UBE INDUSTRIES,LTD.

Annual Report 2006

Year ended March 31, 2006

Management Plan Progress Report: Targets Achieved Ahead of Schedule

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

(FY 2004 - FY 2006)

	Year ending March 31, 2007 (Targets)	Year ended March 31, 2006 (Actual)
Operating margin	**6.0% or higher**	7.1%
Return on assets (ROA[1])	**5.0% or higher**	6.4%
Net debt[2] / equity ratio	**Under 3.0 times**	2.1 times
Operating income	**¥33.0 billion**	¥42.1 billion

Speed and Trust

Strategies | **Strengthening and expanding earnings** | **Continuous improvement of financial position**

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

A Long Tradition of Innovation and Growth

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. 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.

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.

Fiscal years are years ended March 31 of the following calendar year: for example, fiscal 2005 in the text is the year ended March 31, 2006.

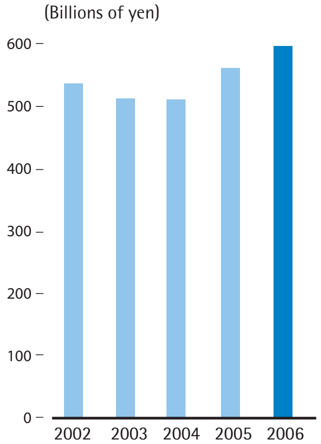
Consolidated Financial Highlights

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2005 and 2004

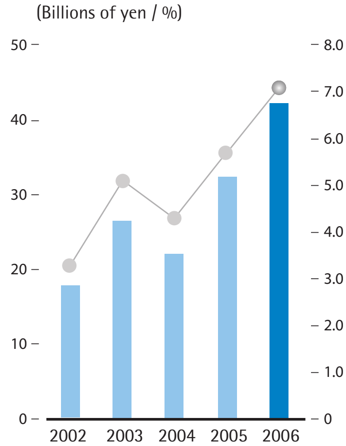
	Millions of yen			% change	Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**/2005	**2006**
For the year:					
Net sales	**¥595,391**	¥562,708	¥511,373	5.8	**$5,088,812**
Operating income	**42,169**	32,312	22,017	30.5	**360,419**
Income (loss) before income taxes and minority interest	**26,634**	10,785	(9,463)	147.0	**227,641**
Net income (loss)	**16,006**	9,223	(13,635)	73.5	**136,803**
Capital expenditure	**24,734**	25,208	33,375	(1.9)	**211,402**
Depreciation and amortization	**30,807**	30,905	31,457	(0.3)	**263,308**
Research and development costs	**12,488**	11,496	12,048	8.6	**106,735**
At year-end:					
Total assets	**700,437**	706,686	699,498	(0.9)	**5,986,641**
Stockholders' equity	**149,763**	108,383	85,756	38.2	**1,280,026**
Interest-bearing debt	**341,946**	397,955	409,751	(14.1)	**2,922,615**
Net debt (Note 2)	**321,869**	364,539	381,232	(11.7)	**2,751,017**
Cash and cash equivalents	**20,077**	33,416	28,519	(39.9)	**171,598**
	Yen				U.S. dollars
Per share data:					
Net income (loss), primary (Note 3)	**¥ 16.83**	¥ 10.07	¥ (16.07)	67.1	**$ 0.14**
Cash dividends applicable to the period	**3.00**	2.00	—	50.0	**0.03**
Stockholders' equity	**148.71**	115.30	98.77	29.0	**1.27**
Ratios:					
Operating margin (%)	**7.1**	5.7	4.3		
ROA (%) (Note 4)	**6.4**	4.9	3.3		
ROE (%)	**12.4**	9.5	—		
Net debt/equity ratio (times)	**2.1**	3.4	4.4		
Equity ratio (%)	**21.4**	15.3	12.3		
Number of employees at the end of the year	**10,673**	11,074	11,397	(3.6)	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117=US$1, the approximate rate of exchange on March 31, 2006.
2. Net debt = Interest-bearing debt - Cash and cash equivalents
3. 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.
4. ROA = (Operating income + Interest and dividend income + Equity in profit of unconsolidated subsidiaries and affiliated companies) / Total assets

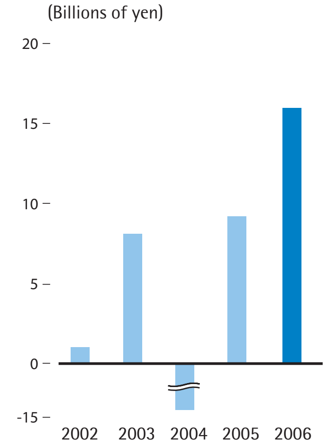
Net Sales
(Billions of yen)



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



Net Income (Loss)
(Billions of yen)



Targets Achieved Ahead of Schedule

HIROAKI TAMURA President and CEO

Fiscal 2005, the year ended March 31, 2006, was the second year of our medium-term management plan, New 21•UBE Plan II. Aiming to quickly achieve the plan's targets, we vigorously implemented measures to improve our financial structure and strengthen and expand earnings. As a result, we reached the plan's final-year targets one year ahead of schedule.

The UBE Group will continue working to earn the trust of its stakeholders by working toward both improvement of its financial structure and expansion and growth of its businesses.

New 21•UBE Plan II (FY2004 - FY2006) Strategies:

Strengthening and Expanding Earnings

- Achieve an operating margin above 6.0 percent and return on assets (ROA*) above 5.0 percent by fiscal 2006.

* ROA = (Operating income + Interest and dividend income + Equity in profit of unconsolidated subsidiaries and affiliated companies) / Total assets

Continuous Improvement of Financial Position

- Expand cash flow provided by operating activities.
- Reduce cash used in investing activities in ways such as keeping capital expenditures within 80 percent of depreciation and amortization (total for 3-year period).
- Reduce interest-bearing debt to ¥350.0 billion or less by fiscal 2006, increase stockholders' equity to ¥120.0 billion or more, and reduce the net debt/equity ratio** to under 3.0 times by expanding free cash flow.

** Net debt/equity ratio = Net debt (Interest-bearing debt - Cash and cash equivalents) / Stockholders' equity

Fiscal 2005 Results: Sales Growth and Sharply Higher Earnings

During fiscal 2005, although the continued steep rise in raw material and fuel prices worldwide had a considerable impact, the global economy remained solid, led by the United States and Asia. The Japanese economy also maintained a steady rebound that was driven by private-sector demand resulting from increased capital investment and consumer spending.

In these conditions, the UBE Group continued working to increase earnings by further improving its financial position and expanding its operations by concentrating management resources in core businesses.

As a result, consolidated net sales increased 5.8 percent year-on-year, or ¥32,683 million, to ¥595,391 million. With the exception of a decrease in sales in the Machinery & Metal Products segment due to the liquidation of our aluminum wheel manufacturing subsidiary in the United States and the transfer of the ship repair business, sales increased in every segment.

Operating income increased 30.5 percent year-on-year, or ¥9,857 million, to ¥42,169 million, and the operating margin improved 1.4 percentage points to 7.1 percent. Net income increased 73.5 percent, or ¥6,783 million, to ¥16,006 million.

Final-Year Targets of New 21•UBE Plan II Achieved a Year Ahead of Schedule

In fiscal 2005, the second year of New 21•UBE Plan II, the entire company worked with strong determination to move the plan forward as much as possible by speeding up the objectives I inherited from our former Chairman Kazumasa Tsunemi: improving our financial position, expanding our businesses and strengthening earnings. As a result we achieved the final-year targets one year ahead of schedule.

- **We expanded our business scale by making concentrated investments of management resources in core businesses and bringing past investments to fruition.**

In the **specialty products** business, UBE promoted expansion of production facilities and new market development to further raise earnings in an environment of recovering demand in the digital market.

In the **polyimide** business, we are further reinforcing our business foundation toward three objectives: 1) to maintain our number-one share in the market for tape automated bonding (TAB), which is used for mounting semiconductors and electronic components and circuits, and where UBE's polyimide film has set

NEW 21•UBE PLAN II TARGETS

- Operating margin of 6.0% or higher

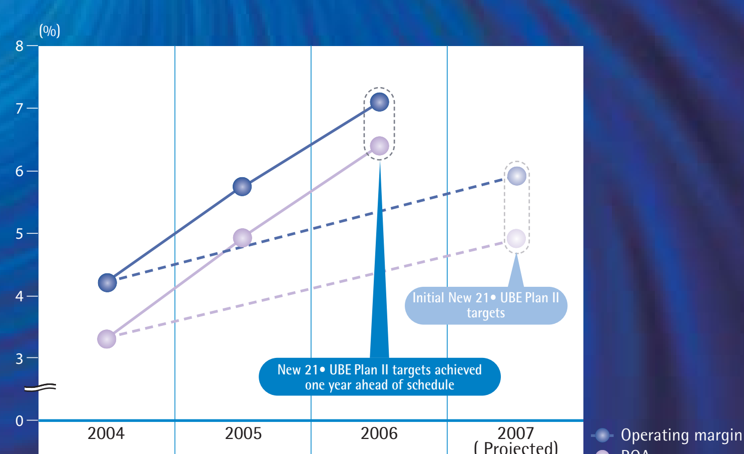
  FY 2005 Result: 7.1%

- ROA* of 5.0% or higher

  *ROA = (Operating income + Interest and dividend income + Equity in profit of unconsolidated subsidiaries and affiliated companies) / Total assets

  FY 2005 Result: 6.4%

Operating Margin & ROA



the industry standard; 2) to gain the top share of the chip-on-film (COF) market; and 3) to make a full-fledged entry into the flexible printed circuit (FPC) field.

Specifically, in response to rapidly growing demand for use in flat-panel displays, including LCD and plasma televisions, we have already begun construction of our ninth production facility for polyimide film. This facility, due to start up in October 2007, follows the eighth production facility for polyimide film, which is scheduled to come on line in September 2006. These two expansions together will increase annual production capacity by approximately 50 percent. In parallel, we are also expanding production capacity for the monomer raw material used in polyimide film. UBE's polyimide film product has a commanding market share for TAB applications, and we are also preparing our infrastructure for active development of COF and FPC applications, where advances are being made toward higher resolution and thinner films.

In addition, we established the Aerospace Materials Development Office in April 2005 to accelerate development of applications and markets for materials for the aerospace field, including polyimide foam and high temperature heat-resistant polyimide. We believe this new business has good future potential.

In the **battery materials** business, we are further enhancing the functions of specialty electrolytes. Batteries for cellular phones, which have increasingly diverse functions, are driving the main lithium-ion square battery market, where UBE further raised its dominant share. On the other hand, we are using our cost advantage to expand sales in the market for separators for lithium-ion batteries, primarily in China. In the domestic market, we are focusing on the market for medium-sized and large batteries, and are developing separators for high-capacity batteries in response to growing needs arising from the increasing functionality of cellular phones. In addition, in 2006 we successfully developed a new, non-lithium-ion energy storage source that enables rapid charging and discharging with high voltage and large capacity. This product is promising for use as a power source in the electric and hybrid automobiles of the future. UBE plans to conduct aggressive business development for battery peripheral materials.

In October 2005, UBE Group company Meiwa Plastic Industries, Ltd., which is expanding its production facilities for photoresist materials for LCDs, became a wholly owned subsidiary of UBE Industries. Faster decision making will expedite this company's efforts to develop business and meet expanding demand in the field of electronic materials.

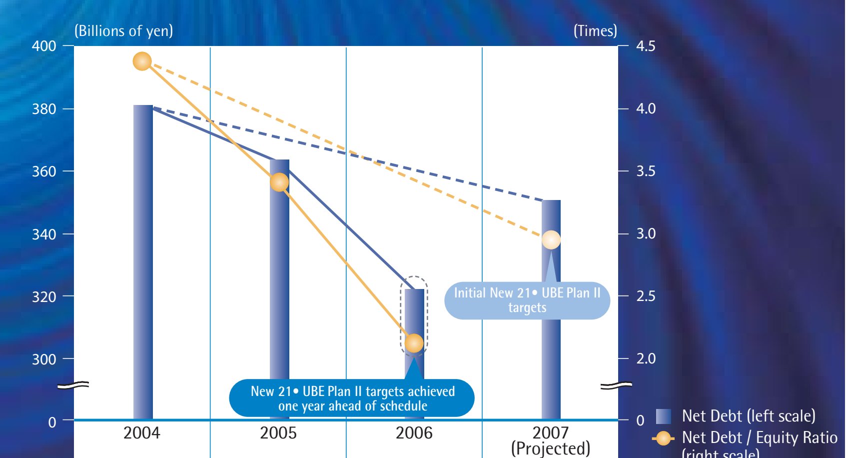
In the **polyamide resins** business, as part of our differentiation strategy in the global market, we moved to enhance our supply and technical service network in Asia and Europe with the

NEW 21•UBE PLAN II TARGETS

- Net debt* of ¥350 billion
  FY 2005 Result: ¥321 billion
- Net debt/equity ratio below 3.0 times
  *Net debt = Interest-bearing debt - Cash and cash equivalents

  FY 2005 Result: 2.1 times

Net Debt and Net Debt / Equity Ratio



establishment of a technical center in Thailand in October 2005 and an R&D center in Spain in May 2006. These facilities will provide technical services such as material evaluation and defect analysis for polyamide products according to user requests. With these measures, we further strengthened our global strategy for polyamide products with a tripolar structure of bases in Japan, Europe and Asia, and will be able to take advantage of our strengths in polyamide 6 resin for the extrusion market and the injection molding market, centered on automobiles.

- **For our fundamental businesses, we are implementing ongoing restructuring and cost cutting measures and strengthening their earnings base so that they can generate stable free cash flow.**

Caprolactam shipments were firm despite the considerable impact of rising prices for benzene, a raw material, as a favorable supply and demand balance allowed us to pass on costs. Using our tripolar structure with bases in Japan, Europe and Asia, we plan to improve manufacturing efficiency while raising the competitiveness of each factory to the same level as our Thai factory, which has world-class cost competitiveness.

In the **synthetic rubber** business, robust demand continued, mainly for automobile tires. An expansion of polybutadiene production facilities in Thailand to promote de-bottlenecking was completed in February 2006, which increased production capacity by 16,000 tons.

In the **cement and resource recycling** business, increased demand from the private sector and for disaster recovery resulted in the first increase in domestic demand in six years. However, rising prices of coal and other fuels used in cement manufacturing had a substantial impact. Given these conditions, UBE worked to further expand its use of waste and adjust cement prices, and was able to maintain profits near the level of the previous fiscal year. During the period, UBE decided to begin manufacturing and sales of ready-mixed concrete in China, which will be the first overseas business that UBE has undertaken independently in the cement segment. We established a wholly owned subsidiary, Nantong UBE Concrete Co., Ltd., which started construction of a factory in October 2005. Sales are set to begin in August 2006.

In the **building materials** business, in April 2005 UBE began nationwide sales of *SL Sheet Construction Method*, which uses self-leveling (SL) materials. It has met with strong customer approval as an environmentally friendly method that shortens construction time and does not generate dust and noise. Use of this method in construction projects is steadily increasing.

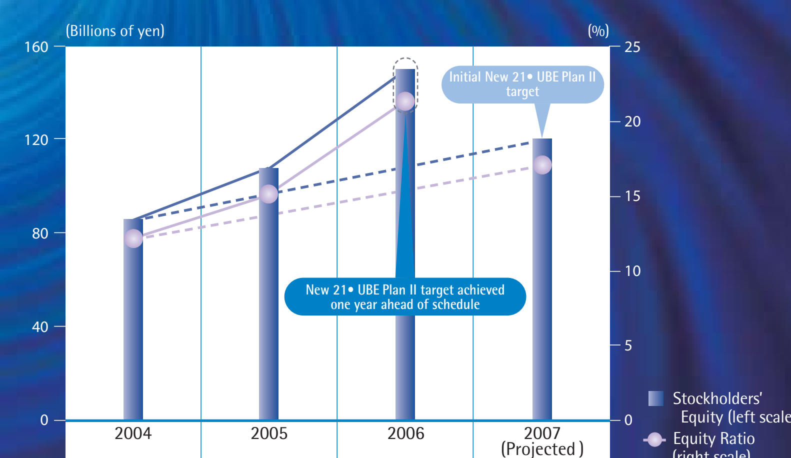
In the **machinery** business, sales of molding machines were solid, reflecting strong demand from the automobile industry, and UBE continued to rebuild its industrial machinery operations. By

NEW 21•UBE PLAN II TARGET

- Stockholders' equity of ¥120 billion or higher

FY 2005 Result: ¥149 billion

Stockholders' Equity and Equity Ratio



restructuring operations and reinforcing overseas operating bases, we intend to improve the ability of this business to generate steady profits. In April 2005, UBE sold Shin Kasado Dockyard Co., Ltd., which operated in the ship repair and renovation business, to Imabari Shipbuilding Group. In August 2005, Ube Machinery Corporation, Ltd., together with Niigata Machine Techno Co., Ltd., launched the world's largest all-electric injection molding machine, enhancing its ability to meet needs for higher added value, such as high cycle and thinner walls in large products made by the automobile and other industries.

• We made steady progress in nurturing businesses and revitalizing existing operations.

The **pharmaceutical** business, though still small at present, has good potential to contribute strongly to profits in the future. First, we will work to improve R&D efficiency with the goal of discovering at least two development candidate compounds each year and moving them into the development pipeline. Our antiallergic treatment continued to sell well in the past fiscal year, and drove profit generation in this business. Our development pipeline includes an antiplatelet agent, a treatment for rheumatoid arthritis, and a treatment for chronic obstructive pulmonary disease (COPD) as product candidates. In consignment production of bulk ingredients and intermediates for pharmaceuticals, we continued to promote business restructuring, including comprehensive measures to cut costs and boost efficiency. In April 2005, UBE entered into a basic agreement with the Dutch company DSM N.V. for the use of DSM's homogeneous catalysts in chiral technology. UBE plans to actively develop the business of consignment production of new drugs that require this technology.

In the **aluminum wheel** business, which the entire company is currently working to rebuild, we focused on restructuring operations by liquidating our U.S. aluminum wheel manufacturing company in March 2005 and shifting to a bipolar structure with operations based in Japan and Canada. To strengthen North American operations, we began operating our own painting equipment, reduced costs and entered the market for alternatives to forging. In Japan, we expanded sales of large-diameter wheels, streamlined production lines and improved productivity.

• We made ongoing efforts to improve our financial position.

Dependence on debt is a structural weakness of UBE's financial position. We have taken steps to improve our financial position over the last several years, including reducing the amount of capital expenditures and selling assets. However, our net debt-to-equity ratio is still higher than that of other companies in our industries, and we need to further strengthen our financial position.

Under New 21•UBE Plan II, we have kept capital expenditures within 80 percent of depreciation and amortization, with the goal of reducing net interest-bearing debt to ¥350.0 billion from ¥381.2 billion, and lowering our net debt-to-equity ratio to under 3.0 times from 4.4 times.

While doing so, we made a public stock offering in March 2006 to secure capital for investment primarily in our core businesses, and to improve our financial position by increasing stockholders' equity.

Reflecting these measures, net interest-bearing debt as of March 31, 2006 was ¥321.8 billion, a decrease of ¥42.6 billion from a year earlier. Stockholders' equity increased ¥41.3 billion to ¥149.7 billion. As a result, the net debt-to-equity ratio improved 1.3 points to 2.1 times. We reached each of these targets for the final year of New 21•UBE Plan II a year ahead of schedule, but will continue working to further improve our financial structure.

Management Policy for Fiscal 2006: Continue to Improve Our Financial Structure and Reform Our Earnings Structure to Prepare for Further Progress in the Next Medium-Term Management Plan

Fiscal 2006, the final year of New 21•UBE Plan II, will be an important turning point for the future of the UBE Group. We will continue to implement reforms of our financial structure and earnings structure to raise our evaluation in the market. This will also be the year in which we solidify the foundation for further progress under the next medium-term management plan, which will start in fiscal 2007. Therefore, we intend to mobilize the full capabilities of the UBE Group and go all out to reach our targets.

Corporate Social Responsibility (CSR): A Corporate Group Known for Integrity and Ethical Conduct

Throughout its 108-year history, UBE has consistently followed a philosophy of "living and prospering together" with the various stakeholders involved in our business activities. Contributing to the community is part of our corporate DNA. The UBE Group, which now operates globally, has inherited this corporate DNA and aims to coexist with communities not only in Japan, but also in every country where we do business.

In all of our business areas, we strive to develop products and technologies that have a smaller environmental impact and take proactive measures for the preservation of the regional environment. Our cement and resource recycling business, for example, promotes the use of various types of waste as raw materials or fuel for cement.

Reflecting the widening interest in corporate social responsibility, we established the CSR Promotion Office in July 2005. At UBE, our CSR systems and programs have always covered the three aspects of the economy, the environment and ties with society. In these and other efforts, such as the creation of our corporate governance system and promotion of thorough compliance, we have worked to be recognized as a corporate group that acts with integrity and ethical conduct.

In corporate governance, we have energized the Board of Directors by introducing an executive officer system, reducing the number of directors, and creating internal committees responsible for director nominations, evaluation and compensation. In June 2005, we also introduced an outside director system to enhance the oversight function of the Board of Directors and raise management transparency and objectivity. We will continue to consider ways to optimize corporate governance, such as the establishment and operation of an internal control system. At the same time, we will fulfill our social responsibility by strengthening and speeding up execution functions in corporate management and further enhancing strategic decision-making and corporate governance functions.

Aiming to Increase Stockholder Value

UBE paid a dividend of ¥3.00 per share in fiscal 2005. Paying dividends is an important obligation to our stockholders. While we naturally aim to pay stable dividends that increase in relation to the Company's performance, generating earnings for stockholders over the medium to long term requires sound internal reserves for future business expansion. UBE has not completely resolved the vulnerabilities in its financial position, and we believe that further strengthening stockholders' equity will contribute to corporate stability and credibility, as well as greater corporate value. The dividends that UBE paid for fiscal 2005 were insufficient, but we intend to increase dividends by rapidly achieving business expansion and stronger earnings, two objectives set out in New 21•UBE Plan II. We will also devote maximum effort to increasing stockholder value while improving our financial position. By clearly showing the results of these efforts, we hope to further raise our evaluation in the market.

When I assumed office as president, I presented to all UBE employees three principles that are essential for doing their jobs: Information disclosure and sharing issues with associates; fulfillment of roles with a sense of personal responsibility; and honest discussion and leadership. I pledged that by practicing these principles, we would build an open, well-balanced and vibrant culture of "Meeting Commitments." This policy is now beginning to take root, and I believe it will serve as a driving force for the UBE Group in making further advances and earning the trust and understanding of our stakeholders. I would like to thank our stockholders and investors for their continuing support.

July 2006

Hiroaki Tamura

HIROAKI TAMURA
President and CEO

OVERVIEW OF UBE'S BUSINESS

Segment		Share of Net Sales	Share of Operating Income	Share of Assets	Principal Products
CHEMICALS & PLASTICS		30%	35%	31%	● Synthetic rubber ● Caprolactam chain • Caprolactam • Polyamide resins • Industrial chemicals
SPECIALTY CHEMICALS & PRODUCTS		15%	26%	15%	● Specialty products • Polyimide • Battery materials (Electrolytes and separators) • High purity chemicals • Separation membranes • Ceramics • Telecommunications devices ● Fine chemicals ● Pharmaceuticals (Active ingredients, intermediates)
CEMENT & CONSTRUCTION MATERIALS		32%	23%	32%	● Cement ● Resource recycling ● Ready-mixed concrete ● Limestone ● Calcia, magnesia ● Building materials (Self-leveling materials, plastering materials and waterproofing materials)
MACHINERY & METAL PRODUCTS		17%	9%	14%	● Machinery • Molding machines (Die-casting machines and injection molding machines) • Industrial machinery (Transportation systems, mills, crushers) • Bridges, steel structures • Steelmaking products ● Aluminum wheels
ENERGY & ENVIRONMENT		5%	6%	8%	● Coal ● Electricity

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

Basic Strategies	FY05 Achievements
Synthetic Rubber: Establish UBE as the Asian price leader with the top production capacity for butadiene rubber (BR) in Asia while expanding profits by developing business globally. **Caprolactam Chain:** Succeed amid global competition by developing stronger business capabilities that maintain our number-one position in the Asian market. We will achieve this by integrating the management of our three global production bases, strengthening and thoroughly rationalizing marketing, bolstering the polyamide business and enhancing our fine chemical product offerings.	• Segment sales increased 6.6 percent to ¥175.8 billion. Operating income increased by almost 38 percent to ¥14.9 billion, continuing the strong segment performance of recent years. • A production capacity expansion for butadiene rubber to 72,000 tons in Thailand combined with the 95,000 tons capacity in Japan brings total capacity to 167,000 tons. • Caprolactam production in Thailand increased to meet demand. Higher raw materials costs have been reflected in selling prices. • In Spain, a new R&D center opened while polyamide capacity is also being expanded. A new technical center opened in Thailand.
Specialty Products: Increase earnings by expanding production facilities and developing new markets in a timely fashion, while accelerating development of new products and businesses in response to market changes. **Fine Chemicals and Pharmaceuticals:** Acquire a competitive advantage by thoroughly reducing costs to raise efficiency and by developing technologies that differentiate UBE, and promote restructuring for high sales and earnings.	• Segment sales increased 7.5 percent to ¥89.2 billion. Operating income increased 3.3 percent to ¥10.9 billion. • A plant for polyimide film is under construction to meet demand. • UBE successfully developed a new non-lithium-ion energy storage source. • Production of polycarbonatediol (PCD) and 1,5-pentanediol (1,5-PDL) began at a plant in Spain.
Cement and Resource Recycling: Continuously adjust sales prices in the cement segment while strengthening the earnings base by further expanding conversion of waste into useable materials. **Ready-mixed Concrete:** Enhance profitability by using technological advances to increase the proportion of high-value-added ready-mixed concrete, and build presence as a ready-mixed concrete company in all areas of operation. **Calcia and Magnesia:** Improve sales and income by continuing stable operations in the limestone, calcia and magnesia businesses while expanding the fine materials business. **Building Materials:** Focus on popular new products in the areas of self-leveling and plastering materials, and generate steady earnings by launching new products in related areas.	• Segment sales increased 9.4 percent to ¥192.4 billion. Operating income increased 1.2 percent to ¥9.7 billion. • Cement demand in Japan increased for the first time in six years, leading to a 2.6 percent increase in sales. • UBE invested in a high-chlorine bypass facility and fuel production processing facilities. • Nationwide sales of *SL Sheet Construction Method* began, meeting favorable response and contributing to segment sales.
Machinery: Improve product competitiveness by restructuring operations in response to market changes and offering attractive products that meet market needs, and maximize total profits by strengthening overseas bases and synergy among UBE Group companies. **Aluminum Wheels:** Restructure business in North America with the closure of the Mason Plant and integration of operations into the Sarnia Plant, while further strengthening domestic profitability.	• Segment sales decreased 6.7 percent to ¥102.4 billion, although we recorded operating income of ¥3.7 billion compared to the operating loss of the previous year. • The industrial machinery sector returned to profitability. • UBE expanded service bases in Thailand, Germany and China to meet demand in the machinery business. • The Mason Plant in North America closed, with aluminum wheel production shifting to Canada and Japan.
As the business that supports the infrastructure for the entire UBE Group, we will ensure a competitive and stable supply of energy (coal and electricity) and build a framework for stable earnings.	• Segment sales increased 23.8 percent to ¥31.4 billion. Operating income was unchanged at ¥2.3 billion. • UBE decided to introduce wood biomass fuel at coal-fired power plants. • UBE and its development partner Ebara Corporation received various awards for the Ebara-Ube Process system, a two-stage pressure gasification system.

CHEMICALS & PLASTICS

NOBUYUKI TAKAHASHI
Senior Managing Executive Officer

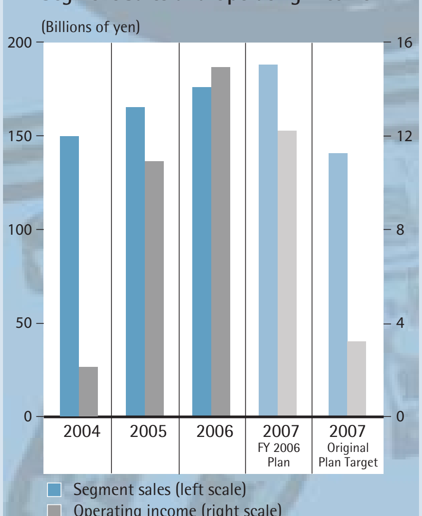
In fiscal 2005, sales and earnings grew for the second consecutive year, as we used the intensely challenging environment created by high raw material costs as an opportunity to regain a competitive footing. In order to build a stronger business framework in fiscal 2006, we will reap solid returns from our past investments while aggressively sowing the seeds for future growth by further enhancing integrated management of production, sales and technology.

Basic Strategies

Synthetic Rubber: Establish UBE as the Asian price leader with the top production capacity for butadiene rubber in Asia while expanding profits by developing business globally.

Caprolactam Chain: Succeed amid global competition by developing stronger business capabilities that maintain our number-one position in the Asian market. We will achieve this by integrating the management of our three global production bases, strengthening and thoroughly rationalizing marketing, bolstering the polyamide business and enhancing our fine chemical product offerings.

Segment Sales and Operating Income



Fiscal 2005 Results

Segment sales increased 6.6 percent, or ¥10.9 billion, year-on-year to ¥175.8 billion. Operating income increased ¥4.1 billion to ¥14.9 billion.

Demand for petrochemical products was brisk throughout Asia due to factors including continuing economic recovery in Japan and accelerated economic development in China. However, high crude oil prices increased the cost of naphtha and other raw materials. Under these conditions, shipments of butadiene rubber were favorable as demand was strong, particularly for tires. In addition, shipments of caprolactam and polyamide resins were solid. High raw material costs had a significant impact on all products, but a good balance of supply and demand helped to improve the spread between raw material costs and product prices. Shipments of industrial chemicals were generally firm.

In fiscal 2004, the first fiscal year of the three-year medium-term management plan, this segment substantially surpassed its final fiscal year income target through thorough rationalization of plants and swift marketing that reflects raw material price fluctuations in product prices. Results in fiscal 2005 were even higher than in fiscal 2004.

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. Under these conditions, UBE aims to expand the scale of its synthetic rubber business by increasing production capacity, while enhancing profitability through further rationalization. In order to meet brisk global demand for butadiene rubber, UBE subsidiary Thai Synthetic Rubbers Co., Ltd. expanded its production facilities, increasing annual production capacity by 16,000 tons to 72,000 tons. Combined with the 95,000-ton capacity of the Chiba Plant, this brings UBE's overall global capacity to 167,000 tons. UBE will continue to expand its synthetic rubber business at its two global bases in Japan and Thailand. Support for this initiative will come from having the top production capacity in Asia and differentiating its products with a shift toward greater specialization.

Caprolactam Business

The caprolactam market is forecast to grow at an annual rate of 2-3 percent worldwide, led by a projected 4-5 percent increase in demand in China and the rest of Asia. Under these conditions, Thai Caprolactam Public Co., Ltd. occupies an important position among UBE's three global bases for development of its caprolactam chain in Japan, Thailand and Spain. In fiscal 2005, the company increased its production capacity by 10,000 tons to 110,000 tons by eliminating bottlenecks.

Ube is using cost cutting and rationalization as countermeasures to high raw materials and utilities costs. In addition, UBE is developing a rapid pricing strategy to mitigate the effects of raw material cost fluctuations, and implementing strategic marketing focused on the Asian caprolactam 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. In response to this increase in demand, UBE is conducting step-by-step expansion of its polyamide 6 production capacity, and aims to complete work on a 6,000-ton expansion project in Spain during fiscal 2006. To meet customer demands immediately and achieve appropriate profitability in its core businesses, UBE opened a technical center in Thailand in October 2005 and a new R&D center in Spain in May 2005 that will be the technology base for its European polyamide business. In line with the globalization of the polyamide business, UBE will continue to enhance its position as a global supplier by expanding the sales and R&D structure in Japan, Thailand and Spain.

Industrial Chemical Business

In the industrial chemical business, UBE will strengthen the profitability of all products in the caprolactam chain. This will involve further improving productivity for ammonia, a raw material used in the manufacture of caprolactam, at its most competitive plant in Japan, increasing international competitiveness by cutting costs, and working to rapidly reflect increasing raw material costs in selling prices.

Fiscal 2006 Outlook

Fiscal 2006 marks the 50th anniversary of the beginning of the caprolactam business, the 40th anniversary of the Sakai Factory, the 40th anniversary of the caprolactam plant in Spain, and the 10th anniversary of the founding of three subsidiaries in Thailand. UBE will further integrate management of production, sales and technology with the aim of maintaining or increasing stable earnings by sowing the seeds for future growth in the new medium-term management plan beginning in fiscal 2007, which will set even higher targets.

Efforts toward this end will begin with cutting costs. UBE will also improve its production technologies while working to maximize sales and earnings through construction of closer relationships between our production bases in Japan, Thailand and Spain. In addition, applications for new, differentiated products based on traditional products will include new synthetic rubber products such as MBR that use a metallocene catalyst and nano VCR, and new polyamide products such as XPA and the three-dimensional polymer TERPALEX.

Applications for polybutadiene (Synthetic rubber)

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.)

Specialty Chemicals & Products

KOJI KIHIRA
Senior Managing Executive Officer

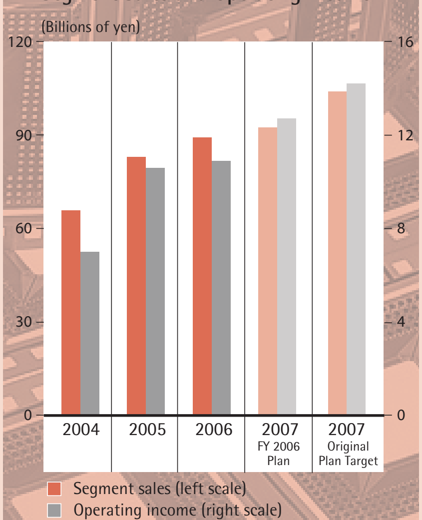
We will concentrate on strengthening and expanding our polyimide peripherals business, developing our battery materials business, and restructuring and globalizing our fine chemicals business. In addition, we will agilely adapt to changes in market needs while constructing a proposal-based business scheme in order to satisfy our customers and to increase our profits.

Basic Strategies

Specialty Products: Increase earnings by expanding production facilities and accelerating development of new markets in a timely fashion, while developing new products and businesses in response to market changes.

Fine Chemicals and Pharmaceuticals: Acquire a competitive advantage by thoroughly reducing costs to raise efficiency and by developing technologies that differentiate UBE, and promote restructuring for high sales and earnings.

Segment Sales and Operating Income



Fiscal 2005 Results

Segment sales increased 7.5 percent, or ¥6.2 billion, year-on-year to ¥89.2 billion. Operating income increased 3.3 percent, or ¥0.3 billion, year-on-year to ¥10.9 billion.

Demand in the information technology and digital markets rebounded from an adjustment phase that started in summer 2004. This contributed to favorable shipments of polyimide film, mainly for liquid crystal displays (LCDs) and plasma displays; electrolytes and separators for lithium-ion batteries; and high-purity chemicals for semiconductors. Shipments of bulk ingredients and intermediates for pharmaceuticals were firm, leading to strong overall shipments of fine chemicals.

Polyimide Business

UBE polyimide offers unique features, including good dimensional stability and high elasticity, and a smooth surface. UBE holds a dominant market share for tape-automated bonding (TAB) used in LCD and plasma televisions, and demand remains brisk. To meet this demand, construction started in April 2006 on the ninth polyimide production facility, with the eighth facility scheduled to begin operation in September 2006. This will increase production capacity by approximately 50 percent by October 2007.

Demand for dual-layer copper-clad laminates (the UPISEL family of non-adhesive type products) is growing substantially. To deal with this growth, UBE constructed production facilities at Ube-Nitto Kasei Co., Ltd. In 2004, UBE granted a technology license for these products to Matsushita Electric Works, Ltd., which began production in fiscal 2005, further accelerating the growth of UPISEL products.

Battery Materials Business

The core battery materials business is developing products in the areas of electrolytes, separators, materials for storage devices and battery peripherals. In fiscal 2005, UBE successfully developed a new non-lithium-ion energy storage source with characteristics superior to conventional products.

We aim to expand business by 1) strengthening our business strategy for electrolytes to maintain our leading position; 2) enhancing our production infrastructure and the development of new electrolytes; and 3) in the separator business, working to make our products the industry standard in the Chinese market, increase orders from high-end users in Japan and broaden the range of product applications.

Other Specialty Products

In the high-purity chemicals business, sales were favorable for both gas and liquid chemicals, including boron trichloride and high-purity nitric acid. We will expand our business with a product lineup that includes metals for Chemical Vapor Deposition (CVD).

In the ceramics business, our silicon nitride powder offers high quality and stable characteristics, and is highly regarded in many industries. We will use its features to develop new application fields, and expect further growth in demand.

In the membranes business, we are working to expand safety applications such as explosion-proofing for oil, coal and shipping, and environmental applications such as concentration and recovery of CO_2 and organic solvents.

In the telecommunications devices business, we are promoting dielectric ceramics in markets suited to the characteristics of our materials, with a focus on filters for base stations, a strong growth area.

Pharmaceuticals Business

In the consignment pharmaceutical production business, UBE regained profitability as measures to cut production costs, increase the plant operation rate and reduce fixed expenses, showed results. We will target the creation of new agents for pharmaceuticals and aggressively develop our new agent consignment business by using the homogenous catalysts in chiral technology of the Dutch company DSM N.V., with which we concluded a technological tie-up in April 2005.

In the in-house pharmaceuticals business, shipments were steady for Calblock, an antihypertensive agent co-developed with 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 Sankyo Co., Ltd. and Eli Lilly and Company are now jointly developing. CS-747 has advanced to Phase III clinical studies in Europe and the United States.

Fine Chemicals Business

The fine chemicals business, in the final stage of its organizational reforms, is stepping up capital investment in four high-performance niche markets: caprolactam derivatives (C6 chemicals), diphenol derivatives, CO derivatives (C1 chemicals) and specialty chemicals.

In the area of caprolactam derivatives, we increased production of 1,6-hexanediol (1,6-HDL) at all production bases by eliminating bottlenecks. Demand for 1,6-HDL, used in urethane resins and acrylic resins, is growing worldwide. In January 2006, facilities for production of 1,5-pentanediol (1,5-PDL) began operating.

In the area of diphenol derivatives, production of "Heliofresh," a marine aromatic that we were the first to create synthetically from catechols, is scheduled to begin in July 2006. Enthusiastically received by major toiletries and perfume manufacturers, "Heliofresh" is expected to quickly replace aromatics derived from plant oils, which are being depleted due to advancing deforestation.

In the CO derivatives area, in July 2006 we will upgrade facilities for production of dimethyl carbonate, as demand is growing for use in electrolytes and materials for electronics, and change our production method for oxalate. We will also produce, for the first time in the world, dimethyl oxalate.

In the specialty chemicals area, in December 2005 operations began at a plant for polycarbonatediol, a raw material for high-grade urethane made from dimethyl carbonate, at Ube Chemical Europe, S.A. in Spain.

Fiscal 2006 Outlook

In the final fiscal year of New 21•UBE Plan II, we will emphasize achieving our operating income target.

In addition, UBE will take measures to achieve further growth in polyimides, battery materials, semiconductor materials and fine chemicals, and focus on products that are expected to drive future growth in these areas. We will develop new pharmaceutical compounds and improve the efficiency of consignment pharmaceutical production; strengthen and expand sales of polyimide peripheral products including polyimide foam, high-temperature heat-resistant polyimide resins to the aerospace industry, and chip-on-film (COF), which uses polyimide copper-clad laminates; and work to establish a new resonator in the telecommunications devices business.

Applications for polyimide (2 Metal COF)

Examples of products using polyimide film

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

Pharmaceutical products

Cement & Construction Materials

KAZUMA SEKIYA
Senior Managing Executive Officer

We will continue to increase profitability to generate stable earnings and cash flow, a mission of fundamental businesses. In addition, we will exploit the special properties of cement to contribute to the creation of a recycling-oriented society by using waste and byproducts as raw materials for producing cement and fuel.

Basic Strategies

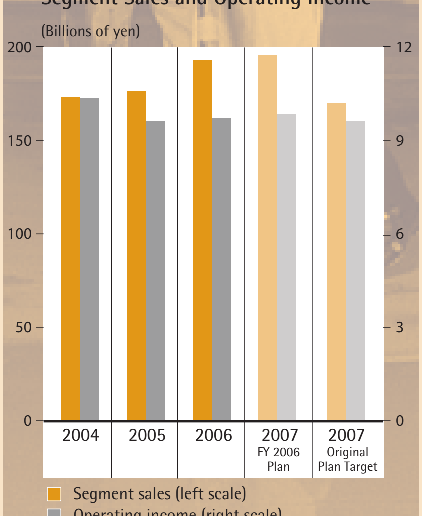
Cement and Resource Recycling: *Continuously adjust sales prices in the cement segment while strengthening the earnings base by further expanding conversion of waste into useable materials.*

Ready-mixed Concrete: *Enhance profitability by using technological advances to increase the proportion of high-value-added ready-mixed concrete, and build presence as a ready-mixed concrete company in all areas of operation.*

Calcia and Magnesia: *Improve sales and income by continuing stable operations in the limestone, calcia and magnesia businesses while expanding the fine materials business.*

Building Materials: *Focus on popular new products in the areas of self-leveling and plastering materials, and generate steady earnings by launching new products in related areas.*

Segment Sales and Operating Income



Fiscal 2005 Results

Segment sales increased 9.4 percent, or ¥16.6 billion, year-on-year to ¥192.4 billion, due in part to billings added from the resource recycling business, included in the segment as of fiscal 2005. Operating income increased 1.2 percent, or ¥0.1 billion, year-on-year to ¥9.7 billion.

Cement shipments increased, as higher demand in the private sector and for disaster recovery projects offset the significant impact of high costs of energy used in production. Calcia and magnesia sales were strong on firm performance by users in the steel and electric power industries. Shipments of limestone were solid.

In the resource recycling business, UBE is contributing to decreased costs and a recycling-oriented society by maximizing usage of waste as raw materials and fuel. In the building materials business, shipments of self-leveling materials for flooring and other products were generally firm.

Cement and Resource Recycling Business

Demand for cement in Japan, which had been in decline, increased for the first time in six years due to growth in private-sector demand and special demand for use in construction related to recovery from and preparedness for natural disasters. Sales increased 2.6 percent year-on-year. However, overall demand is expected to decrease moderately as public spending remains weak. Conditions in the cement industry remain challenging due to the high cost of coal, heavy oil and other fuels.

UBE increased cost performance, with resource recycling as a pillar of its efforts to reduce the cost of cement. We invested aggressively in a high-chlorine bypass facility at the Kanda Cement Factory and fuel product processing facilities, and increased the volume of wastes handled including soil from construction, ash from incinerated urban trash and plastics.

Under New 21•UBE Plan II, we planned to expand the volume of waste we handle and increase revenues to ¥8.9 billion in fiscal 2006 from ¥5.9 billion in fiscal 2003, but we achieved this goal one year ahead of schedule in fiscal 2005. We have set new targets for revenues of ¥10.1 billion in fiscal 2006 and ¥15.0 billion by fiscal 2010.

Ready-mixed Concrete Business

In Japan, we continued to take measures to accurately adjust product prices, and conducted activities throughout the UBE Group to enhance technological capabilities and management efficiency. We are also consolidating regional operations and plants while implementing information systems to improve efficiency. We also decided to enter the ready-mixed concrete production and sales business in China and established the wholly owned subsidiary Nantong UBE Concrete Co., Ltd. as our first independent overseas concrete business in June 2005 in Nantong City, Jiangsu, China. Construction of the factory began in October 2005, with the start of business scheduled for August 2006.

Calcia and Magnesia Business

UBE's Isa Mine produces limestone for cement and for sale as a final product. Ube Material Industries, Ltd., a Group company, manages the calcia business of quicklime and slaked lime, which use this limestone as a raw material. As the leading manufacturer of lime-related products and the only producer of magnesia clinkers (refractories) in Japan, Ube Material Industries is a strong presence within the Group, operating efficiently in areas ranging from limestone to quicklime and magnesia.

In fiscal 2005, UBE established a water-washing facility at the Chiba Limestone Center, its base for limestone supply, and worked to improve the quality of limestone for sale as a final product. Main customers are in the steel and electric power industries, giving this business one of the more stable cash flows within the cement and construction materials segment.

In the future, we will use our technological capabilities to secure profitability by further expanding into areas including fine calcia and fine magnesia, medical materials and the electronics industry.

Building Materials

In the building materials business, UBE develops 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.

In April 2005, UBE began nationwide sales of *SL Sheet Construction Method*, a self-leveling product for surface preparation that has met with favorable response. Environmentally sound, the *SL Sheet Construction Method* creates no dust or noise, and is also popular as it shortens construction time. Sales have steadily contributed to growth in the construction sector, where *SL Sheet Construction Method* now accounts for 60 percent of sales. With increasing demand for building renovation, it is also contributing to overall self-leveling product sales growth.

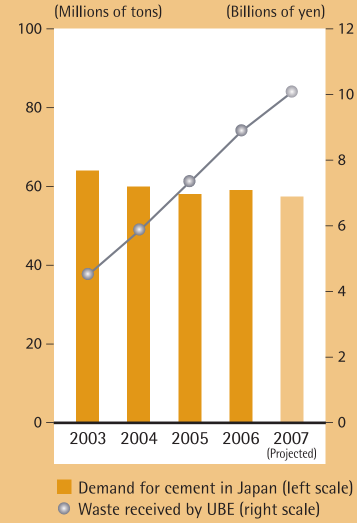
Fiscal 2006 Outlook

In fiscal 2006, assuming a decrease in demand for cement, UBE will generate cash flow through effective use of management resources and make stable contributions from core businesses a cornerstone of operations.

In the cement and resource recycling business, UBE will work to accurately adjust prices and add greater value to products by promoting technological developments in resource recycling. In other words, UBE will continue to increase the proportion of difficult-to-process, high-income-fee wastes that it handles, and to increase the volume of fuel-related waste it handles as a countermeasure against fuel costs, while continuing to supply high-quality cement. Toward this end, UBE will continue to conduct aggressive capital investment in areas including fuel-related waste processing facilities at the Ube Cement Factory, while pursuing cost-performance improvements as a central business task.

In addition, efforts to promote new product development and improve existing products will concentrate on personnel training, the foundation of management, with measures including efforts to acquire cutting-edge technologies through joint research conducted with and dispatch of personnel to universities.

Demand for Cement in Japan and Waste Received



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

Machinery & Metal Products

KAZUHIKO OKADA
Representative Director/Vice-President and Executive Officer

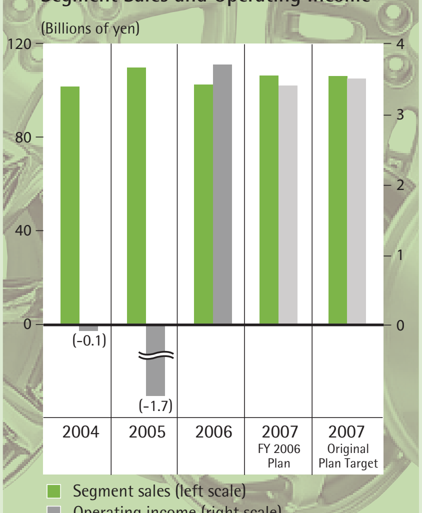
In fiscal 2005, we returned to profitability in the Machinery & Metal Products segment. In the machinery business, we increased income from molding machines and steelmaking products, moved from loss to profit in industrial machinery and reduced losses in the aluminum wheel business through restructuring. In fiscal 2006, we will achieve a positive cash flow by increasing production capacity for molding machines, for which demand is strong, and revitalizing the aluminum wheel business.

Basic Strategies

Machinery: Improve product competitiveness by restructuring operations in response to market changes and offering attractive products that meet market needs, and maximize total profits by strengthening overseas bases and synergy among UBE Group companies.

Aluminum Wheels: Restructure business in North America with the liquidation of the Mason Plant and integration of operations into the Sarnia Plant, while further strengthening domestic profitability.

Segment Sales and Operating Income



Fiscal 2005 Results

Segment sales decreased 6.7 percent, or ¥7.3 billion, year-on-year to ¥102.4 billion, due to the dissolution of UBE's aluminum wheel manufacturing company in the United States and the transfer of operations of its ship repair business in April 2005. However, excluding these factors, sales increased in actual terms, and the operating loss in the previous fiscal year improved by ¥5.4 billion to operating income of ¥3.7 billion.

In the machinery business, shipments of and orders for transportation systems and bridges declined, but shipments of die-casting machines for the automotive industry were favorable and orders increased substantially. In addition, shipments of steel billets and other products, primarily for the South Korean market, remained favorable.

In the aluminum wheel business, UBE substantially reduced losses by dissolving an aluminum wheel manufacturing company in the United States in March 2005 and promoting business restructuring through UBE's two global bases in Japan and Canada.

Machinery Business

Strong capital investment by Japanese automobile manufacturers and increased demand from China and Southeast Asia are expected to continue for the time being in the machinery market.

The molding machines sector performed particularly well. There were numerous deliveries to the automotive industry of die-casting machines and injection-molding machines in the field of large-capacity machinery over 1,000 tons, in which UBE holds a significant share. The response to these products has been positive, and the molding machines sector has a large balance of orders. There has also been an enthusiastic response around the world for our newly launched large-capacity all-electric injection molding machines and Dieprest molding machines. Moreover, in response to brisk capital investment of Japanese automobile manufacturers, UBE expanded its service bases to Thailand, Germany and China.

The industrial machinery sector, which had recorded losses over the past two consecutive years, returned to profitability through selectivity in orders, fixed cost reduction and steady progress in rebuilding operations.

Earnings from casting and steel products and billets manufactured by Ube Steel Co., Ltd. were strong due to a combination of high prices for steel, growth in sales, primarily to South Korea, and the effects of restructuring.

Aluminum Wheel Business

UBE focused on restructuring the business during fiscal 2005. In March 2005, UBE decided to dissolve UBE Automotive North America Mason Plant, Inc. (the Mason Plant) and consolidate operations at the Sarnia Plant in Canada in order to fundamentally rebuild North American operations. The Mason Plant, which had been manufacturing medium-diameter aluminum wheels since 1991, had been gradually losing competitiveness, and recorded significant losses in 2003 due in part to the effects of a labor dispute. Despite various measures, the Mason Plant was unable to recover.

After fulfilling its responsibility to supply customers, by continuing production at the Mason Plant until October 2005, UBE planned to improve sales and earnings by integrating North American operations at the Sarnia Plant in Canada. However, a continuing decline in product prices and rise of the Canadian dollar against the U.S. dollar offset cost reductions at the Sarnia Plant, and profit conditions remained challenging.

In response to these conditions, UBE is taking a variety of cost-cutting measures in North American operations beginning with reducing outsourcing expenses through introduction of in-house painting facilities. UBE is also working to expand sales in the market for high-value-added forging products. In addition, UBE inaugurated the aluminum wheel restructuring project under the direct management of President Tamura in January 2006 in Japan, and has been working to consolidate expertise throughout the UBE Group to restore competitiveness to the aluminum wheel business. In addition to thorough cost-cutting measures including a reform of production processes, UBE plans to recover competitiveness by enhancing productivity and increasing large-diameter product production capacity, and to develop new molding methods.

Fiscal 2006 Outlook

In fiscal 2006, UBE is committed to achieving positive cash flow in the Machinery & Metal Products segment. Realizing this goal will also help to lay the foundation for success of the next medium-term management plan.

In the machinery business, UBE will continue to focus on molding machines, for which demand is strong, and will increase production capacity while monitoring demand in the medium- to long-term. During fiscal 2006, UBE will introduce large-scale machining equipment at Ube Machinery Corporation, Ltd., and expand the molding machines sector by relocating Ube Machinery (Shanghai) Ltd., which needs more space, by the end of the year. In the industrial machinery sector, UBE will continue to focus on selectivity in orders and fixed cost reductions to further solidify its earnings structure.

UBE will also focus on beginning to revitalize the aluminum wheel business in fiscal 2006, and will fundamentally reexamine the business with the priority objective of clarifying its future form. In order to overcome the handicaps of its high-cost production centers in Japan and Canada, UBE will focus on high productivity and technology, work to secure cost competitiveness and achieve differentiation for its continued existence.

An aluminum die-casting machine

Large-capacity all-electric injection molding machine

UBE aluminum wheels

ENERGY & ENVIRONMENT

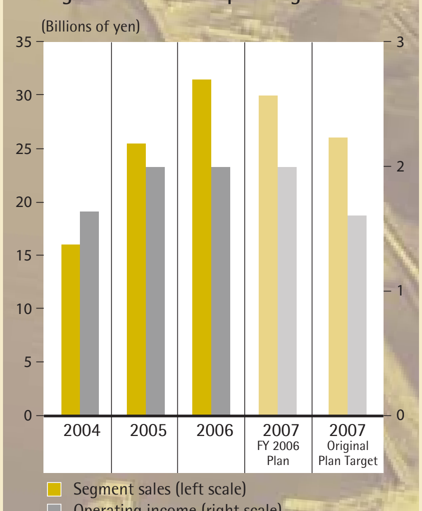
MICHIO TAKESHITA
Managing Executive Officer

As the business that supports the UBE Group infrastructure, we aim to provide a stable supply of energy in the form of coal and electricity, and minimize energy and environmental costs.

Basic Strategy

As the business that supports the infrastructure for the entire UBE Group, we will ensure a competitive and stable supply of energy (coal and electricity) and build a framework for stable earnings.

Segment Sales and Operating Income



Fiscal 2005 Results

Segment sales increased 23.8 percent, or ¥6.0 billion, year-on-year to ¥31.4 billion. Operating income was essentially unchanged from the previous fiscal year at ¥2.3 billion. Factors contributing to these results included higher coal prices.

Coal Business

Market prices for coal were approximately twice their traditional level in 2005, with a rapid increase since the second half of 2003. In addition, freight costs were highly volatile throughout the year. Securing a competitive price for coal will be a crucial task in 2006, as prices are expected to remain high. With high crude oil prices reconfirming the cost competitiveness of coal, UBE plans to further increase coal dealing through the Okinoyama Coal Center. This distribution center provides a stable supply of imported coal to users in Japan, and is one of the largest such centers in the country. In the current environment of increasing competition between coal centers, we will increase coal dealing through the Okinoyama Coal Center by cutting costs and enhancing technological services and functions.

Electricity Business

In the independent power producer (IPP) business, UBE merged Ube Power Center Co., Ltd. and began integrated management with its internal power generation operations in January 2005 in order to maximize efficiency. Cost cutting and financial measures mitigated the impact of high coal prices, which have created a challenging operating environment.

During fiscal 2005, UBE decided to introduce wood biomass fuel at our coal-fired power plants, and began construction of equipment for this purpose. Wood biomass is recognized as an alternative energy for reducing environmental impact by the Renewables Portfolio Standard (RPS), a policy for promoting the use of new energy sources by the electric industry. The new biomass-compatible equipment is scheduled to begin operating in October 2006, and is expected to contribute to enhancing the profitability of the IPP business.

Recycling Business

The Ebara-Ube Process (EUP) system, a two-stage pressure gasification system developed and commercialized with Ebara Corporation, is a breakthrough technology. It 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 the synthesis of ammonia and chemical products. In recognition of the EUP system's contribution to reducing emissions of fossil-fuel derived CO_2, UBE and Ebara Corporation received the Science and Technology Award from Japan's Ministry of Education, Culture, Sports, Science and Technology in April 2005, and the Global 100 Eco-Tech Award from the Japan Association for the 2005 World Exposition (EXPO 2005 Aichi, Japan) in June 2005. The recycling business is expected to create significant value in the environmental sector, and dealing with obstacles to business development will be a top priority.

Fiscal 2006 Outlook

In the coal business, UBE is broadening its relationships with reliable suppliers and shipping companies, and working to generate earnings and avoid risk by collecting accurate information and making timely decisions. Specific measures include emphasizing medium- to long-term volume commitments for procurement, and long-term freight contracts. UBE is also moving to reduce costs by diversifying the types of coal it handles while improving its receiving system to accommodate various grades.

In the electricity business, UBE's top priority will be setting a course for stable growth as it increases profitability by adding value to wholesale electricity operations with alternative energy through the start of mixed combustion with biomass fuel at power plants.

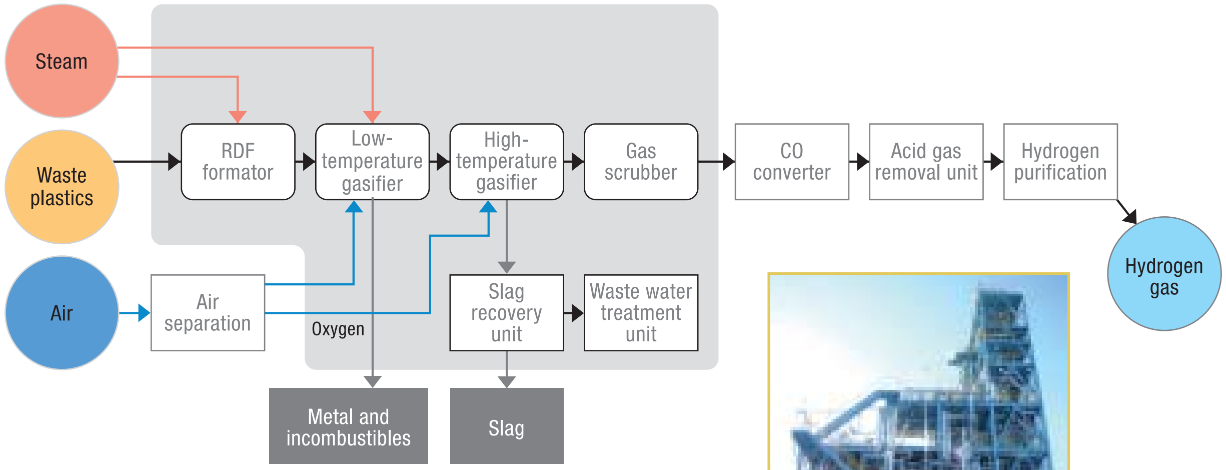
In the recycling business, the EUP business is in a difficult situation, despite the excellent potential of its technologies. Therefore, UBE will focus on retooling its EUP business to compete more effectively.

UBE's coal and electricity operations, along with the rest of the Energy & Environment segment, support the infrastructure of the entire UBE Group. Ongoing efforts to minimize risk will focus on thorough management of facilities and operations.


Okinoyama Coal Center


IPP power plant

EUP System Block Flow



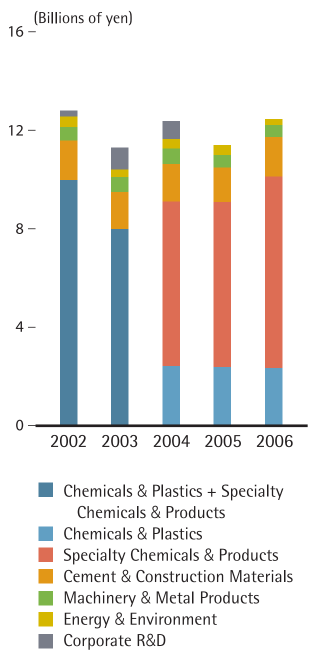
The Ebara-Ube Process (EUP) system is a state-of-the-art technology that produces synthetic gas from waste plastics and other organic wastes. Using a combination of low- and high-temperature gasifiers, the technology produces synthetic gas composed chiefly of hydrogen and carbon monoxide for use as raw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

R&D for Competitive Advantages

UBE is committed to rapidly pushing ahead with aggressive R&D driven by development of distinctive technologies and technological management that will quickly bridge the gap between seeds and fruition in businesses, and help further increase the Group's competitive edge.

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

R&D Expenditures by Segment



R&D by Business Segment

CHEMICALS & PLASTICS SEGMENT

Actions being undertaken to strengthen and spur advances in existing businesses include the development of new grades and new products using original technologies. In the area of synthetic rubber products, the Company is developing production technology for polybutadiene using a metallocene catalyst and nano VCR. In the area of polyamide products, market development of high-performance polyamide elastomer UBESTA XPA and terpolymer polyamide TERPALEX is advancing smoothly. Major research results in fiscal 2005 included development of technology for spherical porous particles for use in highly functional materials, and development of polyamide barrier materials for use in automobile fuel products. R&D expenditures for this segment totaled ¥2.3 billion.

SPECIALTY CHEMICALS & PRODUCTS SEGMENT

UBE is currently developing materials for lithium-ion secondary batteries, polyimide-based specialty materials, ultra heat-resistant inorganic materials for the aerospace field, specialty functional ceramics, metallic materials and chemicals for the semiconductor field, solid electrolytes and other fuel cell components, thermoelectric and optical materials, high frequency devices compatible with next-generation digital-communications equipment, chemical products centered on C1 chemicals, and processes for consignment production of pharmaceuticals. The Company is also undertaking research into the creation of pharmaceutical intermediaries primarily for immunology, inflammation, respiratory and cardiovascular systems. UBE's consolidated subsidiary Ube Medical Co., Ltd. is engaged in the development of medical equipment. Significant achievements in this field during fiscal 2005 included full-scale marketing of the marine-scented aromatic Heliofresh, which will help to conserve forest resources. Moreover, the Company developed a melt growth composite (MGC) light converting material for the white light emitting diode device and poly oxalic acid ester, an environmentally friendly polymer; produced a product prototype of a new functional polymer that has been very well received as an optical material; and expanded the C1 chemical business, which uses UBE's proprietary "nitrite technology." R&D expenditures for this segment totaled ¥7.8 billion.

CEMENT & CONSTRUCTION MATERIALS SEGMENT

Research and development activities pertaining to cement and construction materials are conducted primarily at the Ube-Mitsubishi Cement Research Institute Corporation, an affiliate accounted for using the equity method. Efforts to develop technology for utilizing waste in cement production continue, as does the development of high-performance cement and concrete to cope with diversifying needs. Development work is also underway on an eco-friendly soil stabilizer and stabilizing process. In construction materials, UBE is further bolstering the competitiveness of its self-leveling (SL) materials, an area in which it has the largest market share. The Company is also improving the performance and reducing the cost of plastering and waterproofing materials and developing new repair material products. Other activities include research to develop calcium- and magnesium-based materials with higher purity and finer particles, and the development of a wider range of higher performance exterior building materials. Significant achievements during fiscal 2005 included the development of a high-chlorine bypass facility, expanded reuse of ash byproduct from incinerated household waste and of sludge through the start of operations of this facility, and the development of magnesium oxide materials for use in plasma display products. R&D expenditures for this segment totaled ¥1.6 billion.

MACHINERY & METAL PRODUCTS SEGMENT

Research and development pertaining to the machinery and metal products field is conducted primarily at UBE's consolidated subsidiary Ube Machinery Corporation, Ltd. R&D activities related to metal-forming include the development of a low-pressure injection casting process, a high-vacuum casting system, and a semi-solid molding system. R&D activities related to resin molding technology include the development of a large-capacity all-electric injection molding machine and technologies for in-mold coating and foam molding. In the metal-forming products area, the Company is developing technology for large diameter, lightweight aluminum wheels. Notable achievements during fiscal 2005 included further progress in developing products in collaboration with customers using UBE's high-speed, low-pressure injection casting process and ultra-vacuum casting process, and the launch of an all-electric injection molding machine with a clamping force of 3,000 tons. R&D expenditures for this segment totaled ¥0.5 billion.

ENERGY & ENVIRONMENT SEGMENT

In addition to research pertaining to coal transportation, storage and development of coal applications, UBE is developing technologies for more effective use of fly ash in civil engineering and other fields. The Company is also developing technologies and assessing the commercial potential for mixed combustion of non-fossil and coal fuels, with the aim of reducing energy costs and lessening environmental impact by lowering CO_2 emissions. Significant achievements during fiscal 2005 included the confirmation of the utility of technology for mixed combustion of wood biomass and coal through acquisition of positive application data at the IPP plant; start of construction on mixed combustion facilities at the IPP plant; mixed combustion tests with biomass resources other than wood biomass; and development of the market for Z-Sand, an artificial sand manufactured using fly ash. R&D expenditures for this segment totaled ¥0.2 billion.

CORPORATE R&D

In addition to the R&D initiatives of each segment, UBE is also conducting corporate or companywide research and development involving electronic components, photocatalytic fiber modules and fuel cell components to create and nurture next-generation businesses. Notable accomplishments during fiscal 2005 included development of the market for Aquasolution, a water-purification device that incorporates photocatalytic fibers. Corporate R&D project expenditures totaled ¥31 million.

Intellectual Property Strategy

UBE regards intellectual property as an important resource supporting business management. All business divisions, the research and development department and the Intellectual Property Department collaborate closely to create, preserve and utilize strategic intellectual property. In its core businesses in particular, UBE concentrates on acquiring strategic intellectual property linked to research and development strategy and business strategy with the aim of building a strong network of patents. This enables UBE to maintain and secure its competitive advantages and to

Dioxin decomposition using fibrous photocatalyst

limit the entry of competitors. In addition, in line with the globalization of operations, UBE is aggressively working to acquire patents overseas.

In addition to working to maintain appropriate rights through examination of the necessity of right maintenance and licensing possibilities based on unified management of these ownership rights, UBE takes a firm stand on issues including warnings regarding infringement of the Company's patents, and is mindful of protecting its rights and its business.

At the same time, in order to respect and not infringe upon the intellectual property of other companies, UBE conducts thorough studies of other companies' rights before beginning research and development or launching new businesses, and undertakes measures to prevent intellectual property conflicts from arising.

As a company that values distinctive technologies, UBE worked to provide greater incentives by substantially improving its system for rewarding inventions in April 2005, in order to further raise the morale and motivation of researchers. Moreover, UBE is working to create a culture of respect for intellectual property through activities including holding patent training meetings for researchers and distribution of information concerning patents on the Company intranet.

Corporate Social Responsibility

We at the UBE Group believe that our core focus as a company is to fulfill our social responsibilities through our business, and that earning the trust and understanding of society is fundamental to doing so. The UBE Group strives to gain the trust of its various stakeholders, make wide-ranging contributions to society and keep people fully informed of its ongoing efforts in these areas.

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 corporate mission and primary social responsibility. To do so, gaining the trust and understanding of society is essential. UBE strives to maintain 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; environmental, 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. Specific activities 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, the Company is conducting public relations activities within the Group.

CSR Basic Strategy

- We will work to maximize our corporate value by continually improving our earnings, and by building a sound financial structure.
- We will help to protect the global environment by supplying safe, environment-friendly products, services and systems; by working to reduce levels of toxic substances and waste products; and by implementing measures to prevent global warming.
- We will work to establish compliance by strengthening corporate governance. At the same time, we will endeavor to provide good working environments and implement social contribution activities.

Strengthening Corporate Governance

UBE will continue to study new ways to improve corporate governance, and is working to strengthen and accelerate executive management decisions. The Company is also further enhancing strategic decision-making and corporate governance functions.

UBE instituted an executive officer system to separate governance and management functions, and established the system allowing executive officers to concentrate exclusively on business management, thus speeding up decision-making processes. The Company also clarified the Board of Directors' accountability to stockholders as the guardians of stockholder value, thereby ensuring that the Company's actions are geared to maximizing stockholder value in the medium to long term.

At present, the Board of Directors comprises eight members. It supervises the propriety and efficiency of executive officers in order to increase transparency, maximize stockholder value and minimize risks.

Although UBE has not switched to a "company with committees" system, it has

Compensation and Other Remuneration of Directors and Corporate Auditors

Compensation and other remuneration paid to directors and corporate auditors in fiscal 2005 were as follows.

- Compensation paid to directors and corporate auditors

Internal directors:	**¥244 million**
External directors:	**¥10 million**
Corporate auditors:	**¥55 million**

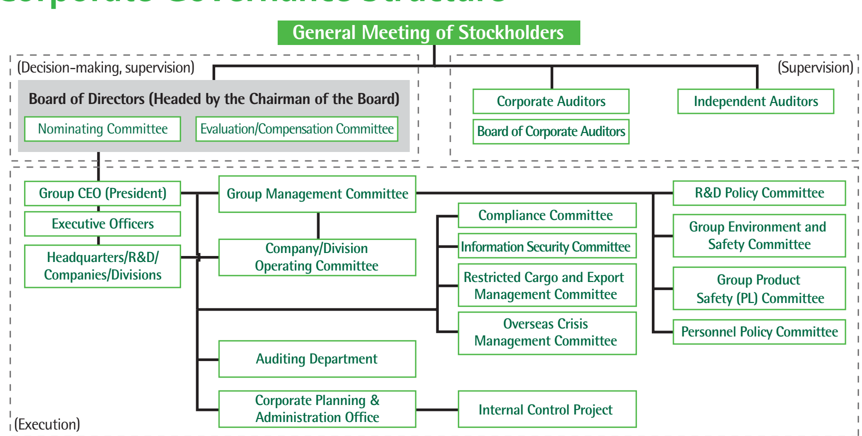
- Retirement bonuses

Internal directors:	**¥249 million**
Corporate auditors:	**¥43 million**

Compensation and other remuneration for auditing paid to Ernst & Young ShinNihon, the Company's independent auditors, in fiscal 2005 were as follows.

- Compensation based on duties performed pursuant to the Certified Public Accountants Law (1948, Law No. 103), Paragraph 2, Section 1: **¥54 million**

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.

Management Team (As of June 29, 2006)

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

Mitsutaka Motoda*

AUDITORS

Hiroshi Ikeda

Masaki Kashibe

Kazuo Yamanaka*

Hiroshi Takimoto*

EXECUTIVE OFFICERS

Group Chief Executive Officer

Hiroaki Tamura

Vice-President and Executive Officers

Yasuhisa Chiba

Kazuhiko Okada

Senior Managing Executive Officers

Koji Kihira

Nobuyuki Takahashi

Akinori Furukawa

Kazuma Sekiya

Managing Executive Officers

Kenichi Abe

Michio Takeshita

Masao Uno

Katsunori Suzuki

Charunya Phichitkul

Executive Officers

Katsumasa Harada

Yuzuru Yamamoto

Ryuichi Deguchi

Tetsuo Sueshige

Makoto Umetsu

Nobuyuki Taenaka

Takanobu Kubota

*Outside Directors or Auditors

established internal committees comprising several directors who are responsible for director nomination and compensation. To ensure higher transparency and objectivity, the Company included two outside directors in fiscal 2005. This has added a third-party perspective to management decision-making.

Internal auditing is conducted by the Auditing Dept., an independent unit that reports directly to the president. It audits the entire UBE Group, including the Company's overseas subsidiaries. The Auditing Dept. monitors the internal controls of Group companies, compliance with laws, regulations, ordinances and procedures and other areas to detect potential risks in operating activities. The head of the Auditing Dept. is also a member of the Compliance and Information Security Committees, which both address company-wide risk management. This enables the department to reinforce risk management functions in cooperation with each committee.

Two of UBE's four corporate auditors are outside auditors. Auditing activities are carried out based on the audit policy and audit plans, which are set annually. Auditors attend important meetings and audit the execution of duties by directors and executive officers based on meetings with and reports from directors and related personnel.

The corporate auditors and the Auditing Department regularly exchange information and work closely together. For example, members of the Auditing Department assist the corporate auditors during their audits. Corporate auditors also meet regularly with the Company's independent auditors to collect information on their audit plans and the status of audits in progress. In addition, they receive reports on the status of audits in progress from UBE Group corporate auditors, and hold regular meetings for audit training and exchanges of opinion to improve audit quality.

Thorough Compliance

The UBE Group has set Personal Action Guidelines, and remains committed to ensuring that all executives and employees understand compliance. Since 2003, the Company has been redoubling efforts to secure and promote thorough compliance. First, the position of compliance officer was established to provide centralized oversight of all compliance programs. A Compliance Committee, which includes a consulting attorney, was established as an advisory body to this officer. Second, the Company introduced the "Ube C-Line," a message center that permits employees to directly report any compliance violations and related issues without following the formal reporting routes.

These measures have helped to ensure honest and open communication within the Company, which is essential for thorough compliance. Accordingly, UBE will strive to cultivate an open corporate culture.

In addition, UBE established area committees including the Group Environment and Safety Committee, Group Product Safety (PL) Committee, the Information Security Committee, the Restricted Cargo and Export Management Committee and the Overseas Crisis Management Committee. Also, compliance information meetings are conducted frequently for executives and employees of all Group companies to ensure thorough awareness of compliance issues.

Environmental, Safety and Health-related Activities

Responsible Care programs — voluntary initiatives within the Japanese chemical industry to preserve health, safety and the environment — have been instituted across the UBE Group and form a strong base for environmental, safety and health-related activities. As a company with chemistry at its core, UBE recognizes its fundamental responsibility to ensure proper safety and environmental management of all chemical substances that it produces and uses, in line with Japanese legislation such as the Pollutant Release and Transfer Register (PRTR) Law. UBE formulated its own Environmental and Safety Principles in 1992. These principles establish the paramount importance of preserving health, safety and the environment throughout the life cycle of chemical substances, from development, production and distribution to use, final consumption and disposal.

UBE is aggressively acquiring ISO14001 and ISO9000 certifications for environmental control and quality assurance. The UBE Group had acquired ISO14001 certification for 42 sites and ISO9000 certification for 45 sites as of the end of 2005. In fiscal 1999, UBE introduced an environmental accounting system to get a better grasp of environmental preservation costs and evaluate their effects quantitatively. This system is helping to increase the effectiveness of UBE's environmental preservation activities.

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. The Company carries this social spirit down to the present through volunteer activities including meetings for dialogue with residents of local communities; participating in and supporting local festivals; street-cleaning; and providing medical service. Activities also include science experiment events for children. Both in Japan and overseas, UBE strives to invigorate local communities through its various activities.

In addition, UBE is focused on training the next generation of personnel through activities including the Ube Foundation, which assists young researchers with scientific research costs and subsidizes scientific institutes and facilities; the Contemporary Japanese Sculpture Exhibition, held every two years in Ube City, through which the Company helps to educate and nurture artists and contribute to the local economy; and the Watanabe Memorial Culture Association, a foundation established by UBE's founder, which supports cultural activities in Ube City.

UBE proactively supports the employment of people with disabilities. The Company recognizes that, in some cases, people with the desire and ability to contribute to society through their work are inhibited unfairly from doing so due to a lack of the necessary support or appropriate facilities. In 1991, as part of efforts to provide employment opportunities for people with special needs, UBE established a subsidiary called Libertas Ube, Ltd. Of the company's 40 employees, 26 have some form of disability, which they overcome to engage in work including production of printed materials and cleaning.

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					
	2006	2005	2004	2003	2002	2001
RESULTS OF OPERATIONS:						
Breakdown of net sales*:						
Chemicals & Plastics	**¥175,868**	¥164,935	¥149,381	¥150,504	¥231,069	¥227,109
Specialty Chemicals & Products	**89,280**	83,066	65,880	57,345	—	—
Cement & Construction Materials	**192,408**	175,797	173,738	185,640	189,045	187,836
Machinery & Metal Products	**102,468**	109,769	101,693	95,281	90,025	94,837
Energy & Environment	**31,498**	25,443	16,296	19,617	16,412	13,816
Other Businesses	**3,869**	3,698	4,385	5,148	10,997	11,409
Net sales	**595,391**	562,708	511,373	513,535	537,548	535,007
Cost of sales	**474,997**	453,250	411,209	410,982	439,971	427,151
Selling, general and administrative expenses	**78,225**	77,146	78,147	76,154	79,981	79,336
Operating income	**42,169**	32,312	22,017	26,399	17,596	28,520
Income (loss) before income taxes and minority interest	**26,634**	10,785	(9,463)	18,834	5,412	13,618
Net income (loss)	**16,006**	9,223	(13,635)	8,120	1,002	7,911
FINANCIAL POSITION:						
Assets:						
Total current assets	**268,559**	275,421	257,220	275,073	294,159	311,412
Total property, plant and equipment, net	**357,519**	360,787	377,106	398,783	422,271	352,338
Total investments and other assets	**74,359**	70,478	65,172	72,034	103,783	117,125
Total assets	**700,437**	706,686	699,498	745,890	820,213	780,875
Liabilities and stockholders' equity:						
Total current liabilities	**291,293**	320,446	337,954	359,907	388,253	362,890
Total long-term liabilities	**240,781**	260,161	258,594	273,340	314,681	304,707
Minority interest	**18,600**	17,696	17,194	16,482	20,332	18,933
Total stockholders' equity	**149,763**	108,383	85,756	96,161	96,947	94,345
GENERAL:						
Per share data (yen):						
Net income (loss), primary**	**16.83**	10.07	(16.07)	9.61	1.18	9.48
Cash dividends applicable to the period	**3.00**	2.00	—	3.00	—	3.00
Stockholders' equity	**148.71**	115.30	98.77	114.55	115.78	112.67
Other data:						
Operating margin (%)	**7.1**	5.7	4.3	5.1	3.3	5.3
Return on total assets*** (%)	**6.4**	4.9	3.3	3.5	2.2	3.7
Shares of common stock issued (thousand)	**1,008,993**	942,993	871,201	845,835	845,828	845,828
Number of consolidated subsidiaries	**66**	70	71	83	83	81
Number of stockholders****	**71,626**	74,020	79,223	75,080	78,199	74,973
Number of employees	**10,673**	11,074	11,397	10,829	11,983	11,834

* We divided our operations into six new segments: Chemicals & Plastics, Specialty Chemicals & Products, Cement & Construction Materials, Machinery & Metal Products, Energy & Environment, and Other Businesses.

** Effective from the year ending 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.

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

**** Indicates the number of stockholders with voting rights.

Financial Review

FINANCIAL STRATEGY

Fiscal 2005, ended March 31, 2006, was the second year of New 21•UBE Plan II, the current medium-term management plan for UBE Industries, Ltd. and its consolidated subsidiaries (the UBE Group). Under this plan, a top priority that is currently a major focus is continuous efforts to improve the financial position of the UBE Group. A primary financial metric of the plan is a net debt/equity ratio of less than 3.0 times. Net debt is calculated as interest-bearing debt net of cash and cash equivalents. The net debt/equity ratio is calculated as net debt divided by stockholders' equity.

The UBE Group will achieve this objective by expanding operating income and restraining capital expenditures to increase free cash flow, which the UBE Group will use to reduce net debt by ¥31.0 billion to ¥350.0 billion by the end of fiscal 2006. The UBE Group intends to restrain capital expenditures within 80 percent of depreciation and amortization over the three years of the management plan.

During fiscal 2005, the second fiscal year of this plan, the UBE Group reduced interest-bearing debt as of March 31, 2006 by ¥56.0 billion, or 14.1 percent, from a year earlier to ¥341.9 billion. Net debt decreased by ¥42.6 billion, or 11.7 percent, from a year earlier to ¥321.8 billion. The net debt/equity ratio improved to 2.1 times from 3.4 times a year earlier, as the UBE Group achieved the objectives of New 21•UBE Plan II a year ahead of schedule.

In the future, the UBE Group will continue working to secure earnings and improve its financial position. The following table presents the UBE Group's revised targets for fiscal 2006, ending March 31, 2007, which is the final year of New 21•UBE Plan II.

	Fiscal 2006 (Revised Targets)	Fiscal 2006 (Initial Targets)
Net debt/equity ratio (net debt/ stockholders' equity) (Times)	1.9	Less than 3.0
Operating income/net sales (%)	6.7	Over 6.0
ROA* (%)	6.1	Over 5.0

* ROA: (Operating income + interest and dividend income + equity in profit of unconsolidated subsidiaries and affiliated companies) / Total assets

SCOPE OF CONSOLIDATION

The UBE Group included 66 consolidated subsidiaries as of March 31, 2006, a decrease of 4 subsidiaries from a year earlier. Consolidated subsidiary Hokkaido Ube Co., Ltd. absorbed two companies through merger: consolidated subsidiary Shiribeshi Ube Concrete Co. Ltd. and unconsolidated subsidiary Otaru Ube Co., Ltd. In addition, consolidated subsidiary Ube America, Inc. absorbed Ube International U.S.A., Inc. through a merger. Moreover, the UBE Group completed the dissolution of consolidated subsidiary Ube Corporation U.S.A., and removed consolidated subsidiary Ube Quarrying Industry Co., Ltd. from the scope of consolidation because it ceased to be a subsidiary following the divestiture of its shares.

OPERATING PERFORMANCE

Overview of Fiscal 2005

The global economy remained firm during fiscal 2005, centered on the United States and Asia, despite the pronounced impact of the continued rise in raw material and fuel prices worldwide. The Japanese economy continued to recover steadily led by private-sector demand, supported by increases in personal consumption and capital investment.

Given these conditions, the UBE Group worked to further expand and strengthen the earnings capabilities of its businesses while enhancing its financial position in order to rapidly achieve the goals of New 21•UBE Plan II. As a result, the UBE Group achieved the numerical objectives for the final year of the plan a year ahead of schedule.

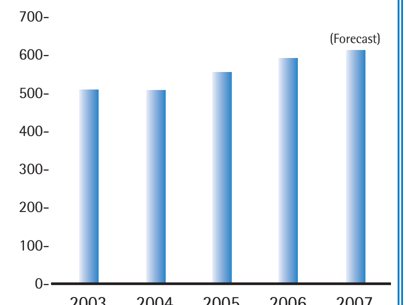
OPERATING RESULTS

Net Sales

Net sales increased 5.8 percent, or ¥32.6 billion, compared with the previous fiscal year to ¥595.3 billion. Sales in the Machinery & Metal Products segment decreased year-on-year as a result of the dissolution of an aluminum wheel manufacturing subsidiary and the transfer of the ship repair business. All of the UBE Group's other segments generated year-on-year growth in sales.

Overseas sales increased 5.7 percent, or ¥9.1 billion, compared with the previous fiscal year to ¥170.6 billion, with growth in sales in Asia, particularly China, compensating for lower sales in North America. The ratio of overseas sales to net sales was unchanged year-on-year at 28.7 percent.

Net Sales
(Billions of yen)



Cost of Sales and Selling, General and Administrative Expenses

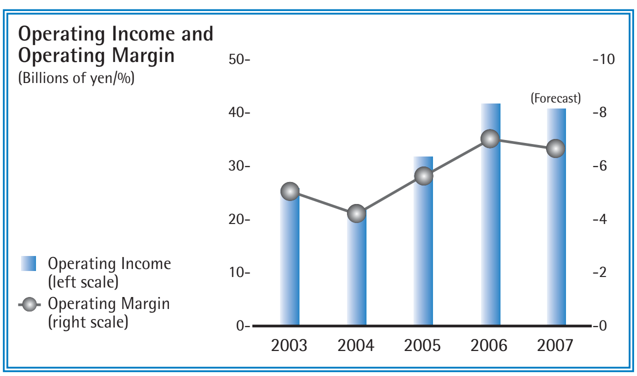
Cost of sales increased 4.8 percent, or ¥21.7 billion, year-on-year to ¥474.9 billion because of factors including higher raw material and fuel prices. The ratio of cost of sales to net sales decreased 0.8 percentage points to 79.8 percent. Selling, general and administrative (SG&A) expenses increased 1.4 percent, or ¥1.0 billion, year-on-year to ¥78.2 billion. The ratio of SG&A expenses to net sales improved 0.6 percentage points to 13.1 percent.

Research and development costs are included in SG&A expenses, and increased 8.6 percent, or ¥0.9 billion, year-on-year to ¥12.4 billion. The ratio of research and development costs to net sales increased 0.1 percentage points to 2.1 percent.

Operating Income

Operating income increased 30.5 percent, or ¥9.8 billion, compared with the previous fiscal year to ¥42.1 billion. The ratio of operating income to net sales increased 1.4 percentage points to 7.1 percent.

By segment, operating income increased in the UBE Group's five main segments, including the Chemicals & Plastics segment, resulting in substantial growth in overall operating income. Additional segment information follows below.



Other Income (Expenses)

Other expenses improved ¥5.9 billion from the previous fiscal year to ¥15.5 billion. Interest and dividend income increased 94.5 percent, or ¥0.7 billion, to ¥1.5 billion. Others, net, which is discussed in greater detail in Note 11 to the consolidated financial statements, decreased 30.6 percent, or ¥4.7 billion, year-on-year to negative ¥10.8 billion. The change was primarily the result of the absence of a one-time impairment loss due to the dissolution of Ube Automotive North America Mason Plant, Inc. (the Mason Plant) in the United States recorded in the previous fiscal year and a loss on the sale of Shin Kasado Dockyard Co., Ltd. in the fiscal year under review.

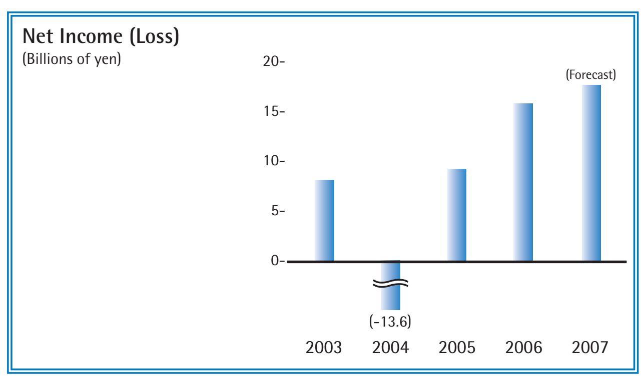
As a result, income before income taxes and minority interest totaled ¥26.6 billion, an increase of ¥15.8 billion compared with the previous fiscal year.

Net Income

Income taxes comprise corporation, enterprise and inhabitants' taxes. Income taxes net of deferrals for the year ended March 31, 2006 totaled ¥9.6 billion, an increase of ¥9.0 billion from the previous fiscal year. A primary factor in the year-on-year increase was income before income taxes for the fiscal year. Moreover, the tax effect of the Mason Plant's aggregate losses upon termination of its operations recorded in the previous fiscal year decreased in the year ended March 31, 2006. After tax rate reconciliation, the effective tax rate for the year ended March 31, 2006 was 36.3 percent.

As a result, net income increased 73.5 percent, or ¥6.7 billion, year-on-year to ¥16.0 billion. Net income per share totaled ¥16.83, compared to ¥10.07 for the previous fiscal year.

Return on average total stockholders' equity (ROE) increased 2.9 percentage points to 12.4 percent from 9.5 percent for the previous fiscal year. Return on assets (ROA), 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, improved 1.5 percentage points to 6.4 percent from 4.9 percent for the previous fiscal year.



PERFORMANCE BY SEGMENT

Chemicals & Plastics Segment

Consolidated segment sales increased 6.6 percent, or ¥10.9 billion, compared with the previous fiscal year to ¥175.8 billion. The transfer of the UBE Group's polyethylene operations to Ube Maruzen Polyethylene Co., Ltd. in October 2004 reduced sales in

(Billions of yen)

	2006	2005	Change (%)
Sales	**175.8**	164.9	6.6
Operating income	**14.9**	10.8	37.9
Assets	**208.6**	199.4	4.6
Depreciation and amortization	**8.4**	8.0	4.0
Capital expenditures	**7.2**	7.2	(0.3)

this segment, but growth in sales of the other business in this segment has compensated for the effect of the transfer. Shipments of polybutadiene (synthetic rubber), were strong due to brisk demand, primarily for tires. Shipments of caprolactam and polyamide resins were also firm. Shipments of industrial chemicals were generally solid as well.

Segment operating income increased 37.9 percent, or ¥4.1 billion, compared with the previous fiscal year to ¥14.9 billion. Profitability improved because a favorable balance between supply and demand allowed the UBE Group to increase the spread between sales prices and raw material costs, even though rising raw material prices exerted a pronounced impact during the fiscal year.

Specialty Chemicals & Products Segment

(Billions of yen)

	2006	2005	Change (%)
Sales	**89.2**	83.0	7.5
Operating income	**10.9**	10.6	3.3
Assets	**102.2**	101.8	0.5
Depreciation and amortization	**5.8**	6.0	(3.8)
Capital expenditures	**5.9**	7.3	(19.8)

Consolidated segment sales increased 7.5 percent, or ¥6.2 billion, compared with the previous fiscal year to ¥89.2 billion. The information technology (IT) and digital markets recovered solidly from an adjustment phase that began in summer 2004, which supported results starting in summer 2005. Shipments of polyimide film, primarily for liquid crystal displays (LCD) and plasma displays, and shipments of electrolytes and separators for lithium-ion batteries were strong, as were shipments of high-purity chemicals for semiconductors. Shipments of active pharmaceutical ingredients and pharmaceutical intermediates were solid, and overall shipments of fine chemicals were strong.

Segment operating income increased 3.3 percent, or ¥0.3 billion, compared with the previous fiscal year to ¥10.9 billion. Higher sales volume of fine chemicals, active pharmaceutical ingredients and pharmaceutical intermediates supported the increase.

Cement & Construction Materials Segment

(Billions of yen)

	2006	2005	Change (%)
Sales	**192.4**	175.7	9.4
Operating income	**9.7**	9.6	1.2
Assets	**217.1**	220.2	(1.4)
Depreciation and amortization	**8.6**	8.8	(2.0)
Capital expenditures	**6.0**	6.0	–

Consolidated segment sales increased 9.4 percent, or ¥16.6 billion, compared with the previous fiscal year to ¥192.4 billion. Although rising prices for coal and other fuels exerted a pronounced impact during the fiscal year, stronger private-sector domestic demand and demand related to disaster-recovery efforts resulted in an increase in shipments in the cement and ready-mixed concrete business. In the resource recycling business, the UBE Group deducted waste income fees from expenses up to the previous fiscal year, but began recording it as a revenue during fiscal 2005. Shipments of limestone and building materials were generally firm, especially self-leveling materials for flooring.

Segment operating income increased 1.2 percent, or ¥0.1 billion, compared with the previous fiscal year to ¥9.7 billion.

Machinery & Metal Products Segment

(Billions of yen)

	2006	2005	Change (%)
Sales	**102.4**	109.7	(6.7)
Operating income (loss)	**3.7**	(1.7)	–
Assets	**94.3**	90.8	3.8
Depreciation and amortization	**5.1**	5.1	0.4
Capital expenditures	**4.6**	3.3	38.9

Consolidated segment sales decreased 6.7 percent, or ¥7.3 billion, compared with the previous fiscal year to ¥102.4 billion, primarily reflecting the dissolution of the U.S. aluminum wheel manufacturing subsidiary and the transfer of the ship repair business in April 2005. In the machinery business, shipments of die-casting machines were strong, centered on the domestic automobile industry, and orders increased substantially. However, shipments and orders of transportation systems and bridges decreased. Shipments of steel billets and other products remained strong, centered on shipments to South Korea.

The UBE Group reorganized its aluminum wheel manufacturing business by liquidating a manufacturing facility in the U.S. in March 2005 and allocating production between facilities in Japan and Canada. Segment profitability improved significantly as a result, which complemented higher profitability in the machinery business. Consequently, segment operating income totaled ¥3.7 billion, compared to a segment operating loss of ¥1.7 billion for the previous fiscal year.

Energy & Environment Segment

(Billions of yen)

	2006	2005	Change (%)
Sales	**31.4**	25.4	23.8
Operating income	**2.3**	2.3	0.1
Assets	**51.4**	52.8	(2.7)
Depreciation and amortization	**2.4**	2.4	0.6
Capital expenditures	**0.6**	0.9	(34.9)

Consolidated segment sales increased 23.8 percent, or ¥6.0 billion, compared with the previous fiscal year to ¥31.4 billion. Primary factors included higher coal prices.

Segment operating income was ¥2.3 billion, essentially unchanged from previous fiscal year.

Other Businesses Segment

Consolidated segment sales totaled ¥3.8 billion, and segment operating income totaled ¥0.5 billion.

FINANCIAL POSITION

Cash Flow

Net cash provided by operating activities totaled ¥51.8 billion. Income before income taxes and minority interest provided cash of ¥26.6 billion and depreciation and amortization provided ¥30.8 billion. An increase in working capital used cash of ¥6.5 billion, which was primarily a result of the increase in net sales.

Net cash used in investing activities totaled ¥22.5 billion. Acquisition of property, plant and equipment, which includes acquisition of intangible assets, used cash of ¥27.4 billion. Proceeds from sale of property, plant and equipment provided cash of ¥3.8 billion. Proceeds from sale of investment securities provided cash of ¥0.9 billion.

As a result, free cash flow increased substantially to ¥29.3 billion from ¥3.6 billion for the previous fiscal year.

Net cash used in financing activities totaled ¥42.9 billion. In the previous fiscal year, financing activities provided net cash totaling ¥1.1 billion. The UBE Group used cash totaling ¥60.7 billion to continue reducing interest-bearing debt, which consists of short-term loans payable, long-term borrowings and long-term bonds. The issue of shares of stock provided cash totaling ¥19.6 billion. The resumption of dividend payments in fiscal 2004 resulted in cash paid for dividends totaling ¥2.1 billion during fiscal 2005.

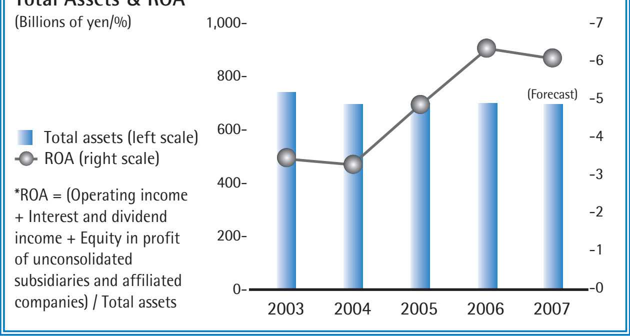
As a result of the above, cash and cash equivalents at the end of the year decreased ¥13.3 billion from a year earlier to ¥20.0 billion.

Assets, Liabilities and Stockholders' Equity

Total assets decreased 0.9 percent, or ¥6.2 billion, from a year earlier to ¥700.4 billion. Current assets decreased 2.5 percent, or ¥6.8 billion, from a year earlier to ¥268.5 billion. Main factors included a decrease of ¥13.3 billion in cash and cash equivalents as a result of repayment of bonds. The UBE Group had increased cash and cash equivalents in the previous fiscal year in preparation for repayment of bonds. Moreover, trade notes and accounts receivable increased ¥12.1 billion due to higher net sales, and inventories increased ¥1.5 billion because of the increase in raw material prices and the price of finished goods. The inventory turnover ratio improved to 5.89 times from 5.79 times for the previous fiscal year.

Total Assets & ROA*

(Billions of yen/%)



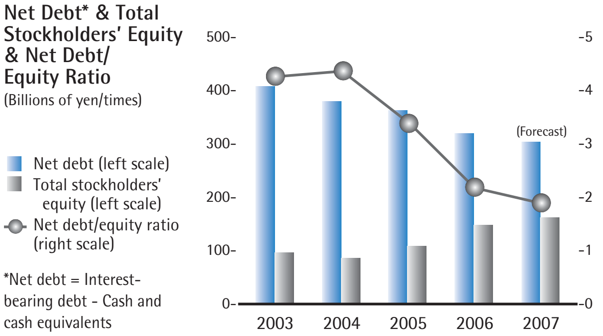
*ROA = (Operating income + Interest and dividend income + Equity in profit of unconsolidated subsidiaries and affiliated companies) / Total assets

Property, plant and equipment decreased ¥3.2 billion from a year earlier to ¥357.5 billion. Primary factors in the decrease included normal depreciation and disposal of property, plant and equipment. Investments and other assets increased ¥3.8 billion from a year earlier to ¥74.3 billion.

Total liabilities decreased 8.4 percent, or ¥48.5 billion, from a year earlier to ¥532.0 billion. Current liabilities decreased 9.1 percent, or ¥29.1 billion, to ¥291.2 billion. Short-term loans payable decreased ¥31.0 billion, and the current portion of long-term debt decreased because of the repayment of ¥19.8 billion in unsecured convertible bonds due 2005. The current ratio increased to 92.2 percent from 85.9 percent a year earlier.

Long-term liabilities decreased 7.4 percent, or ¥19.3 billion, from a year earlier to ¥240.7 billion. Long-term debt, consisting of bonds, less current portion decreased ¥17.4 billion from a year earlier due to factors including the shift of bonds pending repayment to the current portion of long-term debt under current liabilities. Interest-bearing debt, defined as the total of short-term loans payable, the current portion of long-term debt and long-term debt less current portion, decreased ¥56.0 billion from a year earlier to ¥341.9 billion.

Net Debt* & Total Stockholders' Equity & Net Debt/ Equity Ratio
(Billions of yen/times)



*Net debt = Interest-bearing debt - Cash and cash equivalents

Stockholders' equity increased 38.2 percent, or ¥41.3 billion, from a year earlier to ¥149.7 billion. Factors in the increase included the substantial rise in net income to ¥16.0 billion, an increase in common stock and capital surplus resulting from the issue of common shares, an increase in unrealized gain on holdings of other marketable securities, and an increase of ¥2.7 billion in accumulated foreign currency translation adjustments, which as of March 31, 2006 primarily represented the negative effect of exchange rates on the assets and liabilities of overseas consolidated subsidiaries. The ratio of stockholders' equity to total assets increased 6.1 percentage points from a year earlier to 21.4 percent. The net debt/equity ratio improved to 2.1 times from 3.4 times a year earlier. In addition, stockholders' equity per share increased to ¥148.71 from ¥115.30 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 UBE Group earnings results. Concurrently, the UBE Group also places priority on securing earnings for stockholders over the medium to long term by improving its financial position and maintaining the internal reserves required for future business expansion. The UBE Group takes all of these issues into consideration in determining dividends. In fiscal 2005, the UBE Group increased cash dividends per share to ¥3.00 from ¥2.00 for fiscal 2004.

FORECAST FOR FISCAL 2006

The UBE Group expects the global economy to continue to expand, centered on growth in China and elsewhere, and expects a domestic economic recovery led by private-sector demand. However, raw material and fuel prices are continuing to rise worldwide, and the outlook for exchange rates, rising interest rates and other considerations remains unclear. The UBE Group's operating environment therefore remains difficult to forecast. Given these circumstances, the UBE Group assumes an exchange rate of ¥115 to US$1.00; a cost, insurance and freight price for Australian coal of ¥8,510 per ton; a domestic naphtha price of ¥50,000/kiloliter; and an average large-volume contract price for benzene in North America and Europe of US$900/ton in projecting that net sales will increase 3.3 percent year-on-year to ¥615.0 billion, operating income will decrease 2.6 percent year-on-year to ¥41.0 billion, and net income will increase 12.5 percent year-on-year to ¥18.0 billion. The UBE Group plans to increase cash dividends per share by ¥1.00 to ¥4.00.

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 March 31, 2006. 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 cement kilns 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. 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.

13. 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.

14. 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.

15. 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.

16. Medium-Term Management Plan

In fiscal 2004, the first year of the three-year medium-term management plan New 21•UBE Plan II, the UBE Group aimed to reduce excessive debt and set itself on a growth path by prioritizing ongoing efforts to improve its financial structure and promotion of reform of its earnings structure. In addition, the Group set management targets for fiscal 2006 including a net debt/equity ratio below 3.0 times, operating margin of 6.0 percent or higher and return on assets of 5.0 percent or higher. By working hard to implement the priority policies for early achievement of the plan, the UBE Group reached its targets for fiscal 2006 ahead of schedule in fiscal 2005. As part of efforts to continue reform of its financial structure and promote further reform of its earnings structure, the UBE Group announced the following adjusted targets for fiscal 2006: net debt/equity ratio below 1.9 times, operating margin of 6.7 percent or higher and return on assets of 6.1 percent or higher.

The UBE Group will continue to work to achieve the aforesaid priority tasks and adjusted targets. However, unexpected changes in the business environment or the materialization of any of the risks covered in items 1 through 15 above and in 17 hereafter 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 meet the plan goals or adjusted targets.

17. 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.

Consolidated Balance Sheets

UBE INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 20,077**	¥ 33,416	**$ 171,598**
Time deposits (Note 7)	**546**	991	**4,667**
Securities (Note 4)	**10**	—	**85**
Receivables (Note 7):			
Trade notes and accounts	**147,823**	135,666	**1,263,445**
Others	**12,229**	16,753	**104,521**
Allowance for doubtful receivables	**(1,482)**	(1,280)	**(12,667)**
Inventories (Note 5)	**81,459**	79,901	**696,231**
Deferred tax assets (Note 14)	**5,319**	5,523	**45,462**
Other current assets	**2,578**	4,451	**22,034**
Total current assets	**268,559**	275,421	**2,295,376**
Property, plant and equipment (Notes 7 and 12)**:**			
Land	**83,150**	83,431	**710,684**
Buildings and structures	**239,827**	236,684	**2,049,803**
Machinery and equipment	**615,309**	604,565	**5,259,051**
Construction in progress	**10,239**	8,185	**87,513**
Accumulated depreciation	**(591,006)**	(572,078)	**(5,051,333)**
Total property, plant and equipment, net	**357,519**	360,787	**3,055,718**
Investments and other assets:			
Investment securities (Notes 4 and 7)	**52,487**	42,956	**448,607**
Long-term loans receivable	**2,186**	2,292	**18,684**
Long-term deferred tax assets (Note 14)	**6,154**	11,767	**52,598**
Other non-current assets (Note 12)	**18,494**	18,576	**158,068**
Allowance for doubtful receivables	**(4,962)**	(5,113)	**(42,410)**
Total investments and other assets	**74,359**	70,478	**635,547**
Total assets	**¥ 700,437**	¥ 706,686	**$ 5,986,641**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term loans payable (Notes 6 and 7)	**¥ 82,230**	¥113,297	**$ 702,821**
Current portion of long-term debt (Notes 6 and 7)	**56,181**	63,646	**480,179**
Payables:			
Trade notes and accounts	**97,070**	91,373	**829,658**
Others	**28,553**	27,984	**244,043**
Accrued bonuses	**6,849**	6,143	**58,538**
Accrued income taxes	**4,577**	3,646	**39,120**
Other current liabilities	**15,833**	14,357	**135,325**
Total current liabilities	**291,293**	320,446	**2,489,684**
Long-term liabilities:			
Long-term debt less current portion (Notes 6 and 7)	**203,535**	221,012	**1,739,615**
Accrued retirement benefits (Note 18)	**10,118**	11,280	**86,479**
Long-term deferred tax liabilities (Note 14)	**1,414**	1,410	**12,085**
Other long-term liabilities	**25,714**	26,459	**219,778**
Total long-term liabilities	**240,781**	260,161	**2,057,957**
Minority interest	**18,600**	17,696	**158,974**
Contingent liabilities (Note 8)			
Stockholders' equity (Notes 9 and 20)**:**			
Common stock, without par value:			
Authorized — 3,300,000,000 shares			
Issued — 1,008,993,923 shares at March 31, 2006 and 942,993,923 shares at March 31, 2005	**58,399**	48,565	**499,137**
Capital surplus	**28,294**	18,437	**241,829**
Revaluation surplus on assets	**365**	520	**3,119**
Retained earnings	**52,708**	38,589	**450,496**
Unrealized gain on holdings of other marketable securities	**11,588**	6,857	**99,043**
Accumulated foreign currency translation adjustments	**(1,265)**	(3,976)	**(10,812)**
	150,089	108,992	**1,282,812**
Treasury stock, at cost	**(326)**	(609)	**(2,786)**
Total stockholders' equity	**149,763**	108,383	**1,280,026**
Total liabilities and stockholders' equity	**¥700,437**	¥706,686	**$5,986,641**

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Net sales (Note 19)	**¥595,391**	¥562,708	**$5,088,812**
Cost of sales	**474,997**	453,250	**4,059,803**
Gross profit	**120,394**	109,458	**1,029,009**
Selling, general and administrative expenses (Note 10)	**78,225**	77,146	**668,590**
Operating income	**42,169**	32,312	**360,419**
Other income (expenses):			
Interest and dividend income	**1,599**	822	**13,667**
Amortization of consolidation differences	**362**	369	**3,094**
Interest expenses	**(7,822)**	(8,386)	**(66,855)**
Equity in profit of unconsolidated subsidiaries and affiliated companies	**1,135**	1,254	**9,701**
Others, net (Note 11)	**(10,809)**	(15,586)	**(92,385)**
	(15,535)	(21,527)	**(132,778)**
Income before income taxes and minority interest	**26,634**	10,785	**227,641**
Income taxes (Note 14)**:**			
Current	**7,103**	5,485	**60,709**
Deferred	**2,562**	(4,846)	**21,898**
	9,665	639	**82,607**
Minority interest	**(963)**	(923)	**(8,231)**
Net income	**¥ 16,006**	¥ 9,223	**$ 136,803**

	Yen		U.S. dollars (Note 1)
	2006	2005	**2006**
Per share:			
Net income:			
Primary	**¥ 16.83**	¥ 10.07	**$ 0.144**
Diluted	**15.93**	9.31	**0.136**
Cash dividends applicable to the period	**3.00**	2.00	**0.026**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

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

		Millions of yen				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Unrealized gain on holdings of other marketable securities	Accumulated foreign currency translation adjustments
Balance at March 31, 2004	871,201	¥43,565	¥13,411	¥29,421	¥ 5,821	¥(6,416)
Shares issued for conversion of convertible bonds	71,792	5,000	5,000	—	—	—
Gain on disposal of treasury stock	—	—	26	—	—	—
Increase in earnings due to inclusion/exclusion of consolidated subsidiaries	—	—	—	4	—	—
Increase in earnings due to changes in shareholding ratio of consolidated subsidiaries and affiliated companies by equity method	—	—	—	8	—	—
Transfer from revaluation surplus on assets	—	—	—	43	—	—
Bonuses to directors and statutory auditors	—	—	—	(37)	—	—
Decrease in earnings due to merger of consolidated subsidiaries	—	—	—	(73)	—	—
Net income for the year	—	—	—	9,223	—	—
Net change during the year	—	—	—	—	1,036	2,440
Balance at March 31, 2005	942,993	48,565	18,437	38,589	6,857	(3,976)
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 change during the year	**—**	**—**	**—**	**—**	**4,731**	**2,711**
Balance at March 31, 2006	**1,008,993**	**¥58,399**	**¥28,294**	**¥52,708**	**¥11,588**	**¥(1,265)**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Unrealized gain on holdings of other marketable securities	Accumulated foreign currency translation adjustments
Balance at March 31, 2005	$415,086	$157,581	$329,821	$58,607	$(33,983)
Shares issued by public offering	**77,684**	**77,325**	**—**	**—**	**—**
Shares issued by third-party allotment	**6,367**	**6,342**	**—**	**—**	**—**
Gain on disposal of treasury stock	**—**	**581**	**—**	**—**	**—**
Increase in earnings due to inclusion/exclusion of consolidated subsidiaries	**—**	**—**	**154**	**—**	**—**
Transfer from revaluation surplus on assets	**—**	**—**	**342**	**—**	**—**
Cash dividends at ¥2.00 per share	**—**	**—**	**(16,111)**	**—**	**—**
Bonuses to directors and statutory auditors	**—**	**—**	**(513)**	**—**	**—**
Net income for the year	**—**	**—**	**136,803**	**—**	**—**
Net change during the year	**—**	**—**	**—**	**40,436**	**23,171**
Balance at March 31, 2006	**$499,137**	**$241,829**	**$450,496**	**$99,043**	**$(10,812)**

See accompanying notes.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 26,634	¥ 10,785	$ 227,641
Depreciation and amortization	30,807	30,905	263,308
Loss on impairment of fixed assets	294	4,212	2,513
Interest and dividend income	(1,599)	(822)	(13,667)
Interest expenses	7,822	8,386	66,855
Loss (gain) on sale of property, plant and equipment, net	(127)	1,157	(1,085)
Loss on sale of investment securities, net	220	441	1,880
Increase in receivables	(10,674)	(7,126)	(91,231)
Increase in inventories	(1,283)	(6,776)	(10,966)
Increase in payables	5,399	5,461	46,145
Loss on business restructuring	3,017	5,424	25,786
Early retirement incentive	467	127	3,992
Others, net	2,933	(8,004)	25,068
Subtotal	63,910	44,170	546,239
Interest and dividends received	2,027	868	17,325
Interest payment	(8,291)	(8,205)	(70,863)
Income tax payment	(5,553)	(7,144)	(47,462)
Early retirement incentive payments to employees	(223)	(29)	(1,906)
Others, net	—	80	—
Net cash provided by operating activities	51,870	29,740	443,333
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	3,809	3,377	32,555
Acquisition of property, plant and equipment	(27,438)	(31,887)	(234,513)
Proceeds from sale of securities	—	10	—
Proceeds from sale of investment securities	936	3,065	8,000
Acquisition of investment securities	(80)	(1,099)	(684)
Net decrease in loans receivable	140	444	1,197
Others, net	91	36	778
Net cash used in investing activities	(22,542)	(26,054)	(192,667)
Cash flows from financing activities:			
Proceeds from long-term borrowings	38,401	65,698	328,214
Proceeds from long-term bonds	692	11,218	5,915
Proceeds from issuance of new shares	19,623	—	167,718
Repayments of long-term borrowings	(38,712)	(58,666)	(330,872)
Repayments of long-term bonds	(27,253)	(5,420)	(232,932)
Net decrease in short-term loans payable	(33,899)	(11,465)	(289,735)
Cash dividends paid	(2,166)	(198)	(18,513)
Others, net	381	22	3,256
Net cash provided by (used in) financing activities	(42,933)	1,189	(366,949)
Effect of exchange rate changes on cash and cash equivalents	242	(168)	2,069
Net increase (decrease) in cash and cash equivalents	(13,363)	4,707	(114,214)
Increase in cash and cash equivalents due to merger of affiliated company	24	1	205
Adjustment due to change in consolidation scope	—	189	—
Cash and cash equivalents at beginning of the year	33,416	28,519	285,607
Cash and cash equivalents at end of the year	¥ 20,077	¥ 33,416	$ 171,598

See accompanying notes.

Notes to Consolidated Financial Statements

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

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 ¥117=US$1, the approximate rate of exchange on March 31, 2006. 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. 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. 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 excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 20 years on a straight-line basis.

Investments in companies 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, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(c) Securities

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

(d) Derivatives and hedge accounting

All derivatives are stated at fair value, with changes in fair value included in net 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 receivables

The allowance for doubtful receivables 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) 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.

(i) Research and development costs

Research and development costs are charged to income when incurred.

(j) Foreign currency translation

Current and non-current monetary accounts denominated in foreign currencies are translated into yen at the current rates, 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 stockholders' equity are translated at their historical exchange rates. Foreign currency translation adjustments are included in stockholders' equity and minority interest.

(k) Accrued retirement benefits

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

Net retirement benefit obligation at transition of ¥31,332 million (US$267,795 thousand) is being amortized principally over 13 years.

Prior service cost is being amortized as incurred mainly by the declining-balance 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.

(l) 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. 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.

(m) Employees' bonus allowance

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

(n) Cash and cash equivalents

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

(o) Appropriation of retained earnings

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

(p) Directors and statutory auditors' retirement benefits

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

¥1,345 million (US$11,496 thousand) and ¥1,463 million of the retirement allowances are included in "Other long-term liabilities" on the consolidated balance sheets at March 31, 2006 and 2005, respectively.

(q) Accrual for losses on business restructuring

The 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 in the amounts of ¥2,533 million (US$21,650 thousand) and ¥3,106 million are included in "Other long-term liabilities" on the consolidated balance sheets at March 31, 2006 and 2005, respectively.

3. ACCOUNTING CHANGE

Until the year ended March 31, 2005, the revenue from the waste processing in the cement manufacturing process had been deducted from "Cost of sales."

Since the Company positioned the resource recycling business as the profit business division, the revenue from the waste processing in the cement manufacturing process has been accounted for as "Net sales" effective the year ended March 31, 2006.

The effect of this change was to increase "Net sales," "Cost of sales" and "Selling, general and administrative expenses" by ¥9,006 million (US$76,974 thousand), ¥8,549 million (US$73,068 thousand) and ¥457 million (US$3,906 thousand), respectively, for the year ended March 31, 2006 over the corresponding amounts which would have been recorded under the previous accounting method. This change, however, had no effect on "Operating income" and "Income before income taxes and minority interest."

The effect of this change on segment information is explained in Note 16.

4. SECURITIES

Securities and investment securities at March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Securities:			
Bonds and others	**¥ 10**	¥ —	**$ 85**
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	**21,967**	19,908	**187,752**
Others	**30,520**	23,048	**260,855**
	¥52,487	¥42,956	**$448,607**

Marketable securities classified as other securities as of March 31, 2006 and 2005 are as follows:

Marketable other securities

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			**2006**		
	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	**¥4,120**	**¥23,210**	**¥19,090**	¥3,556	¥14,731	¥11,175	**$35,214**	**$198,376**	**$163,162**
Debt securities	**—**	**—**	**—**	9	10	1	**—**	**—**	**—**
Others	**—**	**—**	**—**	—	—	—	**—**	**—**	**—**
Subtotal	**4,120**	**23,210**	**19,090**	3,565	14,741	11,176	**35,214**	**198,376**	**163,162**
Securities whose acquisition cost exceeds their carrying value:									
Stock	**153**	**115**	**(38)**	410	307	(103)	**1,307**	**983**	**(324)**
Debt securities	**71**	**71**	**(0)**	62	62	(0)	**607**	**607**	**(0)**
Others	**102**	**86**	**(16)**	102	72	(30)	**872**	**735**	**(137)**
Subtotal	**326**	**272**	**(54)**	574	441	(133)	**2,786**	**2,325**	**(461)**
Total	**¥4,446**	**¥23,482**	**¥19,036**	¥4,139	¥15,182	¥11,043	**$38,000**	**$200,701**	**$162,701**

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2006 and 2005 are summarized as follows:

Millions of yen						Thousands of U.S. dollars		
2006			2005			**2006**		
Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
¥246	**¥48**	**¥(1)**	¥1,364	¥380	¥(5)	**$2,103**	**$410**	**$(9)**

Other securities without market value at March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Other securities:			
Non-listed equity securities	**¥6,479**	¥7,263	**$55,376**
Others	**569**	603	**4,863**
	¥7,048	¥7,866	**$60,239**

5. INVENTORIES

Inventories at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished goods	**¥35,375**	¥34,937	**$302,350**
Work in process	**24,319**	22,136	**207,855**
Raw materials and supplies	**21,765**	22,828	**186,026**
	¥81,459	¥79,901	**$696,231**

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

Short-term loans payable represent bank loans, with average interest rates of 1.58% and 1.66% per annum at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
2.35% unsecured bonds due 2005	**¥ —**	¥ 7,000	**$ —**
2.66% unsecured bonds due 2006	**7,000**	7,000	**59,829**
1.43% unsecured bonds due 2006	**7,000**	7,000	**59,829**
1.10% unsecured bonds due 2007	**1,000**	1,000	**8,547**
0.75% unsecured bonds due 2007	**150**	150	**1,282**
0.32% unsecured bonds due 2008	**550**	770	**4,701**
1.24% unsecured bonds due 2008	**500**	700	**4,273**
0.69% unsecured bonds due 2008	**100**	100	**855**
1.59% unsecured bonds due 2010	**180**	—	**1,538**
1.36% unsecured bonds due 2010	**500**	—	**4,273**
1.25% convertible bonds due 2005, convertible at ¥418.20 per share	**—**	19,811	**—**
1.40% convertible bonds due 2008, convertible at ¥415.00 per share	**19,908**	19,908	**170,154**
Elimination of internal possession	**(10)**	(8)	**(85)**
Loans principally from banks and insurance companies:			
Secured, at 0.77% to 7.72%, maturing through 2019	**76,685**	93,992	**655,427**
Unsecured, at 0.30% to 4.53%, maturing through 2027	**146,153**	127,235	**1,249,171**
	259,716	284,658	**2,219,794**
Less current portion	**56,181**	63,646	**480,179**
	¥203,535	¥221,012	**$1,739,615**

The annual maturities of long-term debt subsequent to March 31, 2006 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	**¥ 56,181**	**$ 480,179**
2008	**49,417**	**422,367**
2009	**65,274**	**557,897**
2010	**36,457**	**311,598**
2011 and thereafter	**52,397**	**447,838**
Elimination of internal possession	**(10)**	**(85)**
	¥259,716	**$2,219,794**

7. PLEDGED ASSETS

The assets pledged as collateral for short-term and long-term borrowings, guarantees and borrowings of affiliated companies at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Assets pledged as collateral:			
Time deposits	**¥ 20**	¥ 20	**$ 171**
Trade notes receivable	**1,845**	2,332	**15,769**
Trade accounts receivable	**467**	415	**3,992**
Property, plant and equipment, at net book value	**198,204**	203,274	**1,694,051**
Investment securities	**8,400**	5,713	**71,795**
	¥208,936	¥211,754	**$1,785,778**

8. CONTINGENT LIABILITIES

At March 31, 2006 and 2005, the Company and its consolidated subsidiaries are contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
As endorser of trade notes discounted or endorsed	**¥ 3,032**	¥ 3,632	**$ 25,915**
As guarantor of indebtedness principally of unconsolidated subsidiaries and affiliated companies	**6,622**	12,419	**56,598**

The guaranteed amount includes similar commitments of ¥3,528 million (US$30,154 thousand) and ¥7,954 million at March 31, 2006 and 2005, respectively.

9. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as common stock, although an amount not exceeding one-half of the issue price of shares is allowed to be accounted for as additional paid-in capital which is included in "Capital surplus" in the consolidated balance sheets, by resolution of the Board of Directors.

The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings shall be appropriated to the legal reserve which is included in "Retained earnings" in the consolidated balance sheets, until the total of such reserve and the additional paid-in capital equals 25% of the common stock. The additional paid-in capital and the legal reserve may be used to eliminate or reduce deficit by resolution of the stockholders' meeting, or may be transferred to common stock by resolution of the Board of Directors.

The Code further provides that if the total amount of the additional paid-in capital and the legal reserve exceeds 25% of the common stock, the excess may be distributed as dividends by resolution of the stockholders' meeting.

The Company issued 66,000 thousand new shares by way of public offering and third-party allotment during the year ended March 31, 2006 and 71,792 thousand new shares by the conversion of convertible bonds during the year ended March 31, 2005. By resolution of the Board of Directors, one-half of the issue price of shares in the amounts of ¥9,789 million (US$83,667 thousand) and ¥5,000 million were accounted for as additional paid-in capital for the years ended March 31, 2006 and 2005, respectively.

10. 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, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Research and development costs	¥12,488	¥11,496	$106,735

11. OTHER INCOME (EXPENSES)

"Other income (expenses) — Others, net" for the years ended March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loss on sale of investment securities, net	¥ (220)	¥ (441)	$ (1,880)
Gain (loss) on sale of property, plant and equipment, net	127	(1,157)	1,085
Loss on impairment of fixed assets (Note 12)	(294)	(4,212)	(2,513)
Write-down of investment securities	(327)	(312)	(2,795)
Provision for doubtful receivables	(512)	(607)	(4,376)
Loss on business restructuring	(3,017)	(5,424)	(25,786)
Provision for polychlorinated biphenyls disposal expenses	(626)	—	(5,351)
Others, net	(5,940)	(3,433)	(50,769)
	¥(10,809)	¥(15,586)	$(92,385)

12. 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, 2006 consists of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Idle property:		
Land	¥(157)	$(1,342)
Business assets in use:		
Ready-mixed concrete manufacturing plant (HIRAIZUMI Co., Ltd.)	(101)	(863)
Ready-mixed concrete manufacturing plant (Kita Miyagi Ready-mixed Concrete Co., Ltd.)	(36)	(308)
	¥(294)	$(2,513)

(a) Idle property

Among idle property which the Company and its consolidated subsidiaries own, there were certain assets whose book value exceeded its recoverable amount. Such excesses of ¥157 million (US$1,342 thousand) 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 (US$1,342 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 "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 (US$1,171 thousand) was recognized as impairment loss. The components of impairment loss of HIRAIZUMI Co., Ltd. were "Buildings and structures" in the amount of ¥80 million (US$684 thousand) and "Machinery and equipment" in the amount of ¥21 million (US$179 thousand). Those of Kita Miyagi Ready-mixed Concrete Co., Ltd. were "Buildings and structures" in the amount of ¥16 million (US$137 thousand) and "Machinery and equipment" in the amount of ¥20 million (US$171 thousand). The recoverable amounts of these asset groups are measured by value in use based on estimated future cash flows discounted at 4.62%.

Loss on impairment of fixed assets for the year ended March 31, 2005 consists of the following:

	Millions of yen
	2005
Idle property:	
Land, buildings and structures	¥ (452)
Business assets in use:	
Aluminum automobile wheels manufacturing plant (UBE Automotive North America Mason Plant Inc.)	(3,289)
Quarry facilities (Ube Quarrying Industry Co., Ltd.)	(471)
	¥(4,212)

(a) Idle property

Among idle property which the Company and its consolidated subsidiaries own, there were certain assets whose book value exceeded its recoverable amount. Such excesses of ¥452 million were reduced to their recoverable amounts and were recognized as impairment loss for the year ended March 31,2005. The components of impairment loss were "Land (8 places)" in the amount of ¥449 million and "Buildings and structures (1 place)" in the amount of ¥3 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

UBE Automotive North America Mason Plant Inc. resolved its liquidation and reduced the book value of the aluminum automobile wheels manufacturing plant to its recoverable amount. This reduced amount of ¥3,289 million was recognized as impairment loss. The components of impairment loss were "Buildings and structures" in the amount of ¥1,025 million, "Machinery and equipment" in the amount of ¥1,838 million and "Other non-current assets" in the amount of ¥426 million.

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

As for "Gravel used for ready-mixed concrete and road construction quarried and sold by Ube Quarrying Industry Co., Ltd.", the book value of the quarry facilities was reduced to its recoverable amount due to stagnation of demand related to continuous decline in public sector demand. This reduced amount of ¥471 million was recognized as impairment loss. The components of impairment loss were "Land" in the amount of ¥143 million, "Buildings and structures" in the amount of ¥23 million, "Machinery and equipment" in the amount of ¥49 million and "Other non-current assets" in the amount of ¥256 million.

The recoverable amount of the asset group is measured by value in use based on estimated future cash flows discounted at 4.07%.

13. SUPPLEMENTARY CASH FLOWS INFORMATION

The following is a summary of assets and liabilities transferred to Ube-Maruzen Polyethylene Co., Ltd., established as an independent company through the separation of the polyethylene business of the Company during the year ended March 31, 2005.

The decrease in "Cash and cash equivalents" through this separation was ¥100 million. Following the separation, 50% of the new company's shares were transferred to Maruzen Petrochemical Co., Ltd. for ¥1,500 million.

	Millions of yen
Current assets	**¥3,052**
Fixed assets	**1,114**
Total assets	**4,166**
Current liabilities	**1,500**
Total liabilities	**¥1,500**

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, 2006 and 2005, respectively.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 and 2005 differ from the statutory tax rate for the following reasons.

	Percentage	
	2006	2005
Statutory tax rate	**40.4%**	40.4%
Effect of:		
Permanently nondeductible expenses	**1.1**	2.6
Loss carried forward without deferred tax assets	**4.3**	34.9
Deducted amount of loss without deferred tax assets	**(8.7)**	(19.7)
Investment valuation loss of consolidated subsidiaries and affiliates	**—**	(53.1)
Loss on business restructuring of consolidated subsidiaries and affiliates	**—**	8.5
Investment profit of affiliated companies by equity method	**(1.7)**	(4.7)
Permanently nontaxable items including dividend income	**(3.3)**	(3.1)
Effect of elimination of dividend income through consolidation procedures	**3.8**	4.7
Others	**0.4**	(4.6)
Effective tax rate	**36.3%**	5.9%

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Accrued bonuses	**¥ 2,789**	¥ 2,469	**$ 23,838**
Accrued retirement benefits	**4,089**	4,662	**34,949**
Loss carried forward	**1,370**	274	**11,709**
Intercompany profit	**13,428**	13,102	**114,769**
Depreciation and amortization	**2,027**	2,239	**17,325**
Provision for doubtful receivables	**1,308**	—	**11,179**
Write-down of investment securities	**2,892**	—	**24,718**
Others	**5,654**	13,917	**48,325**
Gross deferred tax assets	**33,557**	36,663	**286,812**
Valuation allowance	**(5,029)**	(4,778)	**(42,983)**
Total deferred tax assets	**28,528**	31,885	**243,829**
Deferred tax liabilities:			
Deferred gain on real properties	**(7,425)**	(8,463)	**(63,462)**
Reserve for special depreciation	**(26)**	(71)	**(222)**
Unrealized gain on holdings of other marketable securities	**(8,048)**	(4,679)	**(68,786)**
Others	**(2,970)**	(2,792)	**(25,385)**
Total deferred tax liabilities	**(18,469)**	(16,005)	**(157,855)**
Net deferred tax assets	**¥ 10,059**	¥ 15,880	**$ 85,974**

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, 2006 and 2005.

Currency-related transactions

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			**2006**		
	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)**	¥1,354	¥1,382	¥ (28)	**$ 2,863**	**$ 2,983**	**$ (120)**
Buy:									
¥	**370**	**363**	**(7)**	—	—	—	**3,162**	**3,102**	**(60)**
Currency swaps:									
Receive/US$ and pay/¥	**2,590**	**(13)**	**(13)**	2,590	(61)	(61)	**22,137**	**(111)**	**(111)**
Receive/US$ and pay/CA$	**1,555**	**(151)**	**(151)**	1,978	(178)	(178)	**13,291**	**(1,290)**	**(1,290)**
Total			**¥(185)**			¥(267)			**$(1,581)**

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, 2006 and 2005 are summarized by product group as follows:

	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**

As described in Note 3, the Company changed its method of accounting for revenue from waste processing. The effect of this change was to increase "Sales to outside customers," "Intersegment sales and transfers" and "Operating cost" in the "Cement & construction materials" segment by ¥9,006 million (US$76,974 thousand), ¥220 million (US$1,880 thousand) and ¥9,226 million (US$78,854 thousand), respectively, and to decrease both "Intersegment sales and transfers" and "Operating cost" of "Elimination & corporate" by ¥220 million (US$1,880 thousand) for the year ended March 31, 2006 as compared with the corresponding amounts which would have been recorded under the previous method. This change, however, had no effect on "Operating income."

Year ended March 31, 2005	Millions of yen							
	Chemicals & plastics	Specialty chemicals & products	Cement & construction materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
Sales:								
Outside customers	¥164,935	¥ 83,066	¥175,797	¥109,769	¥25,443	¥ 3,698	¥ —	¥562,708
Intersegment sales and transfers	6,957	266	3,390	1,814	8,544	1,102	(22,073)	—
	171,892	83,332	179,187	111,583	33,987	4,800	(22,073)	562,708
Operating cost	161,031	72,713	169,574	113,305	31,613	4,180	(22,020)	530,396
Operating income (loss)	¥ 10,861	¥ 10,619	¥ 9,613	¥ (1,722)	¥ 2,374	¥ 620	¥ (53)	¥ 32,312
Assets	¥199,479	¥101,825	¥220,220	¥ 90,863	¥52,813	¥20,793	¥ 20,693	¥706,686
Depreciation and amortization	8,087	6,083	8,831	5,104	2,402	398	—	30,905
Loss on impairment	21	12	872	3,289	—	18	—	4,212
Capital expenditures	7,294	7,365	6,043	3,355	997	154	—	25,208

Year ended March 31, 2006	Thousands of U.S. dollars							
	Chemicals & plastics	Specialty chemicals & products	Cement & construction materials	Machinery & metal products	Energy & environment	Other businesses	Elimination & corporate	Consolidated
Sales:								
Outside customers	**$1,503,145**	**$763,077**	**$1,644,513**	**$875,795**	**$269,214**	**$33,068**	**$ —**	**$5,088,812**
Intersegment sales and transfers	**63,701**	**4,419**	**32,324**	**7,077**	**71,154**	**8,872**	**(187,547)**	**—**
	1,566,846	**767,496**	**1,676,837**	**882,872**	**340,368**	**41,940**	**(187,547)**	**5,088,812**
Operating cost	**1,438,829**	**673,752**	**1,593,692**	**851,180**	**320,060**	**37,094**	**(186,214)**	**4,728,393**
Operating income	**$ 128,017**	**$ 93,744**	**$ 83,145**	**$ 31,692**	**$ 20,308**	**$ 4,846**	**$ (1,333)**	**$ 360,419**
Assets	**$1,783,462**	**$874,273**	**$1,855,880**	**$806,239**	**$439,402**	**$44,650**	**$ 182,735**	**$5,986,641**
Depreciation and amortization	**71,897**	**50,026**	**73,940**	**43,778**	**20,658**	**3,009**	**—**	**263,308**
Loss on impairment	**—**	**—**	**1,863**	**—**	**69**	**581**	**—**	**2,513**
Capital expenditures	**62,137**	**50,487**	**51,650**	**39,829**	**5,547**	**1,752**	**—**	**211,402**

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 by geographic area are as follows:

Year ended March 31, 2006	Millions of yen			
	Japan	Other area	Elimination & corporate	Consolidated
Sales:				
Outside customers	**¥491,839**	**¥103,552**	**¥ —**	**¥595,391**
Intersegment sales and transfers	**17,281**	**9,933**	**(27,214)**	**—**
	509,120	**113,485**	**(27,214)**	**595,391**
Operating cost	**474,516**	**105,701**	**(26,995)**	**553,222**
Operating income	**¥ 34,604**	**¥ 7,784**	**¥ (219)**	**¥ 42,169**
Assets	**¥552,391**	**¥126,846**	**¥21,200**	**¥700,437**

As described in Note 3, the Company changed its method of accounting for revenue from waste processing. The effect of this change was to increase both “Sales to outside customers” and “Operating cost” in the “Japan” segment by ¥9,006 million (US$76,974 thousand) for the year ended March 31, 2006 over the corresponding amounts which would have been recorded under the previous method. This change, however, had no effect on “Operating income.”

Year ended March 31, 2005	Millions of yen			
	Japan	Other area	Elimination & corporate	Consolidated
Sales:				
Outside customers	¥468,408	¥ 94,300	¥ —	¥562,708
Intersegment sales and transfers	17,529	7,826	(25,355)	—
	485,937	102,126	(25,355)	562,708
Operating cost	454,218	102,472	(26,294)	530,396
Operating income (loss)	¥ 31,719	¥ (346)	¥ 939	¥ 32,312
Assets	¥556,213	¥117,752	¥ 32,721	¥706,686

Year ended March 31, 2006	Thousands of U.S. dollars Japan	Other area	Elimination & corporate	Consolidated
Sales:				
Outside customers	**$4,203,752**	**$ 885,060**	**$ —**	**$5,088,812**
Intersegment sales and transfers	**147,701**	**84,897**	**(232,598)**	**—**
	4,351,453	**969,957**	**(232,598)**	**5,088,812**
Operating cost	**4,055,692**	**903,427**	**(230,726)**	**4,728,393**
Operating income	**$ 295,761**	**$ 66,530**	**$ (1,872)**	**$ 360,419**
Assets	**$4,721,291**	**$1,084,154**	**$ 181,196**	**$5,986,641**

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

Overseas operations, which represent sales to customers outside Japan, of the Company and its consolidated subsidiaries totaled ¥170,653 million (US$1,458,573 thousand) and ¥161,471 million for the years ended March 31, 2006 and 2005, respectively.

17. LEASES

(a) Finance leases

The following amounts represent the acquisition costs, accumulated depreciation and amortization and net book value of the leased property as of March 31, 2006 and 2005 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:

	Millions of yen		Thousands of U.S. dollars
At March 31	**2006**	2005	**2006**
Acquisition costs:			
Buildings and structures	**¥ 20**	¥ 22	**$ 171**
Machinery and equipment	**10,832**	10,763	**92,581**
	¥10,852	¥10,785	**$92,752**
Accumulated depreciation and amortization:			
Buildings and structures	**¥ 10**	¥ 7	**$ 85**
Machinery and equipment	**5,159**	5,004	**44,094**
	¥ 5,169	¥ 5,011	**$44,179**
Net book value:			
Buildings and structures	**¥ 10**	¥ 15	**$ 86**
Machinery and equipment	**5,673**	5,759	**48,487**
	¥ 5,683	¥ 5,774	**$48,573**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,960 million (US$16,752 thousand) and ¥2,015 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, 2006 and 2005, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥1,760	$15,043
2008 and thereafter	3,923	33,530
	¥5,683	$48,573

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2006 for non-cancelable operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 3,387	$ 28,949
2008 and thereafter	13,857	118,436
	¥17,244	$147,385

18. ACCRUED RETIREMENT BENEFITS

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligations:			
Present value of projected benefit obligations	**¥ 65,787**	¥ 65,990	**$ 562,282**
Plan assets at fair value	**(37,855)**	(30,148)	**(323,547)**
Unrecognized benefit obligations at transition	**(16,876)**	(19,271)	**(144,239)**
Unrecognized actuarial loss	**(1,183)**	(5,377)	**(10,111)**
Unrecognized prior service cost	**245**	86	**2,094**
Accrued retirement benefits recognized in balance sheets	**¥ 10,118**	¥ 11,280	**$ 86,479**

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Expense of accrued retirement benefits:			
Service cost	**¥3,217**	¥3,052	**$27,496**
Interest cost	**1,400**	1,433	**11,966**
Expected return on plan assets	**(640)**	(561)	**(5,470)**
Amortization of prior service cost	**(167)**	(95)	**(1,428)**
Amortization of actuarial loss	**967**	1,165	**8,265**
Amortization of benefit obligations at transition	**2,390**	2,435	**20,427**
Expense of accrued retirement benefits	**¥7,167**	¥7,429	**$61,256**

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

	Percentage	
	2006	2005
Discount rate	**2.0-2.5%**	2.0-3.0%
Expected rate of return on plan assets	**2.0-2.5**	2.0-2.5

19. RELATED PARTY TRANSACTIONS

The Company sold goods for resale in the amount of ¥32,929 million (US$281,444 thousand) and ¥32,067 million to Ube-Mitsubishi Cement Corporation (UMCC), its affiliate accounted for by the equity method, for the years ended March 31, 2006 and 2005, respectively.

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

20. SUBSEQUENT EVENTS

At the general stockholders' meeting of the Company held on June 29, 2006, the appropriations of retained earnings for the year ended March 31, 2006 were approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.00 per share)	¥3,026	$25,863
Bonuses to directors and statutory auditors	35	299

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

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■ Tel : 03 3503 1100
Fax : 03 3503 1197

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, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to 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, 2006 and 2005, 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, 2006 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 29, 2006

Major Consolidated Subsidiaries and Affiliates

(As of March 31, 2006)

Company Name	Business	Voting Rights (%)	Phone	Fax
CONSOLIDATED SUBSIDIARIES				
Chemical & Plastics				
Ube Film, Ltd.	Manufacture and sales of plastic-film products	77.5	+81 (836) 88-0111	+81 (836) 89-0005
Thai Synthetic Rubbers Co., Ltd.	Manufacture and sales of polybutadiene (Thailand)	73.1	+66 (2) 263-6600	+66 (2) 685-3055
Ube Ammonia Industry, Ltd.	Manufacture and sales of ammonia, carbon dioxide, argon, oxygen, and nitrogen	50.6	+81 (836) 31-5858	+81 (836) 34-0472
Ube Chemical Europe, S.A.	Manufacture and sales of caprolactam, ammonium sulfate, and 1,6-hexanediol (Spain)	100.0	+34 (964) 738000	+34 (964) 738074
Thai Caprolactam Public Co., Ltd.	Manufacture and sales of caprolactam and ammonium sulfate (Thailand)	90.9	+66 (2) 263-6600	+66 (2) 685-3022
Ube Engineering Plastics, S.A.	Manufacture and sales of nylon 6 (Spain)	100.0	+34 (964) 738000	+34 (964) 738177
Ube Nylon (Thailand), Ltd.	Manufacture and sales of nylon 6 (Thailand)	100.0	+66 (2) 263-6600	+66 (2) 685-3042
Specialty Chemicals & Products				
Meiwa Plastic Industries, Ltd.	Manufacture and sales of phenolic resins, UMC nylon, and others	100.0	+81 (836) 22-9211	+81 (836) 29-0100
Ube-Nitto Kasei Co., Ltd.	Manufacture and sales of polypropylene molded products and fibers, fiber-reinforced plastics	100.0	+81 (3) 3863-5201	+81 (3) 3863-5508
Cement & Construction Materials				
Kanto Ube Holdings Co., Ltd.	Sales of cement and aggregates as well as accounting for subsidiary	100.0	+81 (3) 5759-7715	+81 (3) 5759-7732
Daikyo Kigyo Co., Ltd.	Manufacture and sales of ready-mixed concrete and concrete secondary products	58.8	+81 (191) 25-3161	+81 (191) 25-4163
Hagimori Industries, Ltd.	Manufacture and sales of ready-mixed concrete and concrete secondary products	69.2	+81 (836) 31-1678	+81 (836) 21-4554
Ube Material Industries, Ltd.	Production and sales of seawater magnesia, magnesium hydroxide, quicklime, slaked lime, and others	60.5	+81 (836) 31-0156	+81 (836) 21-9778
Ube Board Co., Ltd.	Manufacture and sales of boards, corrugated sheets, and OA flooring as well as related responsibilities	100.0	+81 (836) 22-0251	+81 (836) 22-0271
Ube Construction Materials Sales Co., Ltd.	Sales of ready-mixed concrete, building materials, and others	100.0	+81 (3) 5487-3584	+81 (3) 5487-3567
Ube Shipping & Logistics, Ltd.	Domestic shipping, harbor transportation, shipping-agent services, and customs clearing	81.3	+81 (836) 34-1181	+81 (836) 34-1183
Machinery & Metal Products				
Ube Machinery Corporation, Ltd.	Manufacture and sales of diecasting machines, injection-molding machines, extrusion presses, industrial machinery, bridge, metal dies, and molds	100.0	+81 (836) 22-0072	+81 (836) 22-6457
Ube Machinery Inc.	Service, sales, assembly, and maintenance for metal processing and injection-molding machinery (U.S.A.)	100.0	+1 (734) 741-7000	+1 (734) 741-7017
Ube Techno Eng Co., Ltd.	Service and maintenance of industrial machinery and equipment; manufacture and sales of automation and environment machinery	100.0	+81 (836) 34-5080	+81 (836) 34-0666
Ube Steel Co., Ltd.	Manufacture and sales of cast iron and steel products and rolled steel billets	100.0	+81 (836) 35-1300	+81 (836) 35-1331
UBE Automotive North America Sarnia Plant Inc.	Manufacture of aluminum automobile wheels (Canada)	100.0	+1 (519) 542-8262	+1 (519) 542-3666
Energy & Environment				
Ube C&A Co., Ltd.	Sales of imported steaming coal	75.5	+81 (3) 5419-6331	+81 (3) 5419-6332

*44 Other Consolidated Subsidiaries

Company Name	Business	Voting Rights (%)	Phone	Fax
EQUITY-METHOD AFFILIATES				
Ube-Maruzen Polyethylene Co., Ltd.	Manufacture and sales of low-density polyethylene	50.0	+81 (3) 5419-6164	+81 (3) 5419-6249
UMG ABS, Ltd.	Manufacture and sales of ABS resins	42.7	+81 (3) 5148-5170	+81 (3) 5148-5186
Ube Agri-Materials, Ltd.	Manufacture and sales of fertilizers and compost	49.0	+81 (836) 31-2155	+81 (836) 31-2158
Ube-Mitsubishi Cement Corporation	Sales of cement and soil-stabilizing cement	50.0	+81 (3) 3435-2650	+81 (3) 3435-2665

*31 Other Equity-Method Affiliates

Investor Information (As of March 31, 2006)

Ube Industries, Ltd.

Date of Establishment: 1897

Common Stock:
Issued: 1,008,993,923 shares
(¥58,399 million)

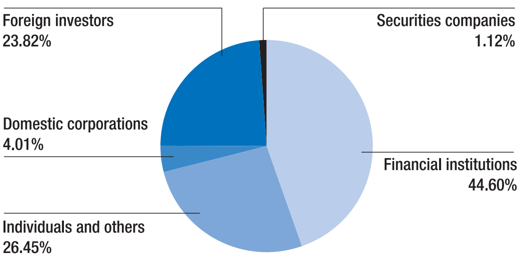
Ticker Code: 4208

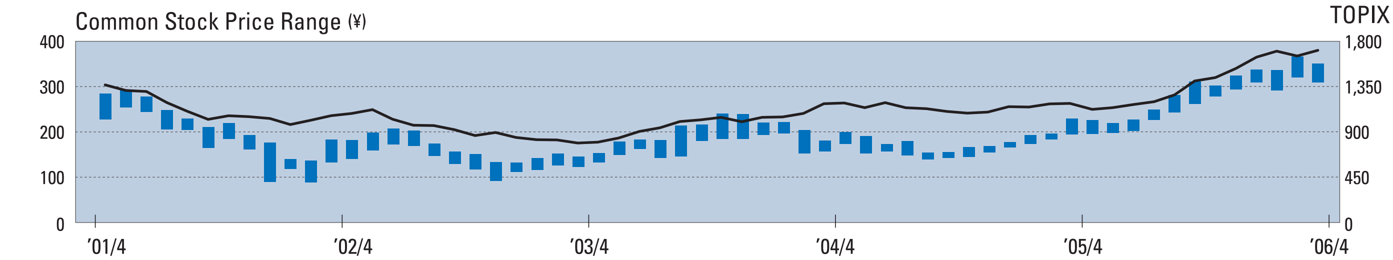
Stock Price Range & Trading Volume
(Tokyo Stock Exchange)

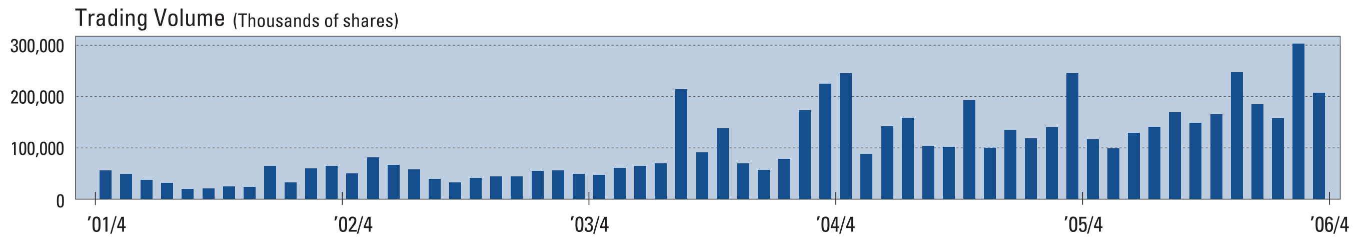
Transfer Agent and Register:
Mitsubishi UFJ Trust and
Banking Corporation

Number of Stockholders: 71,626

Breakdown of Stockholders







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Wings of technology Spirit of innovation

UBE

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