Annual Report 2014

Year ended March 31, 2014

Change & Challenge

Driving Growth

UBE

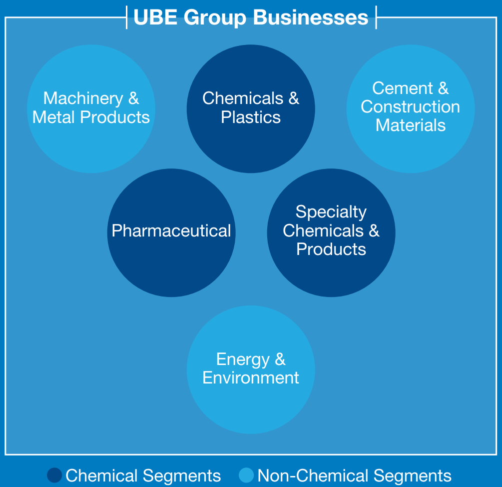
UBE INDUSTRIES, LTD.

The UBE Group Vision

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

Profile

Ube Industries, Ltd. ("UBE" or "the Company") and its consolidated subsidiaries (collectively, "the UBE Group") have consistently embraced innovation since the Company's beginnings as an entrepreneurial venture to develop the coal fields of Ube, Yamaguchi Prefecture in 1897. Today, we continue to challenge ourselves to creatively apply technology to develop and prosper together with our stakeholders.



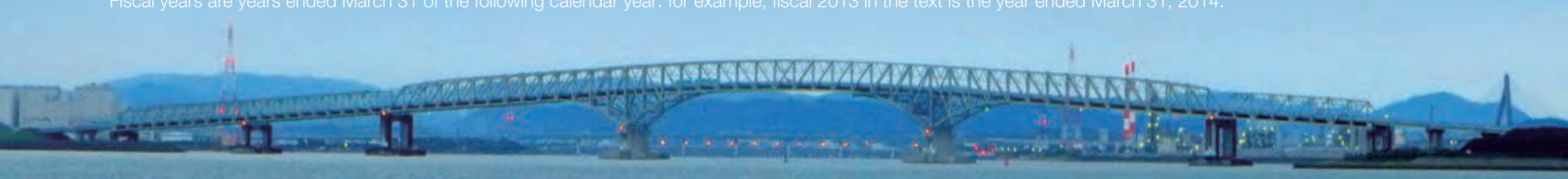
Contents

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 the UBE Group's 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 2013 in the text is the year ended March 31, 2014.



Completed in 1982, the Kosan-Ohashi Highway Bridge is part of a 31.94 km roadway for the exclusive use of the UBE Group.

To Our Stakeholders

During fiscal 2013, ended March 31, 2014, the global economy lacked vigor. The U.S. economy continued to recover moderately, but the European economy remained stagnant and economic expansion decelerated in China and other Asian countries. In Japan, the economy recovered moderately supported by increased exports due to the deprecation of the yen and the positive effect of various government policies.

Under these conditions, the three-year medium-term management plan "Change & Challenge – Driving Growth" guided the UBE Group during the plan's first year as we worked to resolve issues in each of our businesses to address structural changes in our operating environment with a sense of urgency under the three basic strategies of the plan: strengthen the revenue base to enable sustainable growth; maximize the global strength of the UBE Group; and address and be part of the solution for resource, energy, and global environmental issues. However, our chemical businesses have yet to achieve significant results under "Change & Challenge" because their operating environment has been particularly challenging.

As a result, consolidated net sales increased by ¥24.4 billion compared with the previous fiscal year to ¥650.5 billion. Operating income decreased by ¥5.5 billion to ¥24.4 billion, and net income increased by ¥4.3 billion to ¥12.6 billion.

The UBE Group believes that CSR equates to Group management that fulfills its responsibilities as a public institution and member of society. We therefore enhance compliance, risk management and other corporate functions to ensure fair corporate conduct. Moreover, the UBE Group embraces its founding principle of coexisting with society in the spirit of living and prospering together with the local community, and is committed to deepening the confidence of all stakeholders, including shareholders, capital markets, customers, business partners, employees, and local communities.

We are counting on your continued support.

July 2014

Michio Takeshita
President and CEO

Change & Challenge — Driving Growth

(FY 2013 – FY 2015)

The UBE Group has begun a new medium-term management plan for the three years ending fiscal 2015 called “Change & Challenge — Driving Growth.” UBE Group employees will change their methods and approaches by breaking with convention with the will to succeed in energetically taking on new challenges to achieve the objectives of Change & Challenge.

This page reports on progress during the first year of the plan.

Numerical Targets

	Fiscal 2013 Results	Targets for FY 2015	Targets for FY 2020
Operating income	¥ 24.4 billion	¥ **55.0** billion +	¥**80.0** billion +
Equity capital	¥241.7 billion	¥**270.0** billion +	—
Operating margin	3.8%	**7**% +	—
Return on total assets	3.6%	**7**% +	—
Return on equity	5.5%	**12**% +	—

Basic Strategies

1.

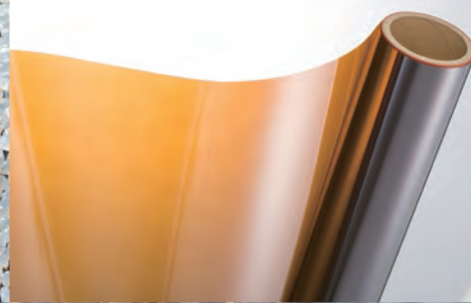
Strengthen the revenue base to enable sustainable growth

2.

Maximize the global strength of the UBE Group

3.

Address and be part of the solution for resource, energy, and global environmental issues



Topics in FY 2013

- **Shutdown of caprolactam chain production at Sakai Factory**
- **Decided to expand nylon 6 production facilities in Spain**
- **Established a joint synthetic rubber company in Malaysia with the Lotte Chemical Group**
- **Electrolytes: Launch of Advanced Electrolyte Technologies (Zhangjiagang) Co., Ltd. joint venture with Dow Chemical of the US in June 2013**

Nylon 6 plant in Spain

Electrolyte manufacturing at Advanced Electrolyte Technologies (Zhangjiagang)

- **Corporate Research & Development established a new organization to share information and set themes collaboratively**
- **Made Ube Material Industries, Ltd. into wholly owned subsidiary through stock swap in August 2013**
- **Merger of Ube Machinery Corporation, Ltd. and its subsidiary Ube Techno Eng Co., Ltd., which provides maintenance services for equipment and machinery, in October 2013**

Ube Material Industries, Ltd.

- **Established a joint venture with Showa Shell Sekiyu K.K. to participate in the power generation business by generating solar power**
- **Operation of trial facilities for low-temperature carbonization of palm kernel shells (PKS) in Indonesia in April 2013**
- **Launch of sludge drying facilities at Isa Cement Factory in June 2013, full capacity operation of waste plastics preprocessing (for fuel) at Kanda Cement Factory**

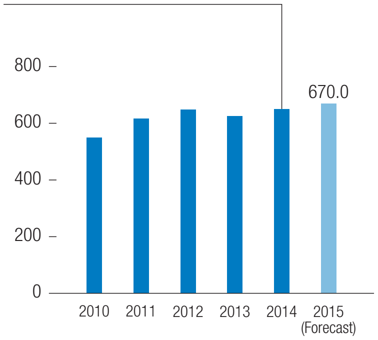
Megasolar power plant (began operating in July 2014)

Consolidated Financial Highlights

Ube Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010, 2011, 2012, 2013 and 2014

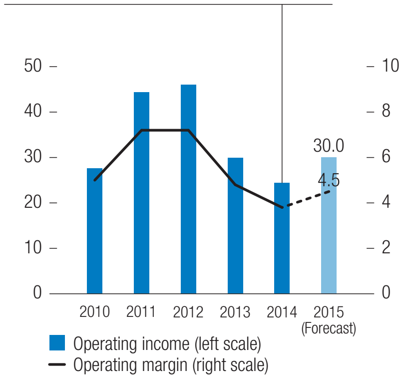
Net Sales
(Billions of yen)

¥650.5 billion



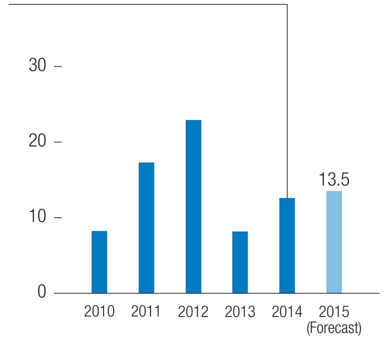
Operating Income & Operating Margin
(Billions of yen / %)

¥24.4 billion 3.8%



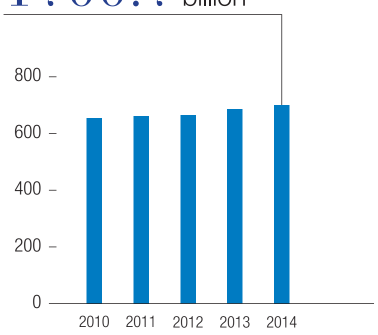
Net Income
(Billions of yen)

¥12.6 billion



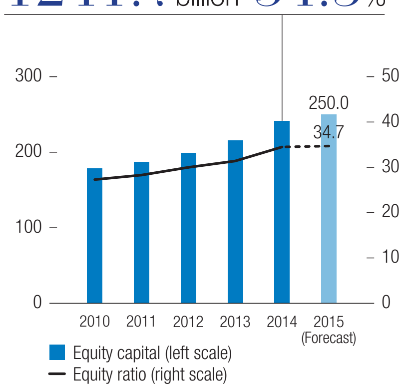
Total Assets
(Billions of yen)

¥700.7 billion



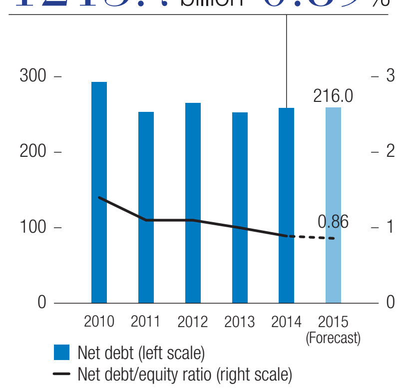
Equity Capital[1] & Equity Ratio
(Billions of yen / %)

¥241.7 billion 34.5%



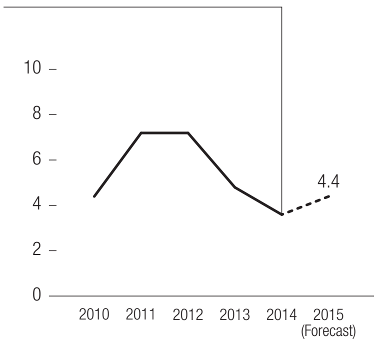
Net Debt[2] & Net Debt/Equity Ratio
(Billions of yen / %)

¥215.7 billion 0.89%



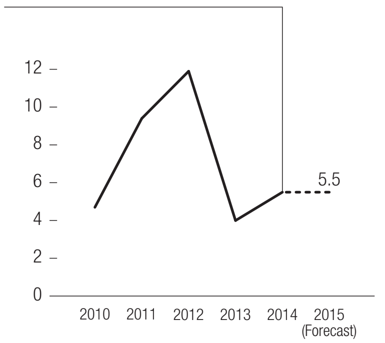
ROA[3]
(%)

3.6%



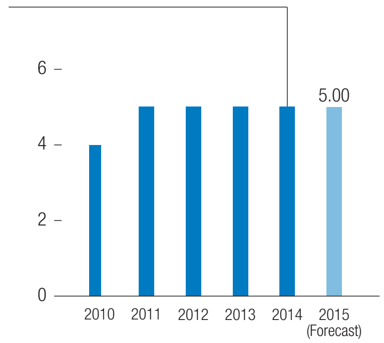
ROE
(%)

5.5%



Cash Dividends Applicable to the Period
(Yen)

¥5.00



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

An Interview with President and CEO Michio Takeshita

Change & Challenge — Driving Growth

We completed the first year of our medium-term management plan, and we will improve results and achieve growth by leveraging the UBE Group's strength in technology-driven innovation.

Q Please begin by discussing results for fiscal 2013.

"A downturn in our chemical businesses reduced earnings."

Fiscal 2013 was the first year of our new medium-term management plan. Net sales increased by ¥24.4 billion compared with the previous fiscal year, but operating income decreased by ¥5.5 billion. Performance was better than we expected in the Cement & Construction Materials segment due to increased shipments of cement and ready-mixed concrete, but lower earnings in chemical businesses and factors including IPP facility problems in the Energy & Environment segment caused operating income to fall short of the quantitative targets we announced publicly at the end of the second quarter of fiscal 2013 for the first year of the medium-term management plan.

Earnings in our chemical businesses decreased for several reasons. In the Chemicals & Plastics segment, the market for caprolactam, a nylon raw material, continued to stagnate due to an oversupply caused by a succession of new plants that other companies brought online in China. In addition, facility problems reduced shipments. In the Specialty Chemicals & Products segment, shipments of lithium-ion battery materials such as electrolytes and separators were flat year on year, but a substantial decrease in separator prices affected segment results. In the Pharmaceutical segment, sales of active pharmaceutical ingredients (APIs) for antiallergic drugs and antihypertensive agents for which the patents have expired, and APIs and intermediates we manufacture on consignment all decreased. Our three segments related to chemicals only generated ¥2.0 billion of overall Group operating income of ¥24.4 billion. That is an unacceptable outcome for the Group's core chemical businesses, and we recognize that resolving this issue is our primary mission.

"We will respond agilely to changes in the business environment."

Looking at our operating environment during fiscal 2013, the impact of the yen's depreciation had virtually no impact on the UBE Group. Widely varying factors besides foreign exchange negatively impacted each of our businesses, but major ones included the deterioration of the caprolactam market, ongoing price deflation in the battery materials market, and falling prices for electronic materials applications. However, cement demand continued to grow, and we expect demand to remain firm.

We implemented several key measures during fiscal 2013 in response to our operating environment. First, we terminated caprolactam chain production at the Sakai Factory. We enhanced our production system for nylon resin used in automotive and packaging film applications, where demand is solid. In the synthetic rubber business, we increased production capacity at the Chiba Factory to meet strong demand from Japanese tire manufacturers, and are constructing a new plant in Malaysia. In the battery materials business, our electrolyte joint venture in China with The Dow Chemical Company of the United States, Advanced Electrolyte Technologies (Zhangjiagang), began operating. We also expanded pharmaceutical product plant and equipment to enhance productivity and our ability to handle consignments. Outside of our chemical businesses, we made Ube Materials Co., Ltd. a wholly owned subsidiary. This will enable us to maximize synergies by unifying operations and accelerating decision-making. In addition, we are enhancing the recycling business and making it more sophisticated to reinforce operating fundamentals in the cement business. In the machinery business, we merged Ube Machinery Corporation, Ltd. with its service subsidiary Ube Techno Eng Co., Ltd. to strengthen our service business and create operations that are unified from manufacturing through sales. In the Energy & Environment segment, we are concentrating on rapidly restoring IPP facilities, developing biomass energy to enhance our renewable energy business, and growing our mega solar business.

Q ***Please discuss policies for fiscal 2014, the second year of the medium-term management plan.***

"Reviewing strategies for addressing changes in the operating environment is a top priority."

The UBE Group is at its best when its differentiated chemical businesses perform well and drive growth over the medium and long term while non-chemical businesses provide stability in a changing operating environment and support our earnings platform. We will therefore restructure our lactam and nylon chain, and aggressively strengthen both strategic growth businesses such as battery materials and core platform businesses with growth potential such as synthetic rubber while reengineering our chemical businesses. In strategic growth businesses, we will review our strategies for addressing changes in the operating environment for businesses that have been slow to expand while selectively focusing with a sense of urgency on businesses that we can transform into pillars of earnings. At the same time, in our non-chemical businesses, we will maximize earnings in the Cement & Construction Materials segment, in which demand is solid, while upgrading the global network of our Machinery & Metal Products segment and strengthening their service operations. In the Energy & Environment segment, we will concentrate on quickly restarting IPP facilities and expanding renewable energy operations.

“Getting back on track for growth is key in fiscal 2014.”

During fiscal 2014, we expect continued economic recovery in Japan, but concerns include the risk of slower growth in the global economy, particularly in China and other emerging countries. Although conditions differ by business segment, we expect that international operations in our chemical businesses will remain challenging. We also expect demand to be firm in Japan in the Cement & Construction Materials segment, and a favorable order environment in the Machinery & Metal Products segment. Even if the Energy & Environment segment does not recover completely during fiscal 2014, we intend to get back on track for growth and expect the Group as a whole to rebound from the low point in fiscal 2013.

Q What are the UBE Group’s prospects over the medium and long term?

“We will restore the profitability of our chemical businesses to drive growth.”

The UBE Group was founded over 110 years ago in the Ube region as a coal mining operation, and has since continued to transform itself as times and industry have changed. During that time, technology and innovation have been two constants running through the history of the UBE Group, as expressed by our Group Vision, “Wings of technology and spirit of innovation. That’s our DNA driving our global success.” Our corporate philosophy will continue to inform our management strategy over the medium and long term. The basic strategies of medium-term management

plan “Change and Challenge – Driving Growth,” which we initiated in fiscal 2013, are strengthen the revenue base to enable sustainable growth; maximize the global strength of the UBE Group; and address and be part of the solution for resource, energy, and global environmental issues. These strategies will guide our initiatives in fiscal 2014 and beyond.

As I mentioned earlier, over the medium and long term the UBE Group should transform itself so that non-chemical businesses support earnings and differentiated chemical businesses drive growth. We intend to grow the Group as a whole over the medium and long term with the chemical businesses accounting for over half of net sales and operating income. While non-chemical businesses have made progress backed by steady demand, the consistently challenging environment has caused significant variance with our plan for our chemical businesses. Improving earnings in our chemical businesses is therefore our top priority. Our chemical businesses range from nylon resin and synthetic rubber to battery materials and functional materials for electronics, and we can expect steady growth in many of them. We will support these businesses with steady technology development as we expand them to accommodate market growth.

“Our goal is to rapidly strengthen and expand our businesses.”

The “Change” in medium-term management plan “Change and Challenge” refers to the key issues of relative change in market conditions and the external environment, and how we change in order to address them. These are issues that every part of the Group must be aware of, from sales, marketing, production technology and R&D to administrative and indirect divisions, and we need to make sure that a detailed understanding of these changes is reflected in our approaches to our work. The key perspective for “Challenge” is thinking about how we can use our existing, limited resources, and also thinking about deficiencies and how we can rectify them to expand and strengthen businesses with potential. Going forward, we may choose to address our weaknesses and build our strengths through alliances with competitors and mergers and acquisitions.

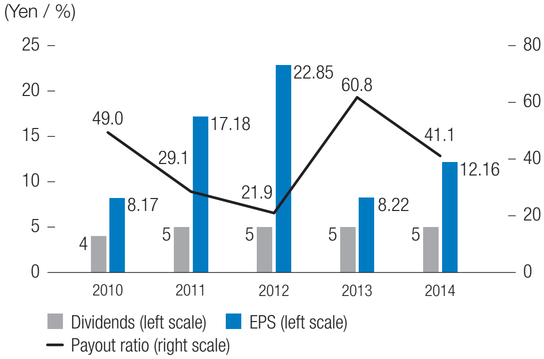
Q Please share your thoughts about shareholder returns.

“We will concentrate on increasing corporate value over the medium and long term.”

Naturally, we recognize that providing dividends to shareholders is an important obligation, and we continue to distribute steady dividends even when earnings have decreased. Payout ratio and dividend yield are important indicators, but I also believe that expanding the bottom line that is the basis for the absolute value of dividends and increasing corporate value over the medium and long term are important for meeting shareholder expectations. How we retain our potential for future growth while increasing market capitalization are long-term issues we need to be aware of while we execute our initiatives over the short term.

Consolidated Payout Ratio

(Yen / %)



(Years to March 31)