



MEMBERSHIP

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Introducing the Ube Group's New Mid-Term Management Plan "Stage Up 2009"

The Ube Group, which is comprised of Ube Industries, Ltd. and its Group subsidiaries, today announced the details of its newly formulated mid-term management plan covering the three-year period through fiscal 2009. The mid-term management plan has been named "Stage Up 2009" and succeeds the previous "New 21• UBE Plan II" (FY2004-2006). The naming of the new mid-term management plan reflects a commitment by the Group to further raise the bar in its performance, by building upon the achievements of the "New 21• UBE Plan II". The goal of the new mid-term management plan is to build a solid platform for profitability that ensures the sustainable growth of the Group. Details of the "Stage Up 2009" mid-term management plan are described below.

1. Overview of previous Mid-term Management Plan "New 21• UBE Plan II" (FY2004-2006)

The "New 21• UBE Plan II" (FY2004-2006) sought to accomplish two major objectives: to improve the financial position of the Ube Group and to boost its profitability. Under these objectives, the Group successfully achieved the numerical targets of the "New 21• UBE Plan II" one year ahead of schedule, as a result of implementing steady improvements under the management strategies described below. The Ube Group was further aided by positive business conditions external to the Group.

In the final year (fiscal 2006) of the "New 21• UBE Plan II", the Ube Group expects to further improve upon the profit targets of the plan while improving its financial position.

A. Key management strategies of "New 21• UBE Plan II"

(1) Continuous improvement of the Company's financial position

By creating free cash flow from maximizing operating profit and reducing capital expenditures, to reduce net interest-bearing debt by ¥31.0 billion. To achieve this, capital expenditures will be limited to within 80% of depreciation expenses.

(2) Promotion of Restructure of Profitability

- a.* To expand the scale of the Company's core businesses, by concentrating investment of management resources and harvesting fruits from past investments.
- b.* In the Company's fundamental businesses, to create stable free cash flow through the promotion of continuous restructuring and cost reductions in order to strengthen the earnings base.

B. Achievement of numerical targets

		Fiscal 2003 (Results)	Fiscal 2006 (Target)	Fiscal 2006 (Forecast)
Financial indicators	Net debt/equity ratio (times)	4.4	Under 3.0	1.8
	(Reference) Equity ratio (%)	12.3	17.1	23.5
Profit indicators	Operating income ratio (%)	4.3	6.0 or more	6.6
	Return on assets (%)	3.3	5.0 or more	6.4
	Operating income (billions of yen)	22.0	33.0	43.0

2. Overview of New Mid-term Management Plan “Stage Up 2009”

The Ube Group is guided by the following group vision for the 21st century: “We pursue globalization with wings of technology and spirit of innovation.” The Group has already established its long-term direction, aiming to advance the Ube Group by focusing on differentiated chemicals businesses.

In formulating the new mid-term management plan “Stage Up 2009” (FY2007-2009) as a successor to the “New 21 · UBE Plan II”, the Ube Group established five-year targets to be achieved by fiscal 2011. These targets are outlined below. The Group will further boost its profitability and continue to improve its financial position in order to achieve these targets.

A. Targets for fiscal 2011

- Operating income (billion yen): 65.0 or more

Not accounting for changes in depreciation method : * 70.5 or more

Japanese tax law abolished residual valuation of properties and limitation of depreciation in fiscal 2007. According to this change, the residual value of properties is allowed to amortize in equally allocated amounts over 5 years. The Ube Group will enjoy this tax benefit and start newly added depreciation for the residual value of properties. Accordingly, the Ube Group forecasts it will depreciate 5.5 billion yen more on operating income in fiscal 2009 than compared to before the change in depreciation method.

- Operating income ratio, return on assets (%): 8.5 or more respectively
- Net debt/equity ratio (times): Under 1

The “Stage Up 2009” is an action plan for the next three years that will enable the Ube Group to achieve the above targets. Under this plan, the Group will make certain to execute the key management strategies described below.

B. Key management strategies of “Stage Up 2009”

- (1) Establish a platform for profitability that ensures sustainable growth

In formulating the new mid-term management plan, the Ube Group 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.

Accordingly, the Ube Group will establish consolidated management targets at their highest levels ever, to be achieved by the end of the new mid-term management plan. Furthermore, the entire Group will make a unified effort to establish a solid platform for profitability that enables sustainable growth.

(2) Sustained improvement of financial position

The Ube Group continues to engage in efforts to improve its financial position. Accompanying expectations of higher interest rates, the Group will implement rigorous management by focusing on cash flow to enhance its financial position.

At the same time, the Ube Group will place an even stronger emphasis on prioritizing capital investment based on the positioning of businesses within the business portfolio, in order to ensure necessary levels of investment for future growth and expansion. During the next three years, spending on capital expenditure by the Group will equal depreciation.

(3) Strengthening of CSR activities

The Ube Group will continue to implement management that emphasizes shareholder value by increasing its market value and raising dividends for shareholders. At the same time, the Group will further accelerate its CSR activities in order to meet its wider social responsibilities as a corporation. 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.

C. Key phrase: “Speed and Trust”

The key phrase of “Speed and Trust,” which was established for the previous “New 21 • UBE Plan II”, will continue to guide the Ube Group in executing the aforementioned key management strategies under the new plan.

The Ube Group will accelerate implementation of the PDCA (Plan, Do, Check, Act) cycle in order to further improve its profitability and financial position. In addition to consistently achieving its targets, the Group will promote CSR activities to further boost the confidence of its every stakeholder—from shareholders and capital markets to business partners, employees, and local communities.

3. Numerical Targets for New Mid-term Management Plan

A. Management targets

		Fiscal 2006 (Forecast)	Fiscal 2009 (Target)
Financial indicators	Net debt/equity ratio (times)	1.8	Under 1.3
	Equity ratio (%)	23.5	30 or more
Profit indicators	Operating income ratio (%)	6.6	7.5 or more
	Return on assets (%)	6.4	7.5 or more
	Return on equity ratio (%)	12.0	12 or more

B. Key figures for profit/loss statement and balance sheet

(Billions of yen)

	Fiscal 2006 (Forecast)	Fiscal 2009 (Target)
Net sales	650.0	700.0 or more
Operating income*1	43.0	53.0 [57.5] or more
Business income*1,*2	45.0	56.0 [60.5] or more
Net interest-bearing liabilities	306.0	Under 279.0
Equity capital	167.0	218.0 or more

*1 [] : Not accounting for changes in depreciation method

*2 Operating income + Interest and dividend income + Equity income of unconsolidated subsidiaries and affiliates

4. Business Strategies for New Mid-term Management Plan

Under the “Stage Up 2009”, key businesses of the Ube Group belong to one of four portfolio segments. The Group has identified different business strategies that it will pursue for each portfolio segment.

A. Business portfolio

Strategic growth businesses	Polyimides, battery materials, semiconductor-related and electronic materials, gas separation membranes, recycling
Developing businesses	Aerospace materials, pharmaceuticals, specialty inorganic materials
Core platform businesses	Caprolactam chain (polyamide resins, caprolactam, industrial chemicals), synthetic rubber, cement and ready-mixed concrete, calcia and magnesia, molding machines, industrial machinery, steel products, coal, power
Rebuilding businesses	Aluminum wheels

B. Strategic growth businesses

The Ube Group will concentrate on allocating business resources to these segments, in order to rapidly boost the scale of the businesses and increase profitability.

- Polyimides

Demand for flat-panel displays and other key markets is expected to rapidly increase, driving the decision to concentrate capital expenditure in this segment, which has already been approved by management. During the execution period of the new mid-term management plan, the Ube Group will essentially double its production capacity compared with at the beginning of fiscal 2006, boosting it to 41 million m²/year.

Accordingly, the Ube Group will prioritize the deployment of human resources to the polyimide business. The Group will make an active effort to boost the size of the polyimide business by tackling various challenges ranging from the need to quickly ramp up production and satisfy the increasingly sophisticated quality requirements of customers, to making inroads into the market for thin film flexible printed circuits (FPC).

- Battery materials

In the electrolytes market, Ube electrolytes have captured a commanding share of the high-end market for lithium-ion batteries. The Ube Group will maintain its competitive advantage in this

segment while expanding the scope of the business to encompass peripheral fields.

In the separator market, Ube separators have established a position as the de facto standard in the Chinese market. The Ube Group will improve the cost competitiveness of the segment while further strengthening production capacity and expanding sales. At the same time, the Group will extend the scope of the business to target the Japanese market for hybrid car batteries.

- Semiconductor-related and electronic materials, gas separation membranes

In the field of high purity chemicals such as high purity nitric acid used for silicon wafer cleaning solutions and boron trichloride used for semiconductor etching gases, the Ube Group will strengthen production facilities to respond to increasing demand.

In the field of gas separation membranes, the Ube Group has witnessed rapid market growth for nitrogen and hydrogen separation membranes. In addition, demand for bioethanol dehydration membranes is expected to take off, driven by increasingly strict environmental regulations. Accordingly, the Group will rapidly boost production capacity and move to quickly bring production online, capitalizing on windows of opportunity.

- Fine chemicals

The Ube Group has witnessed growth in global demand for dimethyl carbonate (DMC) as a raw material for electrolytes, and 1,6-hexanediol as a raw material for polyurethane, due to their environmental qualities as products of green chemistry. Consequently, the Group will build new plants and expand production facilities for these chemicals. In the field of environmental coating materials, the Group will actively conduct R&D and adopt new technologies while pursuing M&A activity to expand the future scope of the business.

- Recycling

In the recycling business, utilizing waste in the process of production at cement kilns is generating stable profits for the cement business while contributing significantly to the Ube Group's effort to help build a recycle-based society. Looking forward, the Group will further expand its waste processing facilities in order to boost processing capacity. The Group will increase revenue from waste processing by one billion yen in each fiscal year, with the goal of achieving target revenues of 15 billion yen by fiscal 2011.

C. Developing businesses

The Ube Group will develop these business segments into strategic growth businesses by achieving target revenues and profitability at the soonest possible time.

- Aerospace materials

The Ube Group will strive to rapidly achieve commercialization of advanced materials that are anticipated to generate demand from the aerospace industry, eventually moving them to full-scale production. These materials include ultra heat-resistant polyimide foams, resins for composite materials and Tyranno Fibers.

- Pharmaceuticals

In the pharmaceuticals segment, the Ube Group currently has two commercial drugs already on the market, an antiallergic agent and antihypertensive agent, with a third antiplatelet agent currently in clinical studies. In addition, the Group has other promising candidate drugs under development. Accordingly, the Group will strengthen its milestone management and expand the pipeline of new drugs, in order to reliably develop pharmaceuticals that will anchor future profits.

- Specialty inorganic materials

The Ube Group will further develop new categories of specialty inorganic materials that are based on proprietary materials and technology, and will rapidly develop them into strategic growth business. These materials include high purity & ultra fine single crystal magnesia for PDP protective layer, high purity calcium carbonate for ceramic condenser, and Hipresica for LCD display spacers.

D. Core platform businesses

The Ube Group will secure stable profits and cash flows from businesses in this segment, by allocating the business resources needed to maintain these businesses and/or boost profitability.

- Caprolactam chain

As Japan's leading producer of ammonia and Asia's No. 1 producer of caprolactam, the Ube Group will maintain and strengthen its market presence by achieving stronger sales, building a stable supply organization and forging closer relationships with business partners in both quantitative and qualitative. The Group's three global bases for caprolactam production will each drive down costs by US\$100/t. Meanwhile, the Group will skillfully manage spreads in order to secure stable profits to enable the business to overcome market variables.

As the world's second leading producer of polyamide resins, the Ube Group will expand production capacity in the core polyamide resin segment of the caprolactam chain business, while boosting cost competitiveness. Accordingly, the Group will construct large-scale production facilities in Thailand following boosted production capacity in Europe by further 10,000 tons. In Japan, the Group will initiate scrap and build projects. The Group will also seek to boost sales in priority markets, targeting the automotive market for injection molding and the film market for extrusion. In addition, the Group will raise the percentage of caprolactam for captive use to approximately 40%.

- Synthetic rubber

In the synthetic rubber business centering on butadiene rubber, the Ube Group will seek to solidify its presence in the Asia market as the world's No. 2 producer (among manufacturers engaged in outside sales). Accordingly, the Group will establish a third global base in addition to Japan and Thailand, by bringing its joint venture plant in China online with a 50,000 ton capacity. In order to maintain stable profits and boost profits, the Group will increase the proportion of specialty rubbers and pursue a differentiation strategy. Accordingly, the Group will launch production of VCR (vinyl cis rubber) in Thailand, adding to existing production in Japan and responding to growing demand for tire applications that take advantage of the rigid properties of VCR.

- Cement and ready-mixed concrete, calcia and magnesia

Although demand for cement in Japan shows signs of bottoming out, the Ube Group has formulated its mid-term management plan based on the contingency forecast that demand in Japan will continue to dip slightly over the next three years.

In order to generate stable profits and cash flow amid these market projections, the Ube Group will continue to adjust prices and establish a solid business position. Accordingly, the entire Group including ready-mixed concrete subsidiaries and Ube Materials Industries, Ltd. will work closely together to boost cost competitiveness and make the capital expenditures needed to maintain the business and secure stable operations. The companies will also work together to continue to secure stable supplies of limestone.

- Molding machines, industrial machinery, steel products

The Ube Group will leverage the highly respected engineering capabilities of its core business subsidiary, Ube Machinery Corporation, Ltd., in the field of large-scale molding machines for the automotive industry. Accordingly, Ube Machinery will seek to strengthen and expand its global production and service infrastructure, working side-by-side with Ube Group service companies and Group subsidiaries in the US and China, while simultaneously maintaining or boosting profit levels. In the industrial machinery and steel products segments, the Group will establish a position that will generate stable profits regardless of market variables.

- Coal, power

As a shared infrastructure business for the Ube Group, this business will deliver a stable, competitive supply of energy in the form of coal and electricity to Group companies. In addition, the business will maximize profits and cash flow through outside sales.

E. Rebuilding businesses

The Ube Group will rebuild the business segment by formulating and executing fundamental strategies to improve profitability.

- Aluminum wheels

In Japan, the Ube Group will shift to higher profit wheels by boosting the production capacity for large diameter wheels. In addition, the business will strive for a 5% operating income ratio by fiscal 2009, through the implementation of a major cost reduction initiative. The Ube Group is going to develop new machines with cost competitiveness, and will prepare for further replacement of machines in the future, and/or expansion of production capacity in North America.

In North America, the business will strive to raise the proportion of sales to Japanese automakers while rigorously seeking to drive down costs. The measures will include improving yields, switching to in-house painting processes and reducing outsource costs. The Ube Group will ensure that the aluminum wheel business in North America becomes profitable by fiscal 2009.

5. Capital Expenditure and R&D Expenditure under the New Mid-term Management Plan

- Capital expenditure over three years will be set at a level equivalent to depreciation expenses. Capital expenditure for new projects and to expand production will be concentrated on strategic growth businesses.

Capital expenditure over three years: 105 billion yen (equivalent to depreciation, not accounting for changes in depreciation method)

Proportion of capital expenditure (new projects and production expansion projects) for strategic growth businesses: 60%

- 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 following fields: information electronics (optics), energy (environment), pharmaceuticals and base chemicals.

R&D expenditure over three years: 43.0 billion yen

Proportion of R&D expenditure for strategic growth businesses and developing businesses: 60%

6. Environmental Activities under the New Mid-term Management Plan

The Group will set the following reduction targets for the entire Ube Group, above and beyond the 6% reduction target (compared with fiscal 1990 levels) for greenhouse gases to be achieved by 2010 under the Kyoto Protocol.

- A. Reduction target for CO₂ emissions: 12% (compared with fiscal 1990 levels)
- B. Reduction target for emissions of greenhouse gases other than CO₂: 100,000 tons annually (CO₂ conversion)
- C. The Ube Group will strive to achieve both targets by fiscal 2009, one year ahead of fiscal 2010.

7. Shareholder Dividends policy

Ube Industries will strive to improve its financial position and boost equity capital to facilitate future capital expenditure. The company will also steadily increase shareholder dividends as the company's business results improve, aiming for a dividend payout ratio of 20-25%.