense, calculated as interest and dividend income less interest payable, increased 3.6 percent, or ¥0.2 billion, compared with the previous fiscal year to ¥6.4 billion. Others, net, which is disclosed in greater detail in note 12 to the consolidated financial statements, decreased 38.0 percent, or ¥4.1 billion, to ¥6.6 billion. Loss on impairment of fixed assets at the Sarnia Plant in Canada and elsewhere totaled ¥5.7 billion. However, gain on contribution of investment securities to retirement benefit trust totaled ¥2.9 billion, net gain on foreign currency exchange was ¥2.8 billion compared to a net loss of ¥0.8 billion for the previous fiscal year, and restructuring charges of ¥3.0 billion incurred in the previous fiscal year in connection with the liquidation of the Mason Plant in the United States were non-recurring charges.

As a result, income before income taxes and minority interests increased 35.2 percent, or ¥9.3 billion, compared with the previous fiscal year to ¥36.0 billion.

Net Income

Income taxes comprise corporation, enterprise and inhabitants' taxes. Income taxes net of deferrals for the year ended March 31, 2007 totaled ¥12.5 billion, an increase of ¥2.9 billion from the previous fiscal year. After tax effect accounting, the effective tax rate for the year ended March 31, 2007 was 35.0 percent.

As a result, net income increased 37.5 percent, or ¥6.0 billion, compared with the previous fiscal year to ¥22.0 billion. Net income per share totaled ¥21.88, compared to ¥16.83 for the previous fiscal year. Return on equity, calculated as net income divided by average equity capital (see pages 32-33), increased 1.3 percentage points compared with the previous fiscal year to 13.7 percent. Return on total assets, calculated as the sum of operating income, interest and dividend income, and equity in profit of unconsolidated subsidiaries and affiliated companies divided by average total assets, increased 0.6 percentage points to 7.0 percent.



PERFORMANCE BY SEGMENT

Chemicals & Plastics Segment

(Billions of yen)

Year to March 31	**2007**	2006	Change (%)
Sales	**210.4**	175.8	19.6
Operating income	**13.7**	14.9	(8.0)
Assets	**232.0**	208.6	11.2
Depreciation and amortization	**9.3**	8.4	10.8
Capital expenditures	**8.7**	7.2	20.3

Consolidated segment sales increased 19.6 percent, or ¥34.5 billion, compared with the previous fiscal year to ¥210.4 billion. The UBE Group raised product prices to reflect the rising prices of raw materials. Demand remained strong for butadiene rubber, which is used as a raw material in tires, and shipments were robust. Shipments of caprolactam and polyamide resins were also strong, centered on Asia. Shipments of industrial chemicals were generally firm as well.

Segment operating income decreased 8.0 percent, or ¥1.1 billion, compared with the previous fiscal year to ¥13.7 billion. Higher raw material prices impacted all products, and contraction of the spread between sales prices and raw materials costs resulted in the year-on-year decrease in segment operating income.

Specialty Chemicals & Products Segment

(Billions of yen)

Year to March 31	2007	2006	Change (%)
Sales	**88.3**	89.2	(1.0)
Operating income	**11.5**	10.9	5.0
Assets	**105.1**	102.2	2.8
Depreciation and amortization	**5.8**	5.8	0.4
Capital expenditures	**9.7**	5.9	65.6

Consolidated segment sales decreased 1.0 percent, or ¥0.9 billion, compared with the previous fiscal year to ¥88.3 billion. The UBE Group's withdrawal from the aluminum electrode foil business was a factor in the decrease. Excluding this factor, segment sales increased. The impact on some products of inventory adjustment in the digital market became apparent from early fall 2006. However, the overall trend toward expanding demand continued. Shipments were generally firm for products including polyimide products, electrolytes and separators for lithium-ion batteries, and high-purity chemicals for semiconductors. Demand for gas separation membranes expanded, centered on nitrogen membranes, and shipments were extremely strong. While shipments of pharmaceutical active ingredients and intermediates decreased, shipments of fine chemicals were generally solid.

Segment operating income increased 5.0 percent, or ¥0.5 billion, compared with the previous fiscal year to ¥11.5 billion. Factors included the increased sales volume of specialty materials.

Cement & Construction Materials Segment

(Billions of yen)

Year to March 31	2007	2006	Change (%)
Sales	**207.8**	192.4	8.0
Operating income	**12.4**	9.7	27.5
Assets	**218.3**	217.1	0.5
Depreciation and amortization	**8.4**	8.6	(2.4)
Capital expenditures	**6.8**	6.0	13.6

Consolidated segment sales increased 8.0 percent, or ¥15.4 billion, compared with the previous fiscal year to ¥207.8 billion. Shipments of cement and ready-mixed concrete were solid as an increase in private-sector demand compensated for decreased public investment. Shipments of building materials including self-leveling materials for flooring were firm. In addition, shipments of calcia and magnesia were strong, centered on use in steelmaking. Sales of specialty inorganic materials for plasma displays and other applications increased.

Segment operating income increased 27.5 percent, or ¥2.6 billion, compared with the previous fiscal year to ¥12.4 billion. Despite the rising cost of coal and other fuels, increased sales of calcia, magnesia and specialty inorganic materials contributed to the overall expansion in operating income. In addition, the UBE Group expanded the types of waste it uses for fuel and raw materials.

Machinery & Metal Products Segment

(Billions of yen)

Year to March 31	2007	2006	Change (%)
Sales	**114.2**	102.4	11.5
Operating income	**5.5**	3.7	49.8
Assets	**84.4**	94.3	(10.5)
Depreciation and amortization	**4.5**	5.1	(11.2)
Capital expenditures	**4.6**	4.6	(1.0)

Consolidated segment sales increased 11.5 percent, or ¥11.7 billion, compared with the previous fiscal year to ¥114.2 billion. In the machinery business, shipments of die-casting machines centered on the automobile industry and injection molding machines remained robust. Private capital investment remained strong, leading to strong growth in shipments of various types of industrial machines. Shipments of vertical mills to China were also strong. Orders remained at a high level. Shipments of steel products and other products remained strong, centered on shipments to South Korea.

Price competition has been intensifying in the aluminum wheel business. While domestic shipments were robust, shipments in North America decreased.

Segment operating income increased 49.8 percent, or ¥1.8 billion, compared with the previous fiscal year to ¥5.5 billion. In the North American aluminum wheel business, low capacity utilization is unavoidable until the shift to Japanese customers is fully under way. The UBE Group is now assiduously reducing costs in restructuring this business.

Energy & Environment Segment

(Billions of yen)

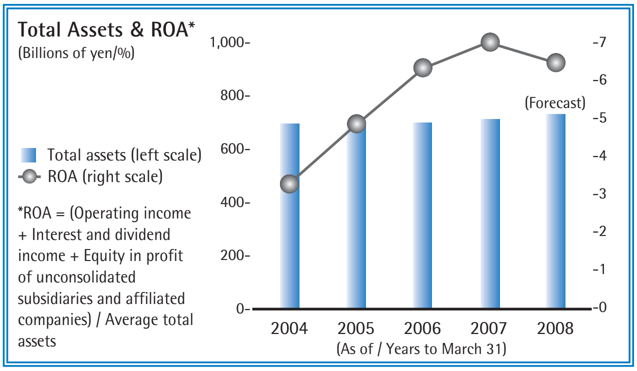
Year to March 31	2007	2006	Change (%)
Sales	**30.9**	31.4	(1.6)
Operating income	**2.7**	2.3	16.5
Assets	**51.8**	51.4	0.9
Depreciation and amortization	**2.4**	2.4	1.2
Capital expenditures	**1.7**	0.6	175.5

Consolidated segment sales decreased 1.6 percent, or ¥0.5 billion, compared with the previous fiscal year to ¥30.9 billion. Segment operating income increased 16.5 percent, or ¥0.3 billion, compared with the previous fiscal year to ¥2.7 billion.

The decrease in segment sales resulted from lower coal sales volume. However, the volume of coal storage increased, and the independent power producer business reduced costs in ways such as introducing wood biomass fuel. Operating income increased as a result.

Other Businesses Segment

Consolidated segment sales totaled ¥3.8 billion. Segment operating income totaled ¥0.7 billion.



FINANCIAL POSITION

Cash Flow

Net cash provided by operating activities increased ¥2.5 billion compared with the previous fiscal year to ¥54.3 billion. Income before income taxes and minority interests provided cash of ¥36.0 billion, and depreciation and amortization provided ¥30.9 billion.

Net cash used in investing activities totaled ¥27.1 billion. Acquisition of property, plant and equipment, which includes acquisition of intangible assets, used cash of ¥31.9 billion. Proceeds from sale of investment securities provided cash of ¥4.9 billion. Free cash flow, calculated as net cash provided by operating activities less net cash used in investing activities, totaled ¥27.2 billion.

Net cash used in financing activities totaled ¥27.5 billion, compared with ¥42.9 billion for the previous fiscal year. The UBE Group deployed free cash flow to repay bonds and otherwise reduce interest-bearing debt by a net ¥24.4 billion. Cash dividends paid and others totaled ¥3.1 billion.

As a result, cash and cash equivalents at the end of the year increased 6.0 percent, or ¥1.2 billion, compared with the previous fiscal year-end to ¥21.2 billion.

Assets, Liabilities and Net Assets

Total assets increased 2.1 percent, or ¥14.4 billion, from a year earlier to ¥714.8 billion. Current assets increased 6.9 percent, or ¥18.4 billion, from a year earlier to ¥286.9 billion. Factors included an increase of ¥1.2 billion in cash and cash equivalents and an increase of ¥13.7 billion in trade notes and accounts receivable as a result of the increase in net sales. Inventories decreased ¥2.2 billion from a year earlier as a result of efforts to reduce them. The inventory turnover ratio improved to 6.6 times from 5.9 times for the previous fiscal year.

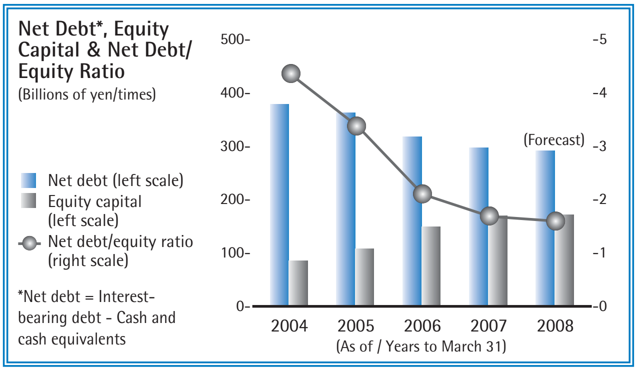
Property, plant and equipment increased ¥2.3 billion from a year earlier to ¥359.8 billion. Investments and other assets decreased ¥6.3 billion from a year earlier to ¥67.9 billion.

Total liabilities decreased 2.3 percent, or ¥12.3 billion, from a year earlier to ¥519.6 billion. Current liabilities increased 8.1 percent, or ¥23.5 billion, from a year earlier to ¥314.8 billion. Redemption of bonds and other factors reduced the current portion of long-term loans payable and bonds by ¥5.5 billion. Short-term loans payable increased by ¥13.5 billion, and trade notes and accounts payable increased by ¥7.2 billion. The current ratio was 91.2 percent, compared to 92.2 percent a year earlier.

Long-term liabilities decreased 14.9 percent, or ¥35.9 billion, from a year earlier to ¥204.8 billion. Long-term loans payable and bonds less current portion decreased ¥29.9 billion from a year earlier to ¥173.6 billion. Interest-bearing debt, defined as short-term loans payable, the current portion of long-term loans payable and bonds, and long-term loans payable and bonds less current portion, decreased ¥21.9 billion from a year earlier to ¥320.0 billion.

The UBE Group has adopted new standards in Japan for the presentation of net assets. The item now called net assets differs with the former presentation of stockholders' equity primarily because it includes minority interests. However, in calculating indicators such as the equity ratio and return on equity, "equity capital" is defined as net assets less share subscription rights and minority interests in consolidated subsidiaries. Figures for previous years have not been restated. Net assets as of March 31, 2006, which are equivalent to stockholders' equity as formerly presented adjusted by the inclusion of minority interests in consolidated subsidiaries, totaled ¥168.3 billion. This figure is used in this discussion to enable pro forma year-on-year comparison.

For the year ended March 31, 2007, net assets increased 15.9 percent, or ¥26.8 billion, from a year earlier to ¥195.1 billion. The year-on-year increase was primarily the result of an increase in retained earnings totaling ¥18.9 billion representing the addition to net assets from the increase in net income, and positive foreign currency translation adjustments totaling ¥6.5 billion, which as of March 31, 2007 primarily represented the positive



effect of exchange rates on the assets and liabilities of overseas consolidated subsidiaries. Valuation difference on securities, representing the unrealized difference between the holding cost and fair value of securities, decreased ¥3.8 billion, and minority interests increased ¥3.9 billion. The ratio of equity capital to total assets, or the equity ratio (calculated using equity capital as discussed above), stood at 24.1 percent, compared to 21.4 percent a year earlier. The net debt/equity ratio (calculated using equity capital as discussed above) improved to 1.7 times from 2.1 times a year earlier. Net assets per share (calculated using equity capital as discussed above) increased to ¥171.49 from ¥148.71 a year earlier.

BASIC POLICY FOR DISTRIBUTING EARNINGS

The UBE Group recognizes that paying dividends to stockholders is a primary responsibility and it is a fundamental policy of the UBE Group to pay dividends at a level commensurate with the UBE Group's performance and earnings. Concurrently, the UBE Group also places priority on securing earnings for stockholders over the medium term to long term by improving its financial structure and maintaining the internal reserves required for future business expansion. The UBE Group takes all of these issues into consideration when determining dividends. In fiscal 2006, the UBE Group increased cash dividends by ¥1.00 per share to ¥4.00 per share. Fiscal 2007 will be the first year of the UBE Group's new medium-term management plan, which has the target of maintaining the consolidated payout ratio stably at 20 to 25 percent. The UBE Group expects to raise dividends by ¥1.00 per share to ¥5.00 for fiscal 2007, and aims to steadily raise dividends in conjunction with improved performance in the future.

FORECAST FOR FISCAL 2007

The UBE Group expects the global economy to continue to expand, centered on growth in China and other countries, and expects the moderate domestic recovery to continue, led by private-sector demand. On the other hand, concerns about the deceleration of the U.S. economy, rising fuel and raw material prices, exchange rates, and rising interest rates are factors clouding the outlook. The UBE Group's operating environment therefore remains difficult to forecast. Given these circumstances, for fiscal 2007 the UBE Group assumes an exchange rate of ¥115 to US$1.00; a cost, insurance and freight price of Australian coal of ¥9,258 per ton; a domestic naphtha price of ¥55,000/kiloliter; and an average volume contract price for benzene in North America and Europe of US$1,050/ton.

The UBE Group projects increased shipments of key products such as polyimide film and gas separation membranes in the Specialty Chemicals & Products segment. As a result, for fiscal 2007 the UBE Group forecasts that net sales will increase 1.9 percent to ¥668.0 billion. Operating income is forecast to decrease 4.0 percent to ¥45.0 billion because enhanced earnings from higher sales volume in core businesses such as the Specialty Chemicals & Products segment will not fully compensate for factors such as changes to tax regulations that will increase depreciation expenses by ¥3.3 billion. Net income is projected to decrease 4.6 percent to ¥21.0 billion because of factors including a decrease in non-operating expenses.

Business and Other Risks

Among risks inherent to the UBE Group's business and other risks, the following may exert an important influence on the decisions of investors. The UBE Group is fully dedicated to a policy of recognizing these risks, avoiding and preventing their actualization, and minimizing and dealing with related problems should they arise.

Statements below concerning the future represent the judgment of the UBE Group as of May 10, 2007. Business and other risks not covered here may arise.

1. Fluctuations in the Raw Material and Fuel Markets

Purchase costs of raw materials used in the main products of the UBE Group's Chemicals & Plastics segment are influenced by factors including international market conditions and fluctuations in crude oil and naphtha prices. Depending on supply and demand conditions for products, increases in prices of these raw materials may exert a material impact on the performance and financial position of the UBE Group if increased costs cannot be reflected in selling prices in a timely manner. In addition, increases in the procurement costs of overseas coal, which the UBE Group purchases for use in cement production and for in-house power generation, may also exert a material impact on the performance and financial position of the Group.

2. Earnings in the Specialty Products Business

In the specialty products business of the Specialty Chemicals & Products segment, timely development of materials that meet customer needs is paramount in supplying materials for use in products with quick turnovers, particularly in the core information technology (IT) and digital home appliance fields. Failure to meet customer needs due to delayed development or other factors may exert a material impact on the performance and financial position of the Group, as may decreased demand for information technology related products, which are particularly susceptible to market fluctuations.

3. Earnings in the Pharmaceutical Bulk Ingredients and Intermediates Business

The pharmaceutical bulk ingredients and intermediates business of the Specialty Chemicals & Products segment comprises a consignment production business through which UBE manufactures pharmaceutical bulk ingredients and intermediates on consignment for pharmaceutical companies and an in-house business through which UBE conducts research and development for new drugs either independently or jointly with pharmaceutical companies. The consignment production business requires forward expenditures including those for production facilities of a certain scale that meet standards, though research and development expenditures are limited. New drugs handled by the consignment production business may be subject to uncertainty over commercialization due to the long lead time needed by the pharmaceutical companies to obtain production approval and to the possibility of delays in full-scale launch should approval be revoked after completion of consignment production due to side effects or other factors. In addition, factors including the launch of generic drugs due to intensified competition in the market for pharmaceuticals manufactured from pharmaceutical bulk ingredients and intermediates under consignment production and lapsed patents may lead to sluggish sales.

Drug discovery is broadly divided into independent research and joint research with pharmaceutical companies. Although UBE minimizes the risk of large clinical trial outlays and low success rates through a basic strategy of licensing out research in the final stages regardless of drug type, necessary research and development costs before that stage entail risk associated with possible failure of the research and market launch. In addition, authorization may be revoked and launch delayed, as is the case of development for new drugs by pharmaceutical companies. Materialization of these risks in the consignment production and in-house businesses may exert a material impact on the performance and financial position of the UBE Group.

4. Domestic Cement Demand

A downward trend in domestic demand for cement, a main product of the cement and construction materials segment, due to factors including restraint in public spending, has in part reduced sales volume and revenues. UBE Group measures in this area include maintaining operating capacity through exports, expanding capability for (income fee-based) treatment of waste in the cement production process and overall cost cuts. However, a continuing decline in domestic demand for cement for a certain number of years may exert a material impact on the performance and financial position of the Group.

5. Earnings in the Aluminum Wheel Business

The aluminum wheel business of the Machinery & Metal products segment comprises production and sales of aluminum wheels for automobiles. In addition to production and sales in Japan, the UBE Group conducts production in Canada and sales in North America. In Japan and North America, UBE works to increase orders and reduce selling prices of large-diameter, light, high-quality design products that capitalize on the advantages of the Group's proprietary squeeze process, in response to changes in the operating environment including intensified competition due to emergence of inexpensive products from China and other countries. However, productivity that is significantly lower than forecast in difficult areas including large-diameter, light, high-quality design and small-lot production, and/or continuing decreases in selling prices due to intensifying competition may exert a material impact on the performance and financial position of the UBE Group.

6. Exchange Rate Fluctuations

The UBE Group minimizes exchange rate risk related to exports paid for in foreign currencies through hedge transactions such as balancing of debts and credits and foreign currency contracts. However, short- and medium-term exchange rate fluctuations that exceed forecasts may exert a material impact on the performance and financial position of the Group.

UBE Group overseas subsidiaries record financial statements in local currencies, leading to exposure to the influence of exchange rates when these amounts are converted into yen. In addition, losses on exchange rate fluctuations may occur at the time of conversion into local currencies for redemption, interest payment and settlement of liabilities of U.S. dollar denominated interest-bearing liabilities held by Group production companies in Thailand and Canada.

7. Fluctuations in Financial Markets

Fluctuations in financial markets at the time of capital procurement exert a material impact on the performance and financial position of the UBE Group. The UBE Group minimizes risk related to interest rate fluctuations through interest swaps and other hedges, but short- and medium-term interest rate fluctuations that exceed forecasts may exert a material impact on the performance and financial position of the Group.

8. Overseas Business Activities

The UBE Group manufactures and sells products in Asia, North America and Europe. Overseas operations entail economic risks related to factors including unforeseen changes to laws and regulations, weakening of the industrial base, the ability to secure personnel and acquire technical proficiency and labor union issues, in addition to social and political confusion resulting from terrorism, war and/or other factors. Emergence of these risks may impede overseas operations and exert a material impact on the performance and financial position of the UBE Group.

9. Intellectual Property/Product Liability

The UBE Group recognizes the importance of intellectual property and works to protect it, but failure to do so properly and/or violation of UBE's intellectual property rights, or inability to cover costs of product recalls or damages in the event that these risks materialize in connection with product flaws may impede operations and exert a material impact on the performance and financial position of the Group.

10. Industrial Accidents

In the event that a large-scale industrial accident should occur at any of the UBE Group plants that handle hazardous materials or high-pressure gas, factors including compensation and other costs, loss of opportunities caused by cessation of production activities, compensation for customers and erosion of public trust may exert a material impact on the performance and financial position of the Group.

11. Lawsuits

The UBE Group strives for strict legal compliance, but the possibility exists that lawsuits may be brought against the Group in any of its various business operations.

12. Asbestos

In the past, the UBE Group manufactured and sold products containing asbestos, and used construction materials containing asbestos in plant facilities. To date, there have been no lawsuits related to asbestos-induced health damage, but in order to eliminate asbestos from plant facilities, the UBE Group plans to institute complete or partial changes of facilities, for which certain expenditures are expected over the time of the changes. Moreover, in the event that employees (including retired employees) or residents in the vicinity of the plants face health hazards, an increase in employees receiving workers' compensation, lawsuits, efforts to further strengthen regulations and other factors may exert a material impact on the performance and financial situation of the UBE Group.

13. Impairment of Fixed Assets

The UBE Group adopted accounting standards for impairment of fixed assets in fiscal 2003. However, additional impairment losses in the event of further depreciation in the market value of unused land and/or significant deterioration of the operating environment may exert a material impact on the performance and financial position of the Group.

14. Marketable Securities

The UBE Group holds marketable securities, the majority of which are shares of listed stocks. For this reason, a decline in the stock market may exert a material impact on the performance and financial position of the Group.

15. Retirement Benefit Liabilities

The UBE Group calculates its retirement benefit liabilities and retirement benefit payments based on discount and retirement rates used in pension calculations, and on conditions including rate of salary increases and year-end working income ratios for pension assets. For this reason, deterioration of operating interest rates for pension assets, decreases in the discount rate and other factors may exert a material impact on the performance and financial position of the Group.

16. Deferred Tax Assets

The UBE Group recognizes deferred tax assets resulting from temporary differences and operating loss carryforwards for tax purposes, which will reduce taxable income in future periods. Deferred tax assets are recognized in consideration of their probability of recovery based on forecasts of future income and other factors. In the event that actual taxable income should differ from projections, payment to adjust deferred tax assets may become necessary and exert a material impact on the performance and financial position of the Group.

17. Medium-Term Management Plan

With the completion of "New 21•UBE Plan II," a medium-term management plan for the three-year period beginning with fiscal 2004, the UBE Group has formulated "Stage Up 2009," a medium-term management plan for the three-year period beginning with fiscal 2007. Under the basic policies of establishing a platform for profitability that ensures sustainable growth, sustained improvement of financial position and strengthening of CSR activities, the plan sets a net debt/equity ratio (see pages 31-32) of under 1.3 times, an equity ratio (see pages 31-32) of 30 percent or more, an operating margin and return on assets (ROA) (see pages 31-32) of 7.5 percent of more each, and return on equity (ROE) (see pages 31-32) of 12 percent or more as its management indicator targets for fiscal 2009, the final year of the plan.

The UBE Group will continue to work to achieve the aforesaid basic policies and targets. However, unexpected changes in the business environment or the materialization of any of the risks covered in items 1 through 16 above may exert a material impact on the performance and financial position of the Group. In addition, there is also the possibility that the UBE Group will be unable to carry out the medium-term management plan on schedule or meet its target management indicators.

Consolidated Statements of Income

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales (Note 20)	¥655,608	¥595,391	$5,556,000
Cost of sales	527,990	474,997	4,474,492
Gross profit	127,618	120,394	1,081,508
Selling, general and administrative expenses (Notes 11 and 19)	80,756	78,225	684,372
Operating income	46,862	42,169	397,136
Other income (expenses):			
Interest and dividend income	1,080	1,599	9,152
Amortization of negative goodwill	400	362	3,390
Interest payable	(7,530)	(7,822)	(63,814)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	1,888	1,135	16,000
Others, net (Note 12)	(6,697)	(10,809)	(56,754)
	(10,859)	(15,535)	(92,026)
Income before income taxes and minority interests	36,003	26,634	305,110
Income taxes (Note 14)**:**			
Current	12,189	7,103	103,297
Deferred	407	2,562	3,449
	12,596	9,665	106,746
Minority interests	(1,394)	(963)	(11,813)
Net income	¥ 22,013	¥ 16,006	$ 186,551

	Yen		U.S. dollars (Note 1)
	2007	2006	2007
Per share:			
Net income:			
Primary	¥ 21.88	¥ 16.83	$ 0.185
Diluted	21.04	15.93	0.178
Cash dividends applicable to the period	4.00	3.00	0.034

See accompanying notes.

Consolidated Balance Sheets

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 21,278	¥ 20,077	$ 180,322
Time deposits (Note 8)	416	546	3,525
Securities (Note 4)	5	10	42
Receivables (Notes 6, 8 and 20):			
Trade notes and accounts	161,581	147,823	1,369,331
Others	14,414	12,229	122,153
Allowance for doubtful accounts	(1,653)	(1,482)	(14,008)
Inventories (Note 5)	79,185	81,459	671,059
Deferred tax assets (Note 14)	6,827	5,319	57,856
Other current assets	4,938	2,578	41,847
Total current assets	286,991	268,559	2,432,127
Property, plant and equipment (Notes 8 and 13)**:**			
Land	82,714	83,150	700,966
Buildings and structures	244,224	239,827	2,069,695
Machinery and equipment	632,344	615,309	5,358,848
Construction in progress	7,339	10,239	62,195
Accumulated depreciation	(606,735)	(591,006)	(5,141,822)
Total property, plant and equipment, net	359,886	357,519	3,049,882
Investments and other assets:			
Investment securities (Notes 4 and 8)	43,293	52,487	366,890
Long-term loans receivable	2,158	2,186	18,288
Long-term deferred tax assets (Note 14)	6,752	6,154	57,220
Other non-current assets	19,517	18,494	165,398
Allowance for doubtful accounts	(3,726)	(4,962)	(31,576)
Total investments and other assets	67,994	74,359	576,220
Total assets	¥ 714,871	¥ 700,437	$ 6,058,229

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans payable (Notes 7 and 8)	¥ 95,776	¥ 82,230	$ 811,661
Current portion of long-term debt (Notes 7 and 8)	50,632	56,181	429,085
Payables (Note 6):			
Trade notes and accounts	104,351	97,070	884,331
Others	30,390	28,553	257,542
Accrued employees' bonuses	7,042	6,849	59,678
Accrued income taxes	8,263	4,577	70,025
Other current liabilities	18,379	15,833	155,754
Total current liabilities	314,833	291,293	2,668,076
Long-term liabilities:			
Long-term debt less current portion (Notes 7 and 8)	173,608	203,535	1,471,254
Accrued retirement benefits (Note 18)	7,486	10,118	63,441
Long-term deferred tax liabilities (Note 14)	1,373	1,414	11,635
Other long-term liabilities	22,375	25,714	189,619
Total long-term liabilities	204,842	240,781	1,735,949
Contingent liabilities (Note 9)			
Net assets (Notes 10 and 21)**:**			
Capital stock, without par value:			
Authorized — 3,300,000,000 shares			
Issued — 1,008,993,923 shares at March 31, 2007 and 2006	58,399	58,399	494,907
Capital surplus	28,362	28,294	240,356
Retained earnings	71,676	52,708	607,424
Treasury stock			
2,543,186 shares at March 31, 2007 and			
2,658,458 shares at March 31, 2006	(375)	(326)	(3,178)
Valuation difference on securities	7,724	11,588	65,458
Deferred hedge gain (loss), net	(97)	—	(822)
Revaluation surplus on assets	332	365	2,813
Foreign currency translation adjustments	6,572	(1,265)	55,695
Share subscription rights (Note 19)	78	—	661
Minority interests	22,525	18,600	190,890
Total net assets	195,196	168,363	1,654,204
Total liabilities and net assets	¥714,871	¥700,437	$6,058,229

Consolidated Statements of Changes in Net Assets

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007 and 2006

		Millions of yen									
	Number of shares issued (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on securities	Deferred hedge gain (loss), net	Revaluation surplus on assets	Foreign currency translation adjustments	Share subscription rights	Minority interests
Balance at March 31, 2005	942,993	¥48,565	¥18,437	¥38,589	¥(609)	¥ 6,857	¥ —	¥ 520	¥(3,976)	¥ —	¥17,696
Shares issued by public offering	61,000	9,089	9,047	—	—	—	—	—	—	—	—
Shares issued by third-party allotment	5,000	745	742	—	—	—	—	—	—	—	—
Gain on disposal of treasury stock	—	—	68	—	—	—	—	—	—	—	—
Increase in earnings due to inclusion/exclusion of consolidated subsidiaries	—	—	—	18	—	—	—	—	—	—	—
Transfer from revaluation surplus on assets	—	—	—	40	—	—	—	—	—	—	—
Cash dividends at ¥2.00 per share	—	—	—	(1,885)	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(60)	—	—	—	—	—	—	—
Net income for the year	—	—	—	16,006	—	—	—	—	—	—	—
Net other changes during the year	—	—	—	—	283	4,731	—	(155)	2,711	—	904
Balance at March 31, 2006	1,008,993	¥58,399	¥28,294	¥52,708	¥(326)	¥11,588	¥ —	¥ 365	¥(1,265)	¥—	¥18,600
Acquisition of treasury stock	—	—	—	—	(94)	—	—	—	—	—	—
Disposal of treasury stock	—	—	68	—	45	—	—	—	—	—	—
Increase due to merger of unconsolidated subsidiaries	—	—	—	16	—	—	—	—	—	—	—
Transfer from revaluation surplus on assets	—	—	—	39	—	—	—	—	—	—	—
Cash dividends at ¥3.00 per share	—	—	—	(3,026)	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(74)	—	—	—	—	—	—	—
Net income for the year	—	—	—	22,013	—	—	—	—	—	—	—
Net other changes during the year	—	—	—	—	—	(3,864)	(97)	(33)	7,837	78	3,925
Balance at March 31, 2007	1,008,993	¥58,399	¥28,362	¥71,676	¥(375)	¥ 7,724	¥(97)	¥ 332	¥ 6,572	¥78	¥22,525

	Thousands of U.S. dollars (Note 1)									
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on securities	Deferred hedge gain (loss), net	Revaluation surplus on assets	Foreign currency translation adjustments	Share subscription rights	Minority interests
Balance at March 31, 2006	$494,907	$239,780	$446,678	$(2,763)	$ 98,203	$ —	$3,093	$(10,720)	$ —	$157,627
Acquisition of treasury stock	—	—	—	(797)	—	—	—	—	—	—
Disposal of treasury stock	—	576	—	382	—	—	—	—	—	—
Increase due to merger of unconsolidated subsidiaries	—	—	136	—	—	—	—	—	—	—
Transfer from revaluation surplus on assets	—	—	330	—	—	—	—	—	—	—
Cash dividends at ¥3.00 per share	—	—	(25,644)	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	(627)	—	—	—	—	—	—	—
Net income for the year	—	—	186,551	—	—	—	—	—	—	—
Net other changes during the year	—	—	—	—	(32,745)	(822)	(280)	66,415	661	33,263
Balance at March 31, 2007	$494,907	$240,356	$607,424	$(3,178)	$ 65,458	$(822)	$2,813	$ 55,695	$661	$190,890

See accompanying notes.

Consolidated Statements of Cash Flows

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 36,003	¥ 26,634	$ 305,110
Depreciation and amortization	30,980	30,807	262,542
Loss on impairment of fixed assets	5,741	294	48,653
Interest and dividend income	(1,080)	(1,599)	(9,153)
Interest payable	7,530	7,822	63,814
Gain on sale of property, plant and equipment, net	(355)	(127)	(3,008)
Loss on sale of investment securities, net	737	220	6,246
Increase in receivables	(11,190)	(10,674)	(94,831)
Decrease (increase) in inventories	1,070	(1,283)	9,068
Increase in payables	3,707	5,399	31,415
Loss on business restructuring	125	3,017	1,059
Gain on contribution of investment securities to retirement benefit trust	(2,942)	—	(24,932)
Others, net	(1,439)	3,400	(12,195)
Subtotal	68,887	63,910	583,788
Interest and dividend received	1,300	2,027	11,017
Interest payment	(7,906)	(8,291)	(67,000)
Income tax payment	(7,941)	(5,553)	(67,297)
Others, net	45	(223)	382
Net cash provided by operating activities	54,385	51,870	460,890
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	1,138	3,809	9,644
Acquisition of property, plant and equipment	(31,944)	(27,438)	(270,712)
Proceeds from sale of investment securities	4,909	936	41,602
Acquisition of investment securities	(290)	(80)	(2,458)
Net decrease (increase) in loans receivable	(1,097)	140	(9,296)
Others, net	142	91	1,203
Net cash used in investing activities	(27,142)	(22,542)	(230,017)
Cash flows from financing activities:			
Proceeds from long-term borrowings	20,679	38,401	175,246
Proceeds from long-term bonds	198	692	1,678
Proceeds from issuance of new shares	—	19,623	—
Repayments of long-term borrowings	(43,671)	(38,712)	(370,093)
Repayments of long-term bonds	(14,460)	(27,253)	(122,542)
Net increase (decrease) in short-term loans payable	12,808	(33,899)	108,542
Cash dividend paid	(3,024)	(1,886)	(25,627)
Cash dividend paid to minority stockholders	(325)	(280)	(2,754)
Others, net	203	381	1,720
Net cash used in financing activities	(27,592)	(42,933)	(233,830)
Effect of exchange rate changes on cash and cash equivalents	673	242	5,703
Net increase (decrease) in cash and cash equivalents	324	(13,363)	2,746
Increase in cash and cash equivalents due to merger of unconsolidated subsidiaries	26	24	220
Adjustment due to change in consolidation scope	851	—	7,212
Cash and cash equivalents at beginning of the year	20,077	33,416	170,144
Cash and cash equivalents at end of the year	¥ 21,278	¥ 20,077	$ 180,322

See accompanying notes.

Notes to Consolidated Financial Statements

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007 and 2006

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 generally accepted 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 generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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 ¥118=US$1, the approximate rate of exchange on March 31, 2007. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be 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 (68 and 66 companies for the years ended March 31, 2007 and 2006, respectively). Significant companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements by the equity method (32 and 35 companies for the years ended March 31, 2007 and 2006, respectively). All significant intercompany balances and transactions are eliminated in consolidation.

Certain subsidiaries are consolidated using a fiscal period ending December 31. Significant transactions occurring during the January 1 to March 31 period are adjusted in the consolidated financial statements.

In the initial consolidation, assets and liabilities of subsidiaries including those attributable to minority stockholders are recorded based on fair value in the consolidated financial statements.

The difference between acquisition cost and the underlying net assets at fair value at the date of acquisition is amortized over a period of 20 years on a straight-line basis. The negative goodwill in the amount of ¥5,929 million (US$50,246 thousand) is included in "Other long-term liabilities" on the consolidated balance sheet at March 31, 2007.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by 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.

Deferred tax assets and liabilities are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Valuation allowance is provided for the deferred tax assets which are not realizable based on a scheduling for a reasonable period.

(c) Securities

Securities are classified into three categories: "Trading," "Held-to-maturity" and "Others." The Company and its consolidated subsidiaries have no trading securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in the valuation difference, net of the applicable income taxes, included directly in net assets. 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 recorded as gain 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.

If interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed.

Additional information on derivatives is presented in Note 15.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount estimated with reference to individual uncollectible accounts plus an amount calculated using a historical rate determined based on the actual uncollectible 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) Intangible assets

Mining rights are amortized by the unit-of-production method and patent rights, software and others are amortized by the straight-line method over their estimated useful lives.

(i) Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are accounted for in the same manner as operating leases.

(j) Research and development costs

Research and development costs are charged to income when incurred.

(k) Foreign currency translation

Current and non-current monetary accounts denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and any translation difference is accounted for as a profit or loss for the year.

All assets, liabilities, revenues and expenses of foreign consolidated subsidiaries are translated at the rates of exchange in effect at the balance sheet date. The components of net assets other than minority interests are translated at their historical exchange rates. Foreign currency translation adjustments are included in net assets.

(l) 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 date. Net retirement benefit obligation at transition of ¥31,332 million (US$265,525 thousand) is being amortized principally over 13 years.

Prior service cost is being amortized as incurred mainly by the straight-line method over 5-14 years, which is shorter than the average remaining service 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 10-14 years, which is shorter than the average remaining service years of employees.

(m) Net income per share

Primary net income per share is computed based on the net income available for distribution to stockholders of common stock and the weighted average number of shares of common stock outstanding during each year (1,006,289 thousand shares and 944,919 thousand shares for the years ended March 31, 2007 and 2006, respectively). Diluted net income per share is computed based on the net income available for distribution to the stockholders and the weighted average number of shares of common stock outstanding during each year assuming full conversion of convertible bonds (47,971 thousand shares and 71,355 thousand shares for the years ended March 31, 2007 and 2006, respectively) and full exercise of share subscription rights (28 thousand shares for the year ended March 31, 2007).

(n) Accrued employees' bonuses

Accrued employees' bonuses are provided at an amount estimated based on the bonus for this term to be paid subsequent to the balance sheet date.

(o) Accrued directors' and statutory auditors' bonuses

Accrued directors' and statutory auditors' bonuses are provided at an amount estimated based on the bonus for this term to be paid subsequent to the balance sheet date.

Accrued directors' and statutory auditors' bonuses in the amount of ¥107 million (US$907 thousand) are included in "Other current liabilities" on the consolidated balance sheet at March 31, 2007.

(p) 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.

(q) Accrual for losses on contracts

Accrual for losses on contracts is provided to cover the losses, which are probable to be incurred and of which amounts can be reasonably estimated, on the future sales recognition of particular machinery.

These accruals for losses on contracts in the amounts of ¥1,473 million (US$12,483 thousand) and ¥290 million are included in "Other current liabilities" on the consolidated balance sheets at March 31, 2007 and 2006, respectively.

(r) Directors' and statutory auditors' retirement benefits

The Company has decided to discontinue the retirement benefit plan for directors and statutory auditors and introduced a stock-based compensation plan effective the year ended March 31, 2007.

Consolidated subsidiaries provide for retirement allowances for directors and statutory auditors determined based on their internal regulations for their provision.

¥1,020 million (US$8,644 thousand) and ¥1,345 million of the retirement allowances are included in "Other long-term liabilities" on the consolidated balance sheets at March 31, 2007 and 2006, respectively.

(s) Accrual for losses on business restructuring

Accrual for losses on business restructuring of the Company and its consolidated subsidiaries is provided to cover the costs reasonably estimated to be incurred for business restructuring.

These accruals for losses on business restructuring in the amounts of ¥48 million (US$407 thousand) and ¥2,533 million are included in "Other long-term liabilities" on the consolidated balance sheets at March 31, 2007 and 2006, respectively.

3. ACCOUNTING CHANGES

(a) Accounting standard for directors' bonuses

The Company and its consolidated subsidiaries have adopted the new accounting standard for directors' bonuses effective the year ended March 31, 2007.

The new standard requires that directors' and statutory auditors' bonuses are accounted for as an expense in the year incurred.

This adoption decreased "Operating income" and "Income before income taxes and minority interests" by ¥107 million (US$907 thousand) each.

(b) Accounting standard for presentation of net assets in the balance sheet

The Company and its consolidated subsidiaries have adopted the new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance effective the year ended March 31, 2007. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statement of changes in net assets instead of consolidated statement of stockholders' equity. In this connection, the previously reported consolidated balance sheet at March 31, 2006 and consolidated statement of stockholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

(c) Accounting standard for stock options

The Company and its consolidated subsidiaries have adopted the new accounting standard for stock options and the related implementation guidance effective the year ended March 31, 2007.

Under the new standard, stock options granted are measured by their fair value and are accounted for as an expense.

This adoption decreased "Operating income" and "Income before income taxes and minority interests" by ¥78 million (US$661 thousand) each.

4. SECURITIES

Securities and investment securities at March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Securities:			
Bonds and others	**¥ 5**	¥ 10	**$ 42**
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	**19,777**	21,967	**167,602**
Others	**23,516**	30,520	**199,288**
	¥43,293	¥52,487	**$366,890**

Marketable securities classified as other securities at March 31, 2007 and 2006 are as follows:

Marketable other securities

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	¥3,379	¥16,422	¥13,043	¥4,120	¥23,210	¥19,090	$28,635	$139,169	$110,534
Others	40	42	2	—	—	—	339	356	17
Subtotal	3,419	16,464	13,045	4,120	23,210	19,090	28,974	139,525	110,551
Securities whose acquisition cost exceeds their carrying value:									
Stock	534	448	(86)	153	115	(38)	4,525	3,796	(729)
Debt securities	71	71	(0)	71	71	(0)	602	602	(0)
Others	173	149	(24)	102	86	(16)	1,466	1,263	(203)
Subtotal	778	668	(110)	326	272	(54)	6,593	5,661	(932)
Total	¥4,197	¥17,132	¥12,935	¥4,446	¥23,482	¥19,036	$35,567	$145,186	$109,619

Acquisition costs in the tables above represent the amounts after deduction of impairment losses.

As for securities whose fair values at the year end are less than 50% of the acquisition costs, or are more than 50% but less than 70% and deemed to be unrecoverable, the impairment losses are recognized.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2007 and 2006 are summarized as follows:

Millions of yen						Thousands of U.S. dollars		
2007			2006			2007		
Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
¥930	¥283	¥(172)	¥246	¥48	¥(1)	$7,881	$2,398	$(1,458)

Other securities without market value at March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Other securities:			
Non-listed equity securities	¥6,082	¥6,479	$51,542
Others	307	569	2,602
	¥6,389	¥7,048	$54,144

5. INVENTORIES

Inventories at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods	¥34,671	¥35,375	$293,822
Work in process	22,507	24,319	190,737
Raw materials and supplies	22,007	21,765	186,500
	¥79,185	¥81,459	$671,059

6. NOTES PAYABLE AND RECEIVABLE

Trade notes receivable of ¥3,348 million (US$28,373 thousand) and trade notes payable of ¥3,002 million (US$25,441 thousand) whose maturity date fell on March 31, 2007, a non-working day for financial institutions in Japan, have been accounted as if they had been settled on their maturity date.

7. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable represent bank loans, with average interest rates of 1.96% and 1.58% per annum at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
2.66% unsecured bonds due 2006	¥ —	¥ 7,000	$ —
1.43% unsecured bonds due 2006	—	7,000	—
1.10% unsecured bonds due 2007	1,000	1,000	8,475
0.75% unsecured bonds due 2007	150	150	1,271
0.32% unsecured bonds due 2008	330	550	2,797
1.24% unsecured bonds due 2008	300	500	2,542
0.69% unsecured bonds due 2008	100	100	848
1.59% unsecured bonds due 2010	140	180	1,186
1.36% unsecured bonds due 2010	500	500	4,237
1.32% unsecured bonds due 2011	200	—	1,695
1.40% convertible bonds due 2008, convertible at ¥415.00 per share	19,908	19,908	168,712
Elimination of intercompany transactions	(10)	(10)	(85)
Loans principally from banks and insurance companies:			
Secured, at 0.81% to 7.06%, maturing through 2020	62,099	76,685	526,263
Unsecured, at 0.00% to 5.39%, maturing through 2027	139,523	146,153	1,182,398
	224,240	259,716	1,900,339
Less current portion	50,632	56,181	429,085
	¥173,608	¥203,535	$1,471,254

The annual maturities of long-term debt subsequent to March 31, 2007 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 50,632	$ 429,085
2009	67,616	573,017
2010	39,195	332,161
2011	27,731	235,008
2012 and thereafter	39,076	331,153
Elimination of intercompany transactions	(10)	(85)
	¥224,240	$1,900,339

The Company has entered into loan commitment agreements amounting to ¥20,000 million (US$169,492 thousand) with seven banks. Loan payable outstanding at March 31, 2007 under these loan commitment agreements amounted to ¥1,500 million (US$12,712 thousand).

8. PLEDGED ASSETS

The assets pledged as collateral for short-term and long-term borrowings, guarantees and borrowings of affiliated companies at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Assets pledged as collateral:			
Time deposits	¥ —	¥ 20	$ —
Trade notes receivable	1,500	1,845	12,712
Trade accounts receivable	451	467	3,822
Property, plant and equipment, at net book value	198,177	198,204	1,679,466
Investment securities	4,507	8,400	38,195
	¥204,635	¥208,936	$1,734,195

9. CONTINGENT LIABILITIES

At March 31, 2007 and 2006, the Company and its consolidated subsidiaries are contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
As endorser of trade notes discounted or endorsed	¥2,666	¥3,032	$22,593
As guarantor of employees' housing loans	2,051	2,413	17,381
As guarantor of indebtedness principally of unconsolidated subsidiaries and affiliated companies	4,450	4,209	37,712

The guaranteed amount includes similar commitments of ¥3,271 million (US$27,720 thousand) and ¥3,528 million at March 31, 2007 and 2006, respectively.

10. NET ASSETS

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the stockholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs, all of which are included in "Selling, general and administrative expenses" for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Research and development costs	¥13,020	¥12,488	$110,339

12. OTHER INCOME (EXPENSES)

"Other income (expenses) — Others, net" for the years ended March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loss on sale of investment securities, net	¥ (784)	¥ (220)	$ (6,644)
Gain on sale of property, plant and equipment, net	355	127	3,008
Loss on disposal of property, plant and equipment	(3,156)	(2,123)	(26,746)
Loss on impairment of fixed assets (Note 13)	(5,741)	(294)	(48,652)
Write-down of investment securities	(714)	(327)	(6,051)
Provision of allowance for doubtful accounts	(208)	(512)	(1,763)
Loss on business restructuring	(125)	(3,017)	(1,059)
Provision for polychlorinated biphenyls disposal expenses	—	(626)	—
Gain on contribution of investment securities to retirement benefit trust	2,942	—	24,932
Write-down of inventories	(2,027)	—	(17,178)
Gain (loss) on foreign currency exchange, net	2,897	(829)	24,551
Others, net	(136)	(2,988)	(1,152)
	¥(6,697)	¥(10,809)	$(56,754)

13. LOSS ON IMPAIRMENT OF FIXED ASSETS

Fixed assets of the Company and its consolidated subsidiaries are grouped at the business unit or department level for impairment testing.

Loss on impairment of fixed assets for the year ended March 31, 2007 consists of the following:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Idle property:		
Land	¥ (250)	$ (2,119)
Machinery	(83)	(703)
Business assets in use:		
Aluminum die castings manufacturing plant (UBE Machinery Corporation, Ltd.)	(177)	(1,500)
Ready-mixed concrete manufacturing plant (Ichinoseki Remicon Co., Ltd.)	(41)	(347)
Aluminum automobile wheels manufacturing plant (UBE Automotive North America Sarnia Plant, Inc.)	(5,190)	(43,983)
	¥(5,741)	$(48,652)

(a) Idle property

Among idle property which the Company and its consolidated subsidiaries own, there were certain assets whose book values exceeded their recoverable amounts. Such excesses of ¥333 million (US$2,822 thousand) were reduced to their recoverable amounts and were recognized as impairment loss for the year ended March 31, 2007. The components of impairment loss were "Land (13 places)" in the amount of ¥250 million (US$2,119 thousand) and "Machinery (1 unit)" in the amount of ¥83 million (US$703 thousand).

The recoverable amounts of these assets are measured by net selling price, and selling prices are based mainly on appraisal evaluation.

(b) Business assets in use

As for "Aluminum die castings manufactured by UBE Machinery Corporation, Ltd.," the book value of the aluminum die castings manufacturing plant was reduced to its recoverable amount due to sluggish business results related to worsening of profitability. This reduced amount of ¥177 million (US$1,500 thousand) was recognized as impairment loss. The components of impairment loss were "Machinery" in the amount of ¥164 million (US$1,390 thousand) and "Others" in the amount of ¥13 million (US$110 thousand).

The recoverable amount of the asset group is measured by net selling price, and selling prices are based on expected prices as scrap.

As for "Ready-mixed concrete manufactured by Ichinoseki Remicon Co., Ltd.," the book value of the ready-mixed concrete manufacturing plant was reduced to its recoverable amount due to sluggishness of the market. This reduced amount of ¥41 million (US$347 thousand) was recognized as impairment loss. The components of impairment loss were "Structures" in the amount of ¥16 million (US$135 thousand), "Machinery" in the amount of ¥17 million (US$144 thousand) and "Others" in the amount of ¥8 million (US$68 thousand).

The recoverable amount of the asset group is measured by net selling price, and selling prices are based on expected prices as scrap.

As for "Aluminum wheels manufactured by UBE Automotive North America Sarnia Plant, Inc.," the book value of the aluminum automobile wheels manufacturing plant was reduced to its recoverable amount due to sluggish business results related to keener competition in the market. This reduced amount of ¥5,190 million (US$43,983 thousand) was recognized as impairment loss. The components of impairment loss were "Buildings" in the amount of ¥1,053 million (US$8,924 thousand), "Machinery" in the amount of ¥3,585 million (US$30,381 thousand) and "Others" in the amount of ¥552 million (US$4,678 thousand).

The recoverable amount of the asset group is measured by value in use based on estimated future cash flows discounted at 4.15%.

Loss on impairment of fixed assets for the year ended March 31, 2006 consists of the following:

	Millions of yen
	2006
Idle property:	
Land	¥(157)
Business assets in use:	
Ready-mixed concrete manufacturing plant (HIRAIZUMI Co., Ltd.)	(101)
Ready-mixed concrete manufacturing plant (Kita Miyagi Ready-mixed Concrete Co., Ltd.)	(36)
	¥(294)

(a) Idle property

Among idle property which the Company and its consolidated subsidiaries own, there were certain assets whose book values exceeded their recoverable amounts. Such excesses of ¥157 million were reduced to their recoverable amounts and were recognized as impairment loss for the year ended March 31, 2006. The components of impairment loss were "Land (13 places)" in the amount of ¥157 million.

The recoverable amounts of these assets are measured by net selling price, and selling prices are based mainly on appraisal evaluation.

(b) Business assets in use

As for "Ready-mixed concrete manufactured by HIRAIZUMI Co., Ltd. and Kita Miyagi Ready-mixed Concrete Co., Ltd.," each book value of the ready-mixed concrete manufacturing plants was reduced to its recoverable amount due to sluggishness of the market. The total reduced amount of ¥137 million was recognized as impairment loss. The components of impairment loss of HIRAIZUMI Co., Ltd. were "Buildings and structures" in the amount of ¥80 million and "Machinery and equipment" in the amount of ¥21 million. Those of Kita Miyagi Ready-mixed Concrete Co., Ltd. were "Buildings and structures" in the amount of ¥16 million and "Machinery and equipment" in the amount of ¥20 million.

The recoverable amounts of these asset groups are measured by value in use based on estimated future cash flows discounted at 4.62%.

14. INCOME TAXES

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, result in a statutory tax rate of approximately 40.4% for the years ended March 31, 2007 and 2006, respectively.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 differ from the statutory tax rate for the following reasons.

	Percentage	
	2007	2006
Statutory tax rate	**40.4%**	40.4%
Effect of:		
Permanently nondeductible expenses	**0.9**	1.1
Loss carried forward without deferred tax assets	**1.4**	4.3
Deducted amount of loss without deferred tax assets	**(8.1)**	(8.7)
Investment valuation loss of consolidated subsidiaries and affiliates	**(3.5)**	—
Loss on impairment of fixed assets	**5.9**	0.4
Investment profit of affiliated companies by equity method	**(2.1)**	(1.7)
Permanently nontaxable items including dividend income	**(3.4)**	(3.3)
Effect of elimination of dividend income through consolidation procedures	**4.9**	3.8
Others	**(1.4)**	0.0
Effective tax rate	**35.0%**	36.3%

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,844	¥ 2,789	$ 24,102
Accrued retirement benefits	3,259	4,089	27,619
Loss carried forward	2,296	1,370	19,457
Intercompany profit	13,142	13,428	111,373
Depreciation and amortization	2,062	2,027	17,474
Allowance for doubtful accounts	1,155	1,308	9,788
Write-down of investment securities	3,325	2,892	28,178
Accrual for losses on business restructuring	2,314	259	19,610
Others	6,738	5,395	57,102
Gross deferred tax assets	37,135	33,557	314,703
Valuation allowance	(8,340)	(5,029)	(70,678)
Total deferred tax assets	28,795	28,528	244,025
Deferred tax liabilities:			
Deferred gain on real properties	(7,325)	(7,425)	(62,076)
Reserve for special depreciation	(5)	(26)	(42)
Valuation difference on securities	(5,226)	(8,048)	(44,288)
Prepaid pension expenses	(871)	—	(7,381)
Others	(3,162)	(2,970)	(26,797)
Total deferred tax liabilities	(16,589)	(18,469)	(140,584)
Net deferred tax assets	¥ 12,206	¥ 10,059	$ 103,441

15. 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, 2007 and 2006.

Currency-related transactions

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:									
Sell:									
US$	¥ —	¥ —	¥ —	¥ 335	¥ 349	¥ (14)	$ —	$ —	$ —
Buy:									
¥	—	—	—	370	363	(7)	—	—	—
Currency swaps:									
Receive/US$ and pay/¥	2,590	(2)	(2)	2,590	(13)	(13)	21,949	(17)	(17)
Receive/US$ and pay/CA$	787	(88)	(88)	1,555	(151)	(151)	6,669	(746)	(746)
Receive/US$ and pay/Baht	2,642	(165)	(165)	—	—	—	22,390	(1,398)	(1,398)
Total			¥(255)			¥(185)			$(2,161)

Note: Forward exchange contracts and currency swaps 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.

16. SEGMENT INFORMATION

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 are summarized by product group as follows:

	Millions of yen							
Year ended March 31, 2007	Chemicals & plastics	Specialty chemicals & products	Cement & construction materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
Sales:								
Outside customers	**¥210,402**	**¥ 88,368**	**¥207,820**	**¥114,206**	**¥30,987**	**¥3,825**	**¥ —**	**¥655,608**
Intersegment sales and transfers	**7,791**	**1,829**	**3,770**	**1,013**	**8,710**	**1,237**	**(24,350)**	**—**
	218,193	**90,197**	**211,590**	**115,219**	**39,697**	**5,062**	**(24,350)**	**655,608**
Operating cost	**204,414**	**78,677**	**199,183**	**109,666**	**36,928**	**4,300**	**(24,422)**	**608,746**
Operating income	**¥ 13,779**	**¥ 11,520**	**¥ 12,407**	**¥ 5,553**	**¥ 2,769**	**¥ 762**	**¥ 72**	**¥ 46,862**
Assets	**¥232,051**	**¥105,137**	**¥218,317**	**¥ 84,422**	**¥51,852**	**¥6,058**	**¥ 17,034**	**¥714,871**
Depreciation and amortization	**9,317**	**5,875**	**8,440**	**4,548**	**2,446**	**354**	**—**	**30,980**
Loss on impairment	**2**	**—**	**221**	**5,367**	**—**	**151**	**—**	**5,741**
Capital expenditures	**8,745**	**9,781**	**6,863**	**4,613**	**1,788**	**129**	**—**	**31,919**

	Millions of yen							
Year ended March 31, 2006	Chemicals & plastics	Specialty chemicals & products	Cement & construction materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
Sales:								
Outside customers	¥175,868	¥ 89,280	¥192,408	¥102,468	¥31,498	¥3,869	¥ —	¥595,391
Intersegment sales and transfers	7,453	517	3,782	828	8,325	1,038	(21,943)	—
	183,321	89,797	196,190	103,296	39,823	4,907	(21,943)	595,391
Operating cost	168,343	78,829	186,462	99,588	37,447	4,340	(21,787)	553,222
Operating income	¥ 14,978	¥ 10,968	¥ 9,728	¥ 3,708	¥ 2,376	¥ 567	¥ (156)	¥ 42,169
Assets	¥208,665	¥102,290	¥217,138	¥ 94,330	¥51,410	¥5,224	¥ 21,380	¥700,437
Depreciation and amortization	8,412	5,853	8,651	5,122	2,417	352	—	30,807
Loss on impairment	—	—	218	—	8	68	—	294
Capital expenditures	7,270	5,907	6,043	4,660	649	205	—	24,734

	Thousands of U.S. dollars							
Year ended March 31, 2007	Chemicals & plastics	Specialty chemicals & products	Cement & construction materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
Sales:								
Outside customers	**$1,783,068**	**$748,881**	**$1,761,187**	**$967,847**	**$262,602**	**$32,415**	**$ —**	**$5,556,000**
Intersegment sales and transfers	**66,025**	**15,500**	**31,949**	**8,585**	**73,814**	**10,483**	**(206,356)**	**—**
	1,849,093	**764,381**	**1,793,136**	**976,432**	**336,416**	**42,898**	**(206,356)**	**5,556,000**
Operating cost	**1,732,322**	**666,754**	**1,687,992**	**929,373**	**312,949**	**36,440**	**(206,966)**	**5,158,864**
Operating income	**$ 116,771**	**$ 97,627**	**$ 105,144**	**$ 47,059**	**$ 23,467**	**$ 6,458**	**$ 610**	**$ 397,136**
Assets	**$1,966,534**	**$890,991**	**$1,850,144**	**$715,441**	**$439,424**	**$51,339**	**$ 144,356**	**$6,058,229**
Depreciation and amortization	**78,958**	**49,788**	**71,525**	**38,542**	**20,729**	**3,000**	**—**	**262,542**
Loss on impairment	**17**	**—**	**1,873**	**45,483**	**—**	**1,279**	**—**	**48,652**
Capital expenditures	**74,110**	**82,890**	**58,161**	**39,093**	**15,153**	**1,093**	**—**	**270,500**

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 by geographic area are as follows:

Effective the year ended March 31, 2007, the Company has changed segmentation to the following three segments: "Japan," "Asia" and "Other area" because the materiality of "Asia" segment has increased.

The segment information for the year ended March 31, 2006 is restated to conform to the segmentation used in the year ended March 31, 2007.

	Millions of yen				
Year ended March 31, 2007	Japan	Asia	Other area	Elimination & corporate	Consolidated
Sales:					
Outside customers	**¥528,614**	**¥55,164**	**¥71,830**	**¥ —**	**¥655,608**
Intersegment sales and transfers	**22,450**	**12,237**	**2,061**	**(36,748)**	**—**
	551,064	**67,401**	**73,891**	**(36,748)**	**655,608**
Operating cost	**510,498**	**61,771**	**73,726**	**(37,249)**	**608,746**
Operating income	**¥ 40,566**	**¥ 5,630**	**¥ 165**	**¥ 501**	**¥ 46,862**
Assets	**¥572,944**	**¥77,153**	**¥52,975**	**¥ 11,799**	**¥714,871**

	Millions of yen				
Year ended March 31, 2006	Japan	Asia	Other area	Elimination & corporate	Consolidated
Sales:					
Outside customers	¥491,839	¥37,301	¥66,251	¥ —	¥595,391
Intersegment sales and transfers	17,281	8,280	1,653	(27,214)	—
	509,120	45,581	67,904	(27,214)	595,391
Operating cost	474,516	38,976	66,725	(26,995)	553,222
Operating income	¥ 34,604	¥ 6,605	¥ 1,179	¥ (219)	¥ 42,169
Assets	¥552,391	¥67,706	¥59,140	¥ 21,200	¥700,437

	Thousands of U.S. dollars				
Year ended March 31, 2007	Japan	Asia	Other area	Elimination & corporate	Consolidated
Sales:					
Outside customers	**$4,479,780**	**$467,491**	**$608,729**	**$ —**	**$5,556,000**
Intersegment sales and transfers	**190,254**	**103,704**	**17,466**	**(311,424)**	**—**
	4,670,034	**571,195**	**626,195**	**(311,424)**	**5,556,000**
Operating cost	**4,326,254**	**523,483**	**624,797**	**(315,670)**	**5,158,864**
Operating income	**$ 343,780**	**$ 47,712**	**$ 1,398**	**$ 4,246**	**$ 397,136**
Assets	**$4,855,458**	**$653,839**	**$448,941**	**$ 99,991**	**$6,058,229**

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

Overseas sales, which represent sales to customers outside Japan, of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen				
Year ended March 31, 2007	Asia	North America	Europe	Other area	Total
Overseas sales	**¥121,860**	**¥30,023**	**¥44,296**	**¥2,510**	**¥198,689**
Consolidated sales					**655,608**
Overseas/consolidated sales ratio	**18.6%**	**4.6%**	**6.7%**	**0.4%**	**30.3%**

Year ended March 31, 2006	Millions of yen				
	Asia	North America	Europe	Other area	Total
Overseas sales	¥102,065	¥30,547	¥36,646	¥ 1,395	¥170,653
Consolidated sales					595,391
Overseas/consolidated sales ratio	17.2%	5.1%	6.2%	0.2%	28.7%

Year ended March 31, 2007	Thousands of U.S. dollars				
	Asia	North America	Europe	Other area	Total
Overseas sales	**$1,032,712**	**$254,432**	**$375,390**	**$21,271**	**$1,683,805**
Consolidated sales					**5,556,000**

"Asia" consists principally of Korea, China, Taiwan and Thailand, "North America" consists principally of the United States and Canada, "Europe" consists principally of Germany and Spain, and "Other area" consists principally of South America, Oceania and Africa.

17. LEASES

(a) Finance leases

The following amounts represent the acquisition costs, accumulated depreciation and amortization and net book value of the leased property at March 31, 2007 and 2006 which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

At March 31	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition costs:			
Buildings and structures	**¥ 20**	¥ 20	**$ 169**
Machinery and equipment	**11,401**	10,832	**96,619**
	¥11,421	¥10,852	**$96,788**
Accumulated depreciation and amortization:			
Buildings and structures	**¥ 14**	¥ 10	**$ 118**
Machinery and equipment	**5,058**	5,159	**42,865**
	¥ 5,072	¥ 5,169	**$42,983**
Net book value:			
Buildings and structures	**¥ 6**	¥ 10	**$ 51**
Machinery and equipment	**6,343**	5,673	**53,754**
	¥ 6,349	¥ 5,683	**$53,805**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,856 million (US$15,729 thousand) and ¥1,960 million, which are equal to the depreciation and amortization expenses of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥1,763	$14,941
2009 and thereafter	4,586	38,864
	¥6,349	$53,805

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2007 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 3,353	$ 28,415
2009 and thereafter	9,359	79,314
	¥12,712	$107,729

18. ACCRUED RETIREMENT BENEFITS

Effective on April 1, 2006, the Company and a part of domestic consolidated subsidiaries have changed the type of benefit plan to defined benefit company pension plan from noncontributory tax-qualified pension plan.

Most of domestic consolidated subsidiaries have noncontributory tax-qualified pension plans and lump-sum retirement benefit plans as defined benefit plans.

In addition, the Company and a part of domestic consolidated subsidiaries have established retirement benefit trusts.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligations:			
Present value of projected benefit obligations	**¥ 67,344**	¥ 65,787	**$ 570,712**
Plan assets at fair value	**(45,148)**	(37,855)	**(382,610)**
Unrecognized benefit obligations at transition	**(14,487)**	(16,876)	**(122,771)**
Unrecognized actuarial loss	**(464)**	(1,183)	**(3,932)**
Unrecognized prior service cost	**(2,014)**	245	**(17,068)**
Retirement benefit obligations recognized in balance sheets, net	**5,231**	10,118	**44,331**
Prepaid pension expenses	**(2,255)**	—	**(19,110)**
Accrued retirement benefits	**¥ 7,486**	¥ 10,118	**$ 63,441**

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Retirement benefit expenses:			
Service cost	**¥3,446**	¥3,217	**$29,203**
Interest cost	**1,448**	1,400	**12,271**
Expected return on plan assets	**(816)**	(640)	**(6,915)**
Amortization of prior service cost	**100**	(167)	**848**
Amortization of actuarial loss	**293**	967	**2,483**
Amortization of benefit obligations at transition	**2,389**	2,390	**20,246**
Total	**¥6,860**	¥7,167	**$58,136**

Assumptions used in accounting for the above plans were as follows:

	Percentage	
	2007	2006
Discount rate	**2.0-2.5%**	2.0-2.5%
Expected rate of return on plan assets	**2.0-2.5**	2.0-2.5
Expected rate of return on retirement benefit trust	**0.0**	—

19. STOCK OPTIONS

Stock option expenses in the amount of ¥78 million (US$661 thousand) are accounted for as "Selling, general and administrative expenses" on the consolidated statement of income for the year ended March 31, 2007.

Contents of stock options at March 31, 2007 are as follows:

	Fiscal year 2007 stock options
Position and number of grantee	Directors of the Company: 6 Executive officers of the Company: 13
Type and number of shares	Common stocks of the Company: 269,000 shares
Date of grant	February 22, 2007
Settlement of rights	After providing service for the period
Period of providing service for stock options	For 1 year (From July 1, 2006 to June 30, 2007)
Exercise period of rights	For 25 years from grant date (From February 22, 2007 to February 21, 2032)
Condition of exercise of rights	A holder of share subscription rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.

	Fiscal year 2007 stock options	
	Yen	U.S. dollars
Exercise price	¥ 1	$0.008
Fair value at grant date	388	3.288

Assumptions used in estimation of the fair value of stock options granted in the year ended March 31, 2007 are as follows:

	Fiscal year 2007 stock options
Method of estimation	Black-Scholes model
Volatility *	44.103 %
Expected remaining period **	8 years
Expected dividend ***	¥3 (US$0.025)
Risk-free interest rate ****	1.519 %

* Rate of variability, which is calculated based on the monthly closing prices of common stocks of the Company for 8 years from February 1999 to January 2007
** Midterm between date of grant and estimated exercisable period
*** Actual dividend per share for the year ended March 31, 2006
**** Interest rate for a government bond with 8 years remaining period

20. RELATED PARTY TRANSACTIONS

The Company sold goods for resale in the amount of ¥33,843 million (US$286,805 thousand) and ¥32,929 million to Ube-Mitsubishi Cement Corporation (UMCC), accounted for by the equity method, for the years ended March 31, 2007 and 2006, respectively. The balances of accounts receivable were ¥12,407 million (US$105,144 thousand) and ¥11,570 million at March 31, 2007 and 2006, respectively.

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

21. SUBSEQUENT EVENTS

(a) On May 30, 2007, the Company issued unsecured bonds (6th issuance) of ¥15,000 million (US$127,119 thousand) with due date on May 30, 2012.

(b) At the general stockholders' meeting of the Company held on June 28, 2007, the distribution of retained earnings for the year ended March 31, 2007 were approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.00 per share)	¥4,034	$34,186

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

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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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.

Ernst & Young ShinNihon

June 28, 2007

Investor Information (As of March 31, 2007)

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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

Establishment: 1897

Common Stock: Outstanding: 1,008,993,923 shares

Paid-in Capital: ¥58,399 million

Number of Stockholders: 63,322

Annual General Stockholders' Meeting: June

Stock Exchange Listing: Tokyo Stock Exchange (Code: 4208)

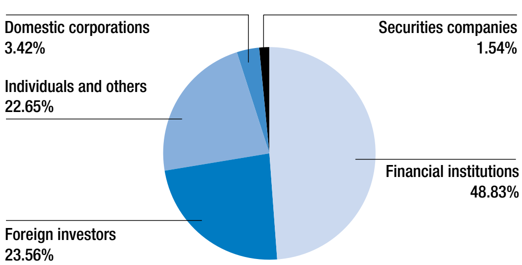
Transfer Agent and Share Registrar: Mitsubishi UFJ Trust and Banking Corporation, 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212

Independent Auditors: Ernst & Young ShinNihon

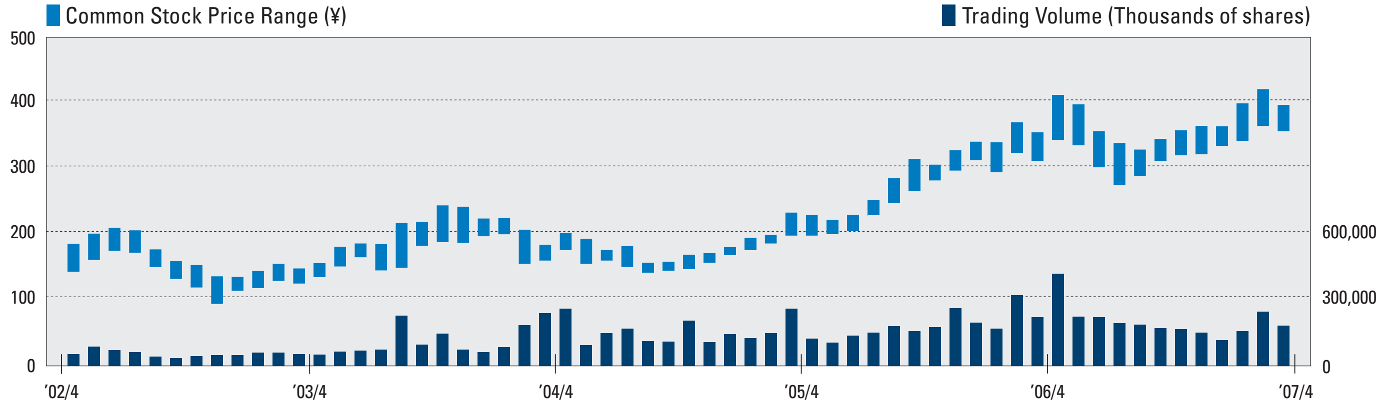
Principal Stockholders

Name	Number of Shares (Thousands)	Percentage of stockholding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	138,186	13.70
The Master Trust Bank of Japan, Ltd. (Trust Account)	76,469	7.58
Japan Trustee Services Bank, Ltd. (Trust Account 4)	38,214	3.79
Sumitomo Life Insurance Company	17,810	1.77
NIPPONKOA Insurance Co., Ltd.	16,373	1.62
Nippon Life Insurance Company	16,356	1.62
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	15,000	1.49
Mizuho Corporate Bank, Ltd.	12,487	1.24
NikkoCiti Trust and Banking Corporation	12,422	1.23
The Norinchukin Bank	12,374	1.23

Breakdown of Stockholders



Stock Price Range & Trading Volume
(Tokyo Stock Exchange)



Network (As of March 31, 2007)

OVERSEAS OFFICES [SALES & REPRESENTATIVE]

❶ UBE AMERICA INC.
55 East 59th Street, 18th Floor, New York, NY 10022, U.S.A.
Tel: +1-212-813-8300
Fax: +1-212-826-0454

❷ UBE CORPORATION EUROPE, S.A.
Poligono El Serrallo, Grao de Castellón 12100, Spain
Tel: +34-964-738000
Fax: +34-964-280013

❸ UBE EUROPE GMBH
Immermann Hof, Immermannstr. 65B, D-40210 Düsseldorf, Germany
Tel: +49-211-178830
Fax: +49-211-3613297

❹ UBE SINGAPORE PTE. LTD.
150 Beach Road, 20-05 Gateway West, Singapore 189720
Tel: +65-6291-9363
Fax: +65-6293-9039

❺ UBE (SHANGHAI) LTD.
Rooms 2315-16, Bank of China Tower, 200 Yincheng Road,
Pudong New Area, Shanghai, China P.C. 200120
Tel: +86-21-5037-2288
Fax: +86-21-5037-2266

❻ UBE (HONG KONG) LTD.
Rooms 1001-1009, Sun Hung Kai Centre, 30 Harbour Road, Hong Kong
Tel: +852-2877-1628
Fax: +852-2877-1262

MAJOR CONSOLIDATED SUBSIDIARIES AND AFFILIATES

① Country ② Business ③ Voting Rights

Chemicals & Plastics

❼ UBE FILM, LTD.
① Japan
Tel: +81 (836) 88-0111
Fax: +81 (836) 89-0005
② Manufacture and sales of plastic-film products
③ 77.5%

❽ THAI SYNTHETIC RUBBERS CO., LTD.
① Thailand
Tel: +66 (2) 263-6600
Fax: +66 (2) 685-3056
② Manufacture and sales of polybutadiene
③ 73.1%

❾ UBE NYLON (THAILAND) LTD.
① Thailand
Tel: +66 (2) 263-6600
Fax: +66 (2) 685-3042
② Manufacture and sales of polyamide 6
③ 100.0%

❿ THAI CAPROLACTAM PUBLIC CO., LTD.
① Thailand
Tel: +66 (2) 263-6600
Fax: +66 (2) 685-3024
② Manufacture and sales of caprolactam and ammonium sulfate
③ 90.9%

⓫ UBE ENGINEERING PLASTICS, S.A.
① Spain
Tel: +34 (964) 738000
Fax: +34 (964) 280013
② Manufacture and sales of polyamide 6
③ 100.0%

⓬ UBE CHEMICAL EUROPE, S.A.
① Spain
Tel: +34 (964) 738000
Fax: +34 (964) 280013
② Manufacture and sales of caprolactam, ammonium sulfate, and fine chemicals
③ 100.0%

⓭ UBE AMMONIA INDUSTRY, LTD.
① Japan
Tel: +81 (836) 31-5858
Fax: +81 (836) 34-0472
② Manufacture and sales of ammonia, carbon dioxide, argon, oxygen, and nitrogen
③ 50.6%

Specialty Chemicals & Products

⓮ UBE-NITTO KASEI CO., LTD.
① Japan
Tel: +81 (3) 3863-5201
Fax: +81 (3) 3863-5508
② Manufacture and sales of polypropylene molded products and fibers, fiber-reinforced plastics
③ 100.0%

⓯ MEIWA PLASTIC INDUSTRIES, LTD.
① Japan
Tel: +81 (836) 22-9211
Fax: +81 (836) 29-0100
② Manufacture and sales of phenolic resins, extruded plastics, and others
③ 100.0%

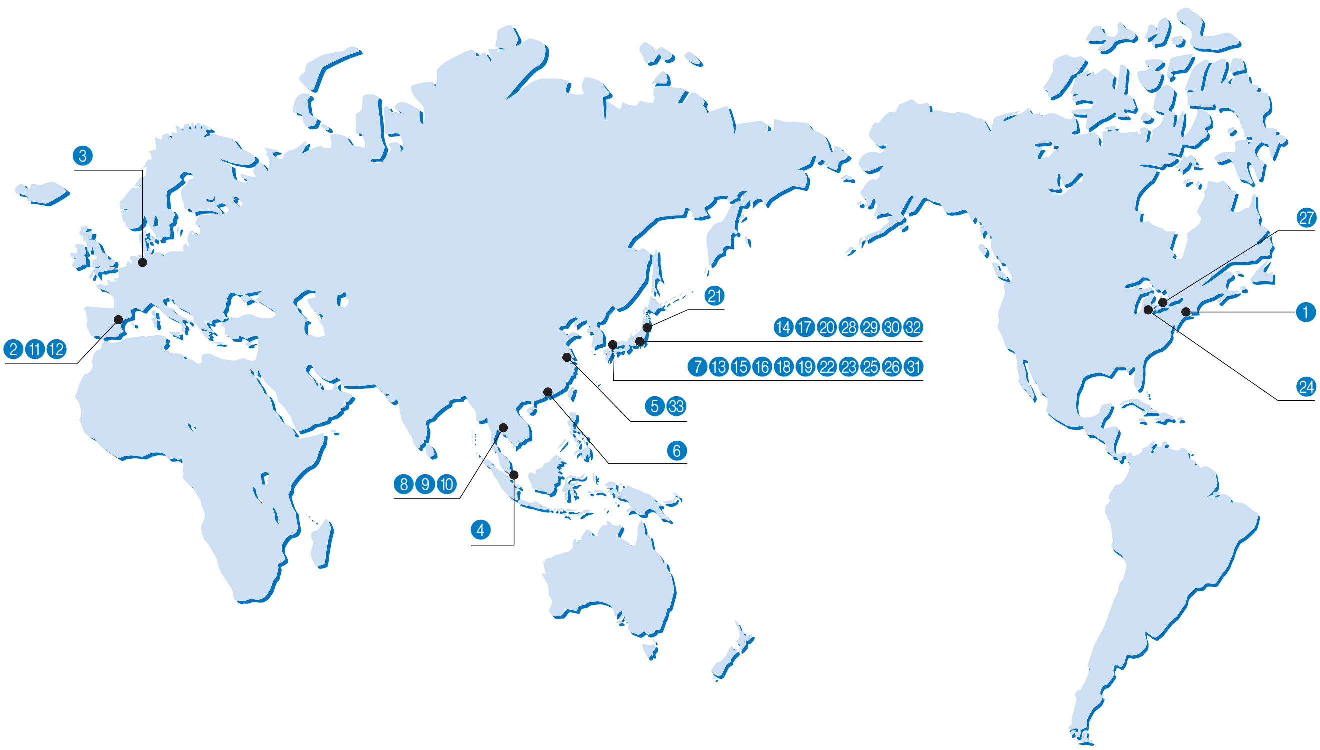
Cement & Construction Materials

⓰ UBE MATERIAL INDUSTRIES, LTD.
① Japan
Tel: +81 (836) 31-0156
Fax: +81 (836) 21-9778
② Production and sales of seawater magnesia, magnesium hydroxide, quicklime, slaked lime, and others
③ 54.4%

⓱ UBE CONSTRUCTION MATERIALS SALES CO., LTD.
① Japan
Tel: +81 (3) 5487-3560
Fax: +81 (3) 5487-3567
② Sales of ready-mixed concrete, building materials, and others
③ 100.0%

⓲ UBE SHIPPING & LOGISTICS, LTD.
① Japan
Tel: +81 (836) 34-1181
Fax: +81 (836) 34-1183
② Domestic shipping, harbor transportation, shipping-agent services, and customs clearing
③ 81.3%

⓳ UBE BOARD CO., LTD.
① Japan
Tel: +81 (836) 22-0251
Fax: +81 (836) 22-0271
② Manufacture and sales of boards, corrugated sheets, and OA flooring as well as related responsibilities
③ 100.0%



⑳ KANTO UBE HOLDINGS CO., LTD.
① Japan
Tel: +81 (3) 5759-7715
Fax: +81 (3) 5759-7732
② Sales of cement and aggregates as well as accounting for subsidiary
③ 100.0%

㉑ DAIKYO KIGYO CO., LTD.
① Japan
Tel: +81 (191) 25-3161
Fax: +81 (191) 25-4163
② Manufacture and sales of ready-mixed concrete and concrete secondary products
③ 60.6%

㉒ HAGIMORI INDUSTRIES, LTD.
① Japan
Tel: +81 (836) 31-1678
Fax: +81 (836) 21-4554
② Manufacture and sales of ready-mixed concrete and concrete secondary products
③ 70.7%

Machinery & Metal Products

㉓ UBE MACHINERY CORPORATION, LTD.
① Japan
Tel: +81 (836) 22-0072
Fax: +81 (836) 22-6457
② Manufacture and sales of diecasting machines, injection-molding machines, extrusion presses, industrial machinery, bridge, metal dies, and molds
③ 100.0%

㉔ UBE MACHINERY INC.
① U.S.A.
Tel: +1 (734) 741-7000
Fax: +1 (734) 741-7017
② Service, sales, assembly, and maintenance for metal processing and injection-molding machinery
③ 100.0%

㉕ UBE TECHNO ENG. CO., LTD.
① Japan
Tel: +81 (836) 34-5080
Fax: +81 (836) 34-0666
② Service and maintenance of industrial machinery and equipment; manufacture and sales of automation and environment machinery
③ 100.0%

㉖ UBE STEEL CO., LTD.
① Japan
Tel: +81 (836) 35-1300
Fax: +81 (836) 35-1331
② Manufacture and sales of cast iron and steel products and rolled steel billets
③ 100.0%

㉗ UBE AUTOMOTIVE NORTH AMERICA SARNIA PLANT, INC.
① Canada
Tel: +1 (519) 542-8262
Fax: +1 (519) 542-3666
② Manufacture of aluminum automobile wheels
③ 100.0%

Energy & Environment

㉘ UBE C&A CO., LTD.
① Japan
Tel: +81 (3) 5419-6331
Fax: +81 (3) 5419-6332
② Sales of imported steaming coal
③ 75.5%

... And 46 Other Consolidated Subsidiaries

EQUITY-METHOD AFFILIATES

㉙ UBE-MARUZEN POLYETHYLENE CO., LTD.
① Japan
Tel: +81 (3) 5419-6164
Fax: +81 (3) 5419-6249
② Manufacture and sales of low-density polyethylene
③ 50.0%

㉚ UMG ABS, LTD.
① Japan
Tel: +81 (3) 5148-5170
Fax: +81 (3) 5148-5186
② Manufacture and sales of ABS resins
③ 42.7%

㉛ UBE AGRI-MATERIALS, LTD.
① Japan
Tel: +81 (836) 31-2155
Fax: +81 (836) 31-2158
② Manufacture and sales of fertilizers and compost
③ 49.0%

㉜ UBE-MITSUBISHI CEMENT CORPORATION
① Japan
Tel: +81 (3) 3518-6670
Fax: +81 (3) 3518-6685
② Sales of cement and soil-stabilizing cement
③ 50.0%

㉝ UBE MACHINERY (SHANGHAI) LTD.
① China
Tel: +86 (21) 5868-1633
Fax: +86 (21) 5868-1634
② Services, sales, assembly and maintenance for metal processing and injection molding machinery
③ 100.0%

... And 27 Other Equity-Method Affiliates

Wings of technology
Spirit of innovation
UBE

UBE INDUSTRIES, LTD.

Tokyo Head Office (IR & PR Dept.)
Seavans North Bldg., 1-2-1, Shibaura, Minato-ku, Tokyo 105-8449, Japan
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URL: http://www.ube.co.jp

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