



Integrated Report

2018

Financial Section

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Consolidated Balance Sheet

Ube Industries, Ltd. and Consolidated Subsidiaries
March 31, 2018 and 2017

The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017. The corresponding items on the consolidated balance sheet have been calculated assuming that such share consolidation was carried out on April 1, 2016.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	¥ 48,529	¥ 35,806	\$ 457,821
Time deposits (Note 4)	530	828	5,000
Receivables (Notes 4 and 23):			
Notes and accounts - trade	162,739	157,845	1,535,274
Others	10,115	6,245	95,424
Allowance for doubtful accounts	(577)	(523)	(5,443)
Inventories (Note 6)	90,929	82,802	857,821
Deferred tax assets (Note 15)	6,524	6,834	61,547
Other current assets	4,611	5,204	43,499
Total current assets	323,400	295,041	3,050,943
Property, plant and equipment (Notes 8, 14 and 21):			
Land	81,260	84,100	766,604
Buildings and structures	272,819	265,505	2,573,764
Machinery and equipment	709,363	681,135	6,692,103
Construction in progress	14,514	19,715	136,925
Accumulated depreciation	(743,694)	(719,012)	(7,015,981)
Total property, plant and equipment, net	334,262	331,443	3,153,415
Investments and other assets:			
Investment securities (Notes 4 and 5)	54,804	51,615	517,019
Long-term loans receivable	227	326	2,142
Long-term deferred tax assets (Note 15)	6,518	7,521	61,491
Net defined benefit asset (Note 20)	8,195	7,806	77,311
Other non-current assets	16,329	16,292	154,047
Allowance for doubtful accounts	(606)	(665)	(5,717)
Total investments and other assets	85,467	82,895	806,293
Total assets	¥ 743,129	¥ 709,379	\$ 7,010,651

See accompanying notes.

**Liabilities
and Net Assets**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Current liabilities:			
Short-term loans payable (Notes 4, 7 and 8)	¥ 42,131	¥ 47,713	\$ 397,462
Commercial paper (Note 4)	—	10,000	—
Current portion of long-term debt (Notes 4, 7 and 8)	37,681	33,238	355,481
Payables (Note 4):			
Notes and accounts - trade	104,532	92,342	986,151
Others	34,601	26,813	326,425
Provision for bonuses	7,245	6,944	68,349
Income taxes payable (Note 4)	6,027	4,546	56,858
Other current liabilities	20,881	24,232	196,991
Total current liabilities	253,098	245,828	2,387,717
Long-term liabilities:			
Long-term debt less current portion (Notes 4, 7 and 8)	114,121	117,665	1,076,613
Net defined benefit liability (Note 20)	6,897	6,850	65,066
Long-term deferred tax liabilities (Note 15)	2,478	2,271	23,377
Other long-term liabilities	29,674	26,364	279,944
Total long-term liabilities	153,170	153,150	1,445,000
Contingent liabilities (Note 9)			
Net assets (Note 10):			
Capital stock, without par value:			
Authorized — 330,000,000 shares			
Issued — 106,200,107 shares at March 31, 2018 and 2017	58,435	58,435	551,274
Capital surplus	38,291	38,091	361,236
Retained earnings	211,065	185,747	1,991,179
Treasury shares			
1,182,884 shares at March 31, 2018 and			
350,657 shares at March 31, 2017	(2,958)	(726)	(27,906)
Valuation difference on available-for-sale securities	5,691	4,893	53,689
Deferred gains (losses) on hedges	(6)	11	(57)
Foreign currency translation adjustment	6,415	2,378	60,519
Remeasurements of defined benefit plans	(1,581)	(2,230)	(14,915)
Share acquisition rights (Note 22)	672	623	6,340
Non-controlling interests	20,837	23,179	196,575
Total net assets	336,861	310,401	3,177,934
Total liabilities and net assets	¥743,129	¥709,379	\$7,010,651

Consolidated Statement of Income

Ube Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 23)	¥695,574	¥616,563	\$6,562,019
Cost of sales	560,100	500,642	5,283,962
Gross profit	135,474	115,921	1,278,057
Selling, general and administrative expenses (Notes 11, 12 and 22)	85,224	80,961	804,000
Operating profit	50,250	34,960	474,057
Other income (expenses):			
Interest and dividend income	1,264	893	11,924
Amortization of negative goodwill	134	138	1,264
Interest expense	(1,408)	(1,597)	(13,283)
Share of profit of entities accounted for using equity method	3,612	2,021	34,075
Others, net (Note 13)	(8,852)	(3,482)	(83,509)
	(5,250)	(2,027)	(49,529)
Profit before income taxes	45,000	32,933	424,528
Income taxes (Note 15):			
Current	10,899	7,989	102,821
Deferred	964	394	9,094
	11,863	8,383	111,915
Profit	33,137	24,550	312,613
Profit attributable to non-controlling interests	1,457	365	13,745
Profit attributable to owners of parent	¥ 31,680	¥ 24,185	\$ 298,868

The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017. Per share data has been calculated assuming that such share consolidation was carried out on April 1, 2016.

	Yen		U.S. dollars (Note 1)
	2018	2017	2018
Per share:			
Net income:			
Basic	¥301.65	¥228.50	\$2.846
Diluted	300.63	227.78	2.836
Cash dividends applicable to the period	75.00	60.00	0.708

See accompanying notes.

Consolidated Statement of Comprehensive Income

Ube Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Profit	¥33,137	¥24,550	\$312,613
Valuation difference on available-for-sale securities	823	1,337	7,764
Deferred gains (losses) on hedges	(17)	24	(160)
Foreign currency translation adjustment	4,571	(605)	43,123
Remeasurements of defined benefit plans, net of tax	641	1,248	6,047
Share of other comprehensive income of entities accounted for using equity method	63	(177)	594
Total other comprehensive income	6,081	1,827	57,368
Comprehensive income	¥39,218	¥26,377	\$369,981
Attributable to:			
Owners of parent	¥37,147	¥25,707	\$350,443
Non-controlling interests	2,071	670	19,538

See accompanying notes.

Consolidated Statement of Changes in Net Assets

Ube Industries, Ltd. and Consolidated Subsidiaries

The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017.

The corresponding items on the consolidated statement of changes in net assets have been calculated assuming that such share consolidation was carried out on April 1, 2016.

Millions of yen											
For the year ended March 31, 2018	Number of shares issued (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available- for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Share acquisition rights	Non-controlling interests
Opening balance	106,200	¥58,435	¥38,091	¥185,747	¥(726)	¥4,893	¥11	¥2,378	¥(2,230)	¥623	¥23,179
Cash dividends at ¥60.00 per share	—	—	—	(6,362)	—	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	31,680	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	(5,042)	—	—	—	—	—	—
Disposal of treasury shares	—	—	127	—	2,810	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	73	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	798	(17)	4,037	649	49	(2,342)
Closing balance	106,200	¥58,435	¥38,291	¥211,065	¥(2,958)	¥5,691	¥(6)	¥6,415	¥(1,581)	¥672	¥20,837

Millions of yen											
For the year ended March 31, 2017	Number of shares issued (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available- for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Share acquisition rights	Non-controlling interests
Opening balance	106,200	¥58,435	¥38,536	¥166,862	¥(801)	¥3,514	¥(13)	¥3,674	¥(3,645)	¥597	¥22,463
Cash dividends at ¥50.00 per share	—	—	—	(5,300)	—	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	24,185	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	(63)	—	—	—	—	—	—
Disposal of treasury shares	—	—	(18)	—	138	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	(427)	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	1,379	24	(1,296)	1,415	26	716
Closing balance	106,200	¥58,435	¥38,091	¥185,747	¥(726)	¥4,893	¥11	¥2,378	¥(2,230)	¥623	¥23,179

Thousands of U.S. dollars (Note 1)											
For the year ended March 31, 2018	Number of shares issued (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury shares	Valuation difference on available- for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Share acquisition rights	Non-controlling interests
Opening balance	106,200	\$551,274	\$359,349	\$1,752,330	\$(6,849)	\$46,160	\$104	\$22,434	\$(21,038)	\$5,877	\$218,670
Cash dividends at ¥60.00 per share	—	—	—	(60,019)	—	—	—	—	—	—	—
Profit attributable to owners of parent	—	—	—	298,868	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	(47,566)	—	—	—	—	—	—
Disposal of treasury shares	—	—	1,198	—	26,509	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	689	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	7,529	(161)	38,085	6,123	463	(22,095)
Closing balance	106,200	\$551,274	\$361,236	\$1,991,179	\$(27,906)	\$53,689	\$(57)	\$60,519	\$(14,915)	\$6,340	\$196,575

See accompanying notes.

Consolidated Statement of Cash Flows

Ube Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 45,000	¥ 32,933	\$ 424,528
Depreciation and amortization	35,353	34,490	333,519
Loss on impairment of fixed assets	3,667	586	34,594
Interest and dividend income	(1,264)	(893)	(11,924)
Interest expense	1,408	1,597	13,283
Gain on sales of property, plant and equipment	(42)	(142)	(396)
Gain on sales of investment securities	(11)	—	(104)
Increase in notes and accounts receivable - trade	(1,978)	(19,026)	(18,660)
Increase in inventories	(6,803)	(6,743)	(64,179)
Increase in notes and accounts payable - trade	6,500	16,961	61,321
Loss on business restructuring	468	—	4,415
Changes in net defined benefit asset and liability	(363)	(686)	(3,425)
Others, net	(2,015)	3,723	(19,009)
Subtotal	79,920	62,800	753,963
Interest and dividend income received	3,532	1,736	33,321
Interest expenses paid	(1,430)	(1,615)	(13,491)
Proceeds from subsidy income	606	724	5,717
Income taxes paid	(9,242)	(10,227)	(87,189)
Net cash provided by operating activities	73,386	53,418	692,321
Cash flows from investing activities:			
Proceeds from sales of property, plant and equipment	866	488	8,170
Purchase of property, plant and equipment and intangible assets	(33,769)	(41,867)	(318,575)
Proceeds from sales of investment securities	21	132	198
Purchase of investment securities	(245)	(448)	(2,311)
Proceeds from sales of shares of subsidiaries and affiliates	111	56	1,047
Purchase of shares of subsidiaries and affiliates	(1,391)	(595)	(13,123)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	309	—
Net decrease in loans receivable	318	57	3,000
Others, net	111	1,039	1,047
Net cash used in investing activities	(33,978)	(40,829)	(320,547)
Cash flows from financing activities:			
Proceeds from long-term borrowings	15,887	20,562	149,877
Proceeds from issuance of bonds	19,908	9,950	187,811
Repayments of long-term borrowings	(20,313)	(21,306)	(191,632)
Repayments of long-term bonds	(15,020)	(15,020)	(141,698)
Net decrease in short-term loans payable	(5,345)	(15,046)	(50,425)
Increase (decrease) in commercial paper	(10,000)	10,000	(94,340)
Cash dividends paid	(6,347)	(5,287)	(59,877)
Dividends paid to non-controlling interests	(308)	(354)	(2,906)
Proceeds from share issuance to non-controlling shareholders	—	465	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,201)	(884)	(11,330)
Others, net	(5,820)	(766)	(54,905)
Net cash used in financing activities	(28,559)	(17,686)	(269,425)
Effect of exchange rate change on cash and cash equivalents	607	(285)	5,726
Net increase (decrease) in cash and cash equivalents	11,456	(5,382)	108,075
Cash and cash equivalents at beginning of the year	35,806	41,188	337,792
Increase in cash and cash equivalents resulting from change in the scope of consolidation	1,267	—	11,954
Cash and cash equivalents at end of the year	¥ 48,529	¥ 35,806	\$ 457,821

See accompanying notes.

Notes to Consolidated Financial Statements

Ube Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

1**Basis of presenting consolidated financial statements**

(a) Ube Industries, Ltd. (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) 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 Financial Instruments and Exchange Act 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 ¥106=US\$1, the approximate rate of exchange on March 31, 2018. 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 (70 companies for the years ended March 31, 2018 and 2017). 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 (24 and 25 companies for the years ended March 31, 2018 and 2017, respectively). All significant intercompany balances and transactions are eliminated in consolidation.

Certain subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions occurring during the January 1 to March 31 period.

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

The difference between acquisition cost and the underlying net assets at fair value at the date of acquisition is amortized over a period of 20 years on a straight-line basis. Negative goodwill in the amounts of ¥647 million (US\$6,104 thousand) and ¥808 million is included in “Other long-term liabilities” on the consolidated balance sheet at March 31, 2018 and 2017, respectively.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost.

(b) Accounting for income taxes

Deferred tax assets and liabilities are recognized in the consolidated financial statements with respect to the differences between the financial reporting and the tax bases of the assets and liabilities.

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

Valuation allowance is provided for the deferred tax assets that are not realizable within a reasonable period.

(c) Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: “Trading,” “Held-to-maturity” and “Others.” The Company and its consolidated subsidiaries have no trading securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in the valuation difference, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(d) Derivatives and hedge accounting

All derivatives are stated at fair value, with changes in fair value recorded as gain or loss for the period in which they arise.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers 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 (“Short-cut method”).

Summarized in the table below are hedging instruments and items hedged.

Hedging instruments	Items hedged
Interest rate swaps	Loans
Interest rate options	Loans
Forward foreign exchange contracts	Foreign currency receivables and payables Forecasted foreign currency transactions
Currency options	Foreign currency receivables and payables Forecasted foreign currency transactions
Currency swaps	Foreign currency loans
Coal price swaps	Coal purchased at market linked price

The Company and its consolidated subsidiaries use hedging instruments for the purpose of reducing the fluctuation risk of interest rates, foreign exchange and coal prices in accordance with Company policies.

The effectiveness of hedging activities is assessed by confirming whether each hedging instrument corresponds to the item hedged.

Additional information on derivatives is presented in Note 17. Derivative financial instruments.

(e) Retirement and pension plan

The Company attributes projected benefits based on a flat benefit formula.

Actuarial gain or loss is amortized in the following year in which the gain or loss is incurred mainly by the declining-balance method over 10-14 years, which are shorter than the average remaining service years of employees.

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

Many consolidated subsidiaries adopt a simplified method to calculate net defined benefit liability and retirement benefit expenses based on the assumption that the benefits payable, which are calculated as if all eligible employees voluntarily terminate their employment at fiscal year end, approximates the retirement benefit obligations at year end.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount estimated with reference to individual uncollectible accounts plus an amount calculated using a historical rate determined based on the actual uncollectible amounts incurred in prior years.

(g) Inventories

Inventories are stated at the lower of cost or market, cost being determined principally by the weighted-average method.

(h) Property, plant and equipment (except for leased assets) and depreciation

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 some consolidated subsidiaries, except for certain buildings of domestic consolidated subsidiaries acquired on or after April 1, 1998, and except for certain building facilities and structures of domestic consolidated subsidiaries acquired on or after April 1, 2016, which are depreciated by the straight-line method, at rates based on the estimated useful lives of the respective assets.

The estimated useful lives of the assets are as follows:

Buildings and structures: 2 to 75 years

Machinery and equipment: 2 to 30 years

(i) Intangible assets (except for leased assets)

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

(j) Leased assets

Leased property under finance leases which does not transfer ownership of the leased property to lessees is depreciated or amortized by the straight-line method over the lease terms assuming no residual value.

(k) Research and development costs

Research and development costs are charged to income when incurred.

(l) Net income per share

Basic net income per share is computed based on net income available for distribution to stockholders of common stock and the weighted average number of shares of common stock outstanding during each year (105,021 thousand shares and 105,842 thousand shares for the years ended March 31, 2018 and 2017, respectively). Diluted net income per share is computed based on net income available for distribution to the stockholders and the weighted average number of shares of common stock outstanding during each year assuming full exercise of share acquisition rights (355 thousand shares and 332 thousand shares for the years ended March 31, 2018 and 2017, respectively). Also, the Company has consolidated its shares in the proportion

of 10 common shares to one common share, effective as of October 1, 2017. Net assets per share, net income per share and diluted net income per share have been calculated assuming that such share consolidation was carried out at the beginning of the previous fiscal year.

(m) Provision for bonuses

Provision for bonuses is provided for payments to employees at the estimated amount incurred attributable to the current fiscal year.

(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) Provision for loss on orders received

Provision for loss on orders received is provided to cover the losses that are highly likely to be incurred and the amounts of which can be reasonably estimated.

These provisions for loss on orders received in the amounts of ¥543 million (US\$5,123 thousand) and ¥465 million are included in "Other current liabilities" on the consolidated balance sheet at March 31, 2018 and 2017, respectively.

(p) Provision for directors' retirement benefits

Consolidated subsidiaries provide for retirement allowances for directors and audit & supervisory board members at the necessary amount at the year end based on their internal policies.

Retirement allowances of ¥627 million (US\$5,915 thousand) and ¥727 million are included in "Other long-term liabilities" on the consolidated balance sheet at March 31, 2018 and 2017, respectively.

(q) Provision for loss on business restructuring

Provision for loss on business restructuring is provided to cover the losses, which are highly likely to be incurred and the amounts of which can be reasonably estimated, related to certain businesses of the Company and its consolidated subsidiaries.

These provisions for loss on business restructuring in the amounts of ¥1,214 million (US\$11,453 thousand) and ¥199 million are included in "Other long-term liabilities" on the consolidated balance sheet at March 31, 2018 and 2017, respectively.

(r) Provision for special repairs

Provisions for special repairs is provided for payments of routine maintenance mainly for ammonia plants at the estimated amount.

These provisions for special repairs in the amounts of ¥2,697 million (US\$25,443 thousand) and ¥1,428 million are included in "Other long-term liabilities" on the consolidated balance sheet at March 31, 2018 and 2017, respectively.

3

Accounting changes

(a) Accounting standards issued but not yet adopted

- Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29 of March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 of March 30, 2018)

1. Overview

In May 2014, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly issued Revenue from Contracts with Customers (IFRS 15 under IFRS and Topic 606 under U.S. GAAP), a converged standard on the recognition of revenue from contracts with customers. In light of IFRS 15's mandatory application for annual reporting periods beginning on or after January 1, 2018 and Topic 606's mandatory application for annual reporting periods beginning on or after December 16, 2017, the ASBJ had projected the development of a comprehensive accounting standard for revenue recognition and issued the corresponding accounting standard and the implementation guidance. The basic policy on the development of the accounting standard by the ASBJ is basically based on IFRS 15, from the standpoint of comparability of the financial statements between IFRS and Japanese GAAP. Also, certain additional alternative treatments that do not impair comparability are provided where current practices under Japanese GAAP should be addressed.

2. Scheduled date of adoption

The effective date of adoption by the Company is under consideration.

3. Effect of adoption

The Company is currently evaluating the effect of adopting ASBJ Statement No. 29 and ASBJ Guidance No. 30 on its consolidated financial statements.

Financial instruments

(a) Policy for financial instruments

The Group manages funds by utilizing short-term deposits, etc., subject to an insignificant risk of change in value. The Group raises money by borrowing from financial institutions and by issuing commercial paper, straight bonds and bonds with warrants. The Group uses derivatives for the purpose of reducing risk and does not hold or issue derivative financial instruments for speculative purposes.

(b) Types of financial instruments and related risk

Trade receivables— Notes and accounts receivables - trade —are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from receivables and payables denominated in foreign currencies. The foreign currency exchange risks deriving from those receivables and payables are hedged by forward foreign exchange contracts, currency options and currency swaps.

Investment securities are exposed to market risk and credit risk in relation to issuers. Those securities are composed of the shares of common stock of other companies.

Trade payables— Notes and accounts payables - trade —have payment due dates within one year.

Short-term loans payable are raised and commercial paper is issued mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Short-term loans payable and long-term debt with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for those bearing interest at variable rates, the Group utilizes interest rate swap or option transactions as a hedging instrument.

Regarding derivatives, the Group enters into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, interest rates and commodity prices.

(c) Risk management for financial instruments

1. Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

2. Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency and enters into forward foreign exchange contracts, currency options and currency swaps to hedge such risk. In order to mitigate the interest rate risk for loans payable bearing interest at variable rates, the Group may also enter into interest rate swap transactions and interest rate option transactions.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of derivative transactions follows the internal policies, which set forth delegation of authority and maximum upper limit on positions.

3. Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

(d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. The notional amounts of derivatives in Note 17. Derivative financial instruments are not necessarily indicative of the actual market risk involved in derivative transactions.

Summarized in the table below are the carrying amounts and the estimated fair values of financial instruments outstanding at March 31, 2018 and 2017. Financial instruments for which it is extremely difficult to determine the fair value are not included in the table below.

	Millions of yen			Thousands of U.S. dollars		
	2018			2018		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets						
Cash and cash equivalents	¥ 48,529	¥ 48,529	¥ —	\$ 457,821	\$ 457,821	\$ —
Time deposits	530	530	—	5,000	5,000	—
Notes and accounts receivable - trade	162,739	162,739	—	1,535,274	1,535,274	—
Investment securities	14,665	14,665	—	138,349	138,349	—
Total assets	¥226,463	¥226,463	¥ —	\$2,136,444	\$2,136,444	\$ —
Liabilities						
Notes and accounts payable - trade	¥104,532	¥104,532	¥ —	\$ 986,151	\$ 986,151	\$ —
Short-term loans payable	42,131	42,131	—	397,462	397,462	—
Commercial paper	—	—	—	—	—	—
Other payables	34,601	34,601	—	326,425	326,425	—
Income taxes payable	6,027	6,027	—	56,858	56,858	—
Long-term debt*	151,802	151,828	26	1,432,094	1,432,340	246
Total liabilities	¥339,093	¥339,119	¥26	\$3,198,990	\$3,199,236	\$246
Derivative financial transactions**	¥ (32)	¥ (32)	¥ —	\$ (302)	\$ (302)	\$ —

* Current portions of long-term borrowings of ¥27,671 million (US\$261,047 thousand) and bonds of ¥10,010 million (US\$94,434 thousand) are included in long-term debt.

** The value of assets and liabilities arising from derivatives is shown at net value with amounts in parentheses representing net liability position.

Note: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

(a) "Cash and cash equivalents," "Time deposits" and "Notes and accounts receivable - trade"

These are settled in a short period of time, therefore their carrying amounts approximate fair value.

(b) "Investment securities"

The fair values of marketable securities are based on quoted market prices.

The fair values of debt securities are based on either quoted market prices or quotes provided by the financial institutions. For information on securities classified by holding purpose, please refer to Note 5. Securities in these notes to the consolidated financial statements.

Liabilities

(c) "Notes and accounts payable - trade," "Short-term loans payable," "Commercial paper," "Other payables" and "Income taxes payable"

These are settled in a short period of time, therefore their carrying amounts approximate fair value.

(d) "Long-term debt"

The fair value of bonds is estimated based on either market price, when available, or present value of the total of principal and interest discounted by the interest rate that would be applied if similar new bonds were issued. The fair value of long-term borrowings is estimated based on present value of the total of principal and interest discounted by the interest rate that would be applied if similar new borrowings were entered into. Long-term borrowings with variable rates are hedged by interest rate swap contracts that are accounted for by the short-cut method and the fair value is estimated based on the total of principal and interest under the short-cut method discounted by the interest rate that would be applied if similar new borrowings were entered into.

Derivative financial transactions

Please refer to Note 17. Derivative financial instruments in these notes to the consolidated financial statements.

	Millions of yen		
	2017		
	Carrying amount	Fair value	Difference
Assets			
Cash and cash equivalents	¥ 35,806	¥ 35,806	¥ —
Time deposits	828	828	—
Notes and accounts receivable - trade	157,845	157,845	—
Investment securities	13,606	13,606	—
Total assets	¥208,085	¥208,085	¥ —
Liabilities			
Notes and accounts payable - trade	¥ 92,342	¥ 92,342	¥ —
Short-term loans payable	47,713	47,713	—
Commercial paper	10,000	10,000	—
Other payables	26,813	26,813	—
Income taxes payable	4,546	4,546	—
Long-term debt*	150,903	151,327	424
Total liabilities	¥332,317	¥332,741	¥424
Derivative financial transactions**	¥ (143)	¥ (143)	¥ —

* Current portions of long-term borrowings of ¥18,218 million and bonds of ¥15,020 million are included in long-term debt.

** The value of assets and liabilities arising from derivatives is shown at net value with amounts in parentheses representing net liability position.

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unconsolidated subsidiaries and affiliates securities	¥34,959	¥33,160	\$329,802
Non-listed equity securities	4,658	4,546	43,943
Others	522	303	4,924

Redemption schedules for financial assets and investment securities with contractual maturities subsequent to March 31, 2018 and 2017 are as follows:

	Millions of yen			
	2018			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and cash equivalents	¥ 48,483	¥—	¥—	¥—
Time deposits	530	—	—	—
Notes and accounts receivable - trade	162,739	—	—	—
	¥211,752	¥—	¥—	¥—

	Thousands of U.S. dollars			
	2018			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and cash equivalents	\$ 457,387	\$—	\$—	\$—
Time deposits	5,000	—	—	—
Notes and accounts receivable - trade	1,535,274	—	—	—
	\$1,997,661	\$—	\$—	\$—

	Millions of yen			
	2017			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and cash equivalents	¥ 35,766	¥—	¥—	¥—
Time deposits	828	—	—	—
Notes and accounts receivable - trade	157,845	—	—	—
	¥194,439	¥—	¥—	¥—

Redemption schedules for long-term debt and other interest-bearing debt subsequent to March 31, 2018 and 2017 are as follows:

	Millions of yen					
	2018					
	Within one year	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years
Short-term loans payable	¥42,131	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	—	—	—	—	—	—
Long-term debt	37,681	26,344	13,858	20,488	18,654	34,777
	¥79,812	¥26,344	¥13,858	¥20,488	¥18,654	¥34,777

	Thousands of U.S. dollars					
	2018					
	Within one year	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years
Short-term loans payable	\$397,462	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial paper	—	—	—	—	—	—
Long-term debt	355,481	248,528	130,736	193,283	175,981	328,085
	\$752,943	\$248,528	\$130,736	\$193,283	\$175,981	\$328,085

	Millions of yen					
	2017					
	Within one year	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years
Short-term loans payable	¥47,713	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	10,000	—	—	—	—	—
Long-term debt	33,238	37,627	26,293	12,234	17,302	24,209
	¥90,951	¥37,627	¥26,293	¥12,234	¥17,302	¥24,209

Securities

Investment securities at March 31, 2018 and 2017 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	¥34,959	¥33,160	\$329,802
Others	19,845	18,455	187,217
	¥54,804	¥51,615	\$517,019

Marketable securities classified as other securities at March 31, 2018 and 2017 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	¥13,857	¥5,776	¥8,081	¥12,750	¥5,681	¥7,069	\$130,726	\$54,491	\$76,235
Debt securities	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
Subtotal	13,857	5,776	8,081	12,750	5,681	7,069	130,726	54,491	76,235
Securities whose acquisition cost exceeds their carrying value:									
Stock	808	822	(14)	856	906	(50)	7,623	7,755	(132)
Debt securities	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
Subtotal	808	822	(14)	856	906	(50)	7,623	7,755	(132)
Total	¥14,665	¥6,598	¥8,067	¥13,606	¥6,587	¥7,019	\$138,349	\$62,246	\$(76,103)

Sales of securities classified as other securities and the aggregate gain for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
Stock	¥20	¥11	¥—	¥—	¥—	¥—	\$189	\$104	\$—

Acquisition costs in the tables above represent the amounts after deduction of impairment losses. There were no impairment losses for the years ended March 31, 2018 and 2017.

Inventories

Inventories at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished goods	¥40,390	¥35,922	\$381,038
Work in process	20,084	19,587	189,472
Raw materials and supplies	30,455	27,293	287,311
	¥90,929	¥82,802	\$857,821

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Short-term loans payable and long-term debt

Short-term loans payable represent bank loans, with average interest rates of 0.56% and 0.64% per annum at March 31, 2018 and 2017, respectively.

Long-term debt at March 31, 2018 and 2017 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
0.58% to 0.63% unsecured bonds due FY 2017	¥ —	¥ 15,020	\$ —
0.60% to 0.63% unsecured bonds due FY 2018	10,010	10,010	94,433
0.33% unsecured bonds due FY 2019	10,000	10,000	94,340
0.53% unsecured bonds due FY 2021	10,000	10,000	94,340
0.15% unsecured bonds due FY 2022	10,000	—	94,340
0.43% unsecured bonds due FY 2026	10,000	10,000	94,340
0.375% unsecured bonds due FY 2027	10,000	—	94,340
Loans principally from banks and insurance companies:			
Secured, at 0.42% to 1.65%, maturing through FY 2021	—	3,153	—
Secured, at 0.39% to 1.65%, maturing through FY 2022	2,310	—	21,792
Unsecured, at 0.00% to 2.27%, maturing through FY 2033	89,482	92,720	844,169
	151,802	150,903	1,432,094
Less current portion	37,681	33,238	355,481
	¥114,121	¥117,665	\$1,076,613

The Company and certain consolidated subsidiaries have entered into loan commitment agreements amounting to ¥22,579 million (US\$213,009 thousand) with certain banks. Loans payable outstanding at March 31, 2018 under these loan commitment agreements amounted to ¥0 million (US\$0 thousand).

The aggregate annual maturities of the non-current portion of long-term debt are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥ 26,344	\$ 248,528
2021	13,858	130,736
2022	20,488	193,283
2023	18,654	175,981
2024 and thereafter	34,777	328,085
	¥114,121	\$1,076,613

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Pledged assets

The assets pledged as collateral for short-term and long-term borrowings, guarantees and borrowings of affiliated companies at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets pledged as collateral:			
Property, plant and equipment, at net book value	¥105,776	¥109,189	\$997,887
Others	173	175	1,632

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Contingent liabilities

At March 31, 2018 and 2017, the Company and its consolidated subsidiaries are contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
As endorser of trade notes discounted or endorsed	¥ 87	¥ 26	\$ 821
As guarantor of employees' housing loans	36	62	340
As guarantor of indebtedness principally of unconsolidated subsidiaries and affiliated companies	5,155	3,258	48,632

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Net assets

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

At the general shareholders' meeting of the Company held on June 28, 2018, the distribution of retained earnings for the year ended March 31, 2018 was approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥75.00 per share)	¥7,893	\$74,462

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Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Freight and storage	¥21,477	¥19,769	\$202,613
Salaries and benefits	20,494	19,875	193,340
Research and development costs	13,016	13,502	122,792

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Research and development costs

Research and development costs, all of which are included in "Selling, general and administrative expenses" and "Cost of sales" for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Research and development costs	¥13,206	¥13,624	\$124,585

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Other income (expenses)

"Other income (expenses) – Others, net" for the years ended March 31, 2018 and 2017 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Gain on sales of investment securities, net	¥ 11	¥ —	\$ 104
Gain on sales of property, plant and equipment, net	42	142	396
Loss on disposal of property, plant and equipment	(2,777)	(2,963)	(26,198)
Loss on impairment of fixed assets (Note 14)	(3,667)	(586)	(34,594)
Loss on valuation of investment securities	(163)	—	(1,538)
Loss on business restructuring	(468)	—	(4,415)
Gain (loss) on foreign currency exchange, net	55	(183)	519
Gain on bargain purchase	—	1,611	—
Others, net	(1,885)	(1,503)	(17,783)
	¥(8,852)	¥(3,482)	\$(83,509)

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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, 2018 consists of the following:

	Millions of yen	Thousands of U.S. dollars
	2018	2018
Idle property and assets held for sales:		
Land, buildings and structures	¥(2,236)	\$(21,094)
Business assets in use:		
Concrete pile manufacturing plant (Ube Concrete Co., Ltd.)	(487)	(4,594)
Electrolyte manufacturing plant (AET Electrolyte Technologies (Zhangjiagang) Co., Ltd.)	(560)	(5,283)
Ready-mixed concrete manufacturing plant (Nantong UBE Concrete Co., Ltd.)	(384)	(3,623)
	¥(3,667)	\$(34,594)

(a) Idle property and assets held for sales

Among idle property and assets held for sales owned by the Company and its consolidated subsidiaries, there were certain assets whose book values exceeded their recoverable amounts. These assets were written down to their recoverable amounts and an impairment loss of ¥2,236 million (US\$21,094 thousand) was recognized for the year ended March 31, 2018. This impairment loss consisted of ¥1,960 million (US\$18,490 thousand) for land and ¥276 million (US\$2,604 thousand) for buildings and structures.

The recoverable amounts for land in the idle property were determined at net selling price based on appraisal and those for buildings and structures in the idle property were determined at their memorandum prices. The recoverable amounts of land classified as assets held for sales were determined based on their contract prices.

(b) Business assets in use

Ube Concrete Co., Ltd. decided to withdraw from the concrete pile business and reduced the book values of the related facilities to their recoverable amounts.

The recoverable amounts for land were determined at net selling price based on appraisal.

This impairment loss consisted of ¥487 million (US\$4,594 thousand) for land.

AET Electrolyte Technologies (Zhangjiagang) Co., Ltd. decided to close the electrolyte manufacturing plant due to its dissolution and reduced the book values of the related facilities to their recoverable amounts.

The recoverable amounts for machinery and equipment were determined at their memorandum prices.

This impairment loss consisted of ¥560 million (US\$5,283 thousand) for machinery and equipment.

Nantong UBE Concrete Co., Ltd. wrote down the book values of the ready-mixed concrete manufacturing plant to its recoverable amounts due to a decline in profitability and recorded an impairment loss of ¥384 million (US\$3,623 thousand).

The recoverable amounts for the asset group were determined at their memorandum prices and market prices.

This impairment loss consisted of ¥181 million (US\$1,708 thousand) for equipment, ¥127 million (US\$1,198 thousand) for buildings, and ¥76 million (US\$717 thousand) for others.

Loss on impairment of fixed assets for the year ended March 31, 2017 consists of the following:

	Millions of yen
	2017
Idle property and assets held for sales:	
Land, machinery and equipment	¥(299)
Business assets in use:	
Plastic cling film manufacturing plant (Ube Film Co., Ltd.)	(287)
	¥(586)

(a) Idle property and assets held for sales

Among idle property and assets held for sales owned by the Company and its consolidated subsidiaries, there were certain assets whose book values exceeded their recoverable amounts. These assets were written down to their recoverable amounts and an impairment loss of ¥299 million was recognized for the year ended March 31, 2017. This impairment loss consisted of ¥211 million for land and ¥88 million for machinery and equipment.

The recoverable amounts for land in the idle property were determined at net selling price based on appraisal and those for machinery and equipment in the idle property were determined at their memorandum prices. The recoverable amounts of land classified as assets held for sales were determined based on their contract prices.

(b) Business assets in use

Ube Film Co., Ltd. decided to close a plastic cling film manufacturing plant and reduced the book values of the related facilities to their recoverable amounts.

The recoverable amounts for buildings and structures were determined at their memorandum prices and those for land were determined at net selling price based on appraisal.

This impairment loss consisted of ¥223 million for land, ¥61 million for buildings, and ¥3 million for others.

Income taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 30.7% for the years ended March 31, 2018 and 2017.

The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2018 and 2017 differ from the statutory tax rate for the following reasons.

	Percentage	
	2018	2017
Statutory tax rate	30.7%	30.7%
Effect of:		
Permanently non-deductible expenses	0.3	0.5
Permanently non-taxable items including dividend income	(5.6)	(5.2)
Loss carried forward without deferred tax assets	0.5	1.8
Deducted amount of loss without deferred tax assets	(0.5)	(0.2)
Effect of elimination of dividend income through consolidation procedures	5.7	5.1
Share of profit of entities accounted for using equity method	(2.5)	(1.9)
Tax rate difference of overseas consolidated subsidiaries	(2.5)	(1.1)
Gain on bargain purchase	—	(1.5)
Retained earnings of foreign subsidiary companies	2.3	1.6
Deductible research and development expenses	(2.9)	(3.1)
Others	0.9	(1.2)
Effective tax rate	26.4%	25.5%

The significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Provision for bonuses	¥ 2,223	¥ 2,148	\$ 20,972
Net defined benefit liability	2,403	2,413	22,670
Allowance for doubtful accounts	279	305	2,632
Loss carried forward	4,939	5,127	46,594
Intercompany profit	11,028	11,746	104,038
Depreciation and amortization	3,062	3,322	28,887
Loss on valuation of investment securities	527	620	4,971
Disposal of fixed assets without dismantlement	3,108	3,510	29,321
Accrual for losses on business restructuring	196	168	1,849
Others	7,182	5,327	67,755
Gross deferred tax assets	34,947	34,686	329,689
Valuation allowance	(7,382)	(6,338)	(69,642)
Total deferred tax assets	27,565	28,348	260,047
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	(2,508)	(2,690)	(23,660)
Valuation difference on available-for-sale securities	(2,240)	(2,133)	(21,132)
Net defined benefit asset	(2,336)	(2,242)	(22,038)
Revaluation surplus on assets	(2,044)	(2,174)	(19,283)
Retained earnings of foreign subsidiary companies	(4,449)	(3,423)	(41,972)
Others	(3,424)	(3,602)	(32,302)
Total deferred tax liabilities	(17,001)	(16,264)	(160,387)
Net deferred tax assets	¥ 10,564	¥ 12,084	\$ 99,660

Note: Net deferred tax assets in the preceding table are classified as follows in the accompanying consolidated balance sheet.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets – Deferred tax assets	¥ 6,524	¥ 6,834	\$ 61,547
Investments and other assets – Long-term deferred tax assets	6,518	7,521	61,491
Long-term liabilities – Long-term deferred tax liabilities	(2,478)	(2,271)	(23,377)

Business combinations Common control transactions

The Company's Board of Directors resolved at its meeting held on May 11, 2017 to implement share exchanges (hereafter "the share exchanges") in which its consolidated subsidiaries, Ube Shipping and Logistics, Ltd. and Hagimori Industries, Ltd. (hereafter "Ube Shipping & Logistics" and "Hagimori Industries", respectively) became wholly-owned subsidiaries of the Company through the share exchanges. The Company entered into the share exchange agreements with Ube Shipping & Logistics and Hagimori Industries on the same day.

Ube Shipping & Logistics and Hagimori Industries have been wholly-owned subsidiaries of the Company based on the share exchange agreements, effective as August 1, 2017.

1. Outline of transaction

(1) Name and business description of combined entities

Name: Ube Shipping & Logistics

Business description: Coastal shipping, port transport, containers, trading, engineering, construction, and collection and transport of industrial waste, and others

Name: Hagimori Industries

Business description: Manufacture and sale of ready-mixed concrete, concrete piles, self-leveling materials, and others

(2) Date of transaction

August 1, 2017

(3) Legal form of transaction

Under the share exchanges, the Company became the parent company owning all shares of Ube Shipping & Logistics and Hagimori Industries, and the companies became wholly-owned subsidiaries of the Company.

(4) Company names after business combination

Unchanged

(5) Summary of other matters concerning transaction

The Company has decided to make Ube Shipping & Logistics and Hagimori Industries into wholly-owned subsidiaries in order to respond flexibly to changes in the business environment and to achieve sustained business growth and enhance corporate value by utilizing the management resources within the UBE Group.

Ube Shipping & Logistics conducts coastal shipping and port transport business operations in Japan, and distributes the products made by the cement business, the core business of the Company. In addition, Ube Shipping & Logistics has actively expanded its business outside Japan, including chartering ocean-going vessels, trading, engineering and container businesses. Hagimori Industries operates building materials and concrete repair businesses with a focus on the manufacture and sale of ready-mixed concrete, which is a downstream business for cement.

By making Ube Shipping & Logistics and Hagimori Industries, both included in the Company's Cement & Construction Materials segment, into wholly-owned subsidiaries, the Company aims to integrate business strategy and management resources and speed up decision-making to further enhance the corporate value of the UBE Group.

2. Summary of accounting procedures

The share exchanges were accounted for as a transaction with non-controlling interests under common control based on the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 of September 13, 2013).

3. Information relating to additional acquisition of shares

Acquisition cost and its breakdown

	Millions of yen	Thousands of U.S. dollars
Common stock for Ube Shipping & Logistics	¥1,533	\$14,462
Common stock for Hagimori Industries	1,362	12,849
Total acquisition cost	¥2,895	\$27,311

4. Share exchange ratio by share class and its calculation method, and number of shares issued

(1) Share exchange ratio by share class

2.4 shares of common stock of the Company were delivered by allotment for 1 share of Ube Shipping & Logistics.

4.0 shares of common stock of the Company were delivered by allotment for 1 share of Hagimori Industries.

(2) Calculation method for share exchange ratio

The share price of the Company as a listed company was calculated by employing the market price method. The share prices of Ube Shipping & Logistics and Hagimori Industries, as non-listed companies, were calculated by a third-party entity independent from the Company, Ube Shipping & Logistics, and Hagimori Industries by using the discounted cash flow (DCF) method and comparable company analysis. The share exchange ratio was determined based on the above calculation results after a careful deliberation between the Company and Ube Shipping & Logistics and Hagimori Industries.

(3) Number of shares issued

In the share exchanges, the Company allotted and delivered 10,014,613 shares of its common stock.

	Number of shares delivered in the share exchanges
Ube Shipping & Logistics	5,302,977 shares
Hagimori Industries	4,711,636 shares
Total	10,014,613 shares

5. Details about the change in shareholders' equity due to the transaction with non-controlling shareholders

(1) Main reason for the change in capital surplus

Acquisition of additional shares in subsidiaries

(2) Increase in capital surplus due to the transaction with non-controlling shareholders

	Millions of yen	Thousands of U.S. dollars
Ube Shipping & Logistics	¥(213)	\$(2,009)
Hagimori Industries	472	4,452
Total	¥259	\$2,443

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Derivative financial instruments

Summarized below are the notional amounts and the estimated fair values of the derivative transactions outstanding at March 31, 2018 and 2017.

(a) Derivative financial instruments for which deferred hedge accounting has not been applied

Currency-related transactions:

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	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:									
USD	¥ 137	¥ (1)	¥ (1)	¥7,173	¥(176)	¥(176)	\$ 1,292	\$ (9)	\$ (9)
JPY	14	0	0	—	—	—	132	0	0
Buy:									
USD	1,366	(21)	(21)	1,374	16	16	12,887	(198)	(198)
EUR	167	(2)	(2)	17	(0)	(0)	1,576	(19)	(19)
AUD	—	—	—	22	1	1	—	—	—
Total	¥1,684	¥(24)	¥(24)	¥8,586	¥(159)	¥(159)	\$15,887	\$(226)	\$(226)

Note: Calculation of fair value is based on the forward rate.

(b) Derivative financial instruments for which deferred hedged accounting has been applied

1. Currency-related transactions

Main items hedged by forward foreign exchange contracts are trade accounts receivable and payable.

Principle method	Forward exchange contracts:	Millions of yen				Thousands of U.S. dollars	
		2018		2017		2018	
		Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Sell:						
	USD	¥ —	¥—	¥ 786	¥ 23	\$ —	\$ —
	THB	37	(0)	—	—	349	(0)
	Buy:						
	EUR	363	(8)	256	(7)	3,424	(75)
Short-cut method	Forward exchange contracts:						
	Sell:						
	USD	1,249	57	998	(11)	11,783	537
	Currency swap contracts:						
	Receive/USD						
	Pay/JPY	7,952	*	7,952	*	75,019	*
	Total	¥9,601	¥49	¥9,992	¥ 5	\$90,575	\$462

* The fair value of currency swaps accounted for by the short-cut method is included in the fair value of long-term debt, which is designated as the hedged item.

Note: Calculation of fair value is based on the forward rate.

2. Interest-related transactions

Main items hedged by interest-rate swap and interest-cap contracts are short-term loans payable and long-term debt.

Short-cut method	Interest-rate swaps:	Millions of yen				Thousands of U.S. dollars	
		2018		2017		2018	
		Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Receive/floating and pay/fixed	¥7,252	*	¥12,123	*	\$68,415	*

* The fair value of interest-rate swaps accounted for by the short-cut method is included in the fair value of long-term debt, which is designated as the hedged item.

Note: Calculation of fair value is based on the prices provided by the financial institutions.

Segment information

Reportable segments of the Company consist of the business units for which independent financial information is available. They are regularly monitored by the Board of Directors in order to decide the distribution of business resources and evaluate the business results.

The Company classifies its products and services into six reportable segments: "Chemicals," "Pharmaceutical," "Cement & Construction Materials," "Machinery," "Energy & Environment" and "Other."

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2018 and 2017 are summarized by reportable segment as follows:

Year ended March 31, 2018	Millions of yen							Consolidated
	Chemicals	Pharmaceutical	Cement & Construction Materials	Machinery	Energy & Environment	Other	Elimination & Corporate	
Sales:								
Outside customers	¥303,653	¥10,173	¥232,167	¥88,418	¥57,636	¥ 3,527	¥ —	¥695,574
Intersegment sales and transfers	1,779	40	6,687	1,722	13,725	1,270	(25,223)	—
Total	305,432	10,213	238,854	90,140	71,361	4,797	(25,223)	695,574
Segment operating profit	¥ 28,974	¥ 2,107	¥ 12,340	¥ 5,511	¥ 2,350	¥ 872	¥ (1,904)	¥ 50,250
Segment assets	¥346,603	¥12,419	¥225,250	¥78,670	¥52,109	¥13,143	¥14,935	¥743,129
Depreciation and amortization	19,969	880	8,889	1,700	2,834	271	810	35,353
Equity method investments	19,950	—	9,391	—	1,239	1,075	—	31,655
Capital expenditures	20,350	566	10,755	2,710	4,683	211	1,061	40,336

Year ended March 31, 2018	Thousands of U.S. dollars							Consolidated
	Chemicals	Pharmaceutical	Cement & Construction Materials	Machinery	Energy & Environment	Other	Elimination & Corporate	
Sales:								
Outside customers	\$2,864,651	\$ 95,972	\$2,190,255	\$834,132	\$543,736	\$33,273	\$ —	\$6,562,019
Intersegment sales and transfers	16,783	377	63,085	16,245	129,481	11,981	(237,952)	—
Total	2,881,434	96,349	2,253,340	850,377	673,217	45,254	(237,952)	6,562,019
Segment operating profit	\$ 273,340	\$ 19,877	\$ 116,415	\$ 51,991	\$ 22,170	\$ 8,226	\$ (17,962)	\$ 474,057
Segment assets	\$3,269,840	\$117,160	\$2,125,000	\$742,170	\$491,594	\$123,991	\$140,896	\$7,010,651
Depreciation and amortization	188,387	8,302	83,858	16,038	26,736	2,557	7,641	333,519
Equity method investments	188,208	—	88,594	—	11,689	10,141	—	298,632
Capital expenditures	191,981	5,340	101,462	25,566	44,179	1,991	10,009	380,528

Year ended March 31, 2017	Millions of yen							Consolidated
	Chemicals	Pharmaceutical	Cement & Construction Materials	Machinery	Energy & Environment	Other	Elimination & Corporate	
Sales:								
Outside customers	¥254,963	¥10,975	¥221,432	¥69,289	¥49,477	¥10,427	¥ —	¥616,563
Intersegment sales and transfers	3,401	—	5,804	2,379	10,305	2,093	(23,982)	—
Total	258,364	10,975	227,236	71,668	59,782	12,520	(23,982)	616,563
Segment operating profit	¥ 9,657	¥ 2,496	¥ 16,264	¥ 3,671	¥ 2,855	¥ 754	¥ (737)	¥ 34,960
Segment assets	¥324,232	¥12,915	¥219,126	¥75,121	¥48,613	¥14,824	¥14,548	¥709,379
Depreciation and amortization	18,873	838	8,831	1,455	2,825	649	1,019	34,490
Equity method investments	19,323	—	8,778	—	1,219	1,903	—	31,223
Capital expenditures	28,282	375	9,884	1,959	1,438	904	1,225	44,067

Sales and amounts of property, plant and equipment of the Company and its consolidated subsidiaries as of and for the years ended March 31, 2018 and 2017 by geographic area are as follows:

Year ended March 31, 2018	Millions of yen				
	Japan	Asia	Europe	Other area	Consolidated
Sales	¥484,481	¥135,071	¥40,338	¥35,684	¥695,574

Year ended March 31, 2018	Thousands of U.S. dollars				
	Japan	Asia	Europe	Other area	Consolidated
Sales	\$4,570,575	\$1,274,255	\$380,547	\$336,642	\$6,562,019

As of March 31, 2018	Millions of yen					
	Japan	Thailand	Other Asia	Europe	Other area	Consolidated
Property, plant and equipment	¥264,888	¥48,518	¥755	¥19,696	¥405	¥334,262

As of March 31, 2018	Thousands of U.S. dollars					
	Japan	Thailand	Other Asia	Europe	Other area	Consolidated
Property, plant and equipment	\$2,498,943	\$457,717	\$7,123	\$185,811	\$3,821	\$3,153,415

Year ended March 31, 2017	Millions of yen				
	Japan	Asia	Europe	Other area	Consolidated
Sales	¥440,584	¥113,837	¥32,881	¥29,261	¥616,563

As of March 31, 2017	Millions of yen					
	Japan	Thailand	Other Asia	Europe	Other area	Consolidated
Property, plant and equipment	¥263,106	¥49,700	¥1,065	¥16,622	¥950	¥331,443

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Leases

(a) Finance leases

Finance leases commencing on or before March 31, 2008 continue to be accounted for in the same manner as operating leases.

The following amounts represent the acquisition costs (including the interest portion thereon), accumulated depreciation and amortization and net book value of the leased property at March 31, 2018 and 2017. These amounts would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

At March 31	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Acquisition costs:			
Machinery and equipment	¥3	¥7	\$28
	¥3	¥7	\$28
Accumulated depreciation and amortization:			
Machinery and equipment	¥3	¥5	\$28
	¥3	¥5	\$28
Net book value:			
Machinery and equipment	¥0	¥2	\$0
	¥0	¥2	\$0

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1 million (US\$9 thousand) and ¥1 million for the years ended March 31, 2018 and 2017, respectively. They are equal to the depreciation and amortization expenses of the leased assets computed by the straight-line method over the lease terms.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2018 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥0	\$0
2020 and thereafter	0	0
	¥0	\$0

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2018 and 2017 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 642	\$ 6,057
2020 and thereafter	4,044	38,151
	¥4,686	\$44,208

Retirement benefits

Years ending March 31	Millions of yen	
	2018	2017
2018	¥ 655	
2019 and thereafter	4,516	
	¥5,171	

The Company and certain domestic consolidated subsidiaries have funded and unfunded defined benefit company pension plans. Certain domestic consolidated subsidiaries have defined contribution pension plans.

Under the defined benefit pension plans, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay and years of service. The retirement benefit trusts have been established for some defined benefit pension plans.

Under the lump-sum retirement benefit of defined pension plans, benefits are determined based on the rate of pay and years of service.

Defined contribution plans are mainly defined contribution pension plans.

(a) Defined benefit plans

The changes in the retirement benefit obligation during the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Opening balance of retirement benefit obligation	¥48,869	¥51,097	\$461,028
Service cost	2,885	2,933	27,217
Interest cost	287	292	2,707
Actuarial loss (gain)	26	(856)	246
Benefit paid	(2,551)	(4,597)	(24,066)
Closing balance of retirement benefit obligation	¥49,516	¥48,869	\$467,132

The changes in plan assets during the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Opening balance of plan assets	¥54,157	¥55,709	\$510,915
Expected return on pension assets	1,161	1,215	10,953
Actuarial gain (loss)	236	(29)	2,226
Contributions by the employer	1,911	1,739	18,028
Benefit paid	(2,374)	(4,477)	(22,396)
Closing balance of plan assets	¥55,091	¥54,157	\$519,726

The reconciliation of the retirement benefit obligations and plan assets to the liabilities and assets for retirement benefits recognized in the consolidated balance sheet as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥ 46,975	¥ 46,418	\$ 443,160
Plan assets	(55,091)	(54,157)	(519,726)
	(8,116)	(7,739)	(76,566)
Unfunded retirement benefit obligations	2,541	2,451	23,972
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	¥ (5,575)	¥ (5,288)	\$ (52,594)
Net defined benefit liability	¥ 2,541	¥ 2,459	\$ 23,972
Net defined benefit asset	(8,116)	(7,747)	(76,566)
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	¥ (5,575)	¥ (5,288)	\$ (52,594)

The breakdown of the retirement benefit expenses for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 2,885	¥ 2,933	\$ 27,217
Interest cost	287	292	2,707
Expected return on plan assets	(1,161)	(1,215)	(10,953)
Amortization of actuarial loss	520	795	4,906
Amortization of prior service cost	182	181	1,717
Retirement benefit expenses	¥ 2,713	¥ 2,986	\$ 25,594

The components of remeasurements of defined benefit plans in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost	¥182	¥ 181	\$1,717
Actuarial loss	730	1,622	6,887
Total	¥912	¥1,803	\$8,604

The components of remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service cost	¥ 180	¥ 362	\$ 1,698
Unrecognized actuarial loss	2,116	2,846	19,962
Total	¥2,296	¥3,208	\$21,660

The breakdown of pension assets by major category as a percentage of total plan assets as of March 31, 2018 and 2017 is as follows:

	Ratio	
	2018	2017
Bonds	35%	35%
Equities	22	23
Insurance assets (General account)	25	26
Other	18	16
Total	100%	100%

The above total includes 13% of the retirement benefit trusts of company pension plans at March 31, 2018 and 2017.

The expected return rate on plan assets is estimated based on the current and anticipated allocations to each asset class and current and anticipated long-term returns on assets held in each category.

The items of actuarial assumptions for the years ended March 31, 2018 and 2017 are as follows:

	Ratio	
	2018	2017
Discount rate	0.3~1.2%	0.3~1.2%
Expected long-term return on plan assets:		
Pension assets	2.0~2.5	2.0~2.5
Retirement benefit trusts	0.0	0.0

The schedule of the defined benefit obligation and pension assets accounted for by the simplified method for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Opening balance of net defined benefit asset and liability	¥4,332	¥4,333	\$40,868
Benefit expenses	592	457	5,585
Benefit paid	(559)	(402)	(5,274)
Contributions to the plans	(88)	(87)	(830)
Others	—	31	—
Closing balance of net defined benefit asset and liability	¥4,277	¥4,332	\$40,349

The reconciliation of the retirement benefit obligations and plan assets to the liabilities and assets for retirement benefits by the simplified method recognized in the consolidated balance sheet as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥ 1,523	¥ 1,285	\$ 14,368
Plan assets	(1,222)	(1,051)	(11,528)
	301	234	2,840
Unfunded retirement benefit obligations	3,976	4,098	37,509
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	¥ 4,277	¥ 4,332	\$ 40,349
Net defined benefit liability	¥ 4,356	¥ 4,391	\$ 41,094
Net defined benefit asset	(79)	(59)	(745)
Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet	¥ 4,277	¥ 4,332	\$ 40,349

The retirement benefit expenses under the simplified method were ¥592 million (US\$5,585 thousand) and ¥457 million for the years ended March 31, 2018 and 2017, respectively.

(b) Defined contribution plans

The contributions by consolidated subsidiaries paid to defined contribution pension plans were ¥43 million (US\$406 thousand) and ¥42 million for the years ended March 31, 2018 and 2017, respectively.

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Investment and rental property

The Company and its consolidated subsidiaries own idle property and rental property in Yamaguchi prefecture, Japan and other areas. The carrying amount, net changes and fair value of investment and rental property for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen			
	2018			
	Carrying amount			Fair value at March 31, 2018
Opening balance	Net change during the year	Closing balance		
Idle property	¥8,287	¥(1,788)	¥ 6,499	¥21,736
Rental property	9,135	1,001	10,136	18,660

	Thousands of U.S. dollars			
	2018			
	Carrying amount			Fair value at March 31, 2018
Opening balance	Net change during the year	Closing balance		
Idle property	\$78,179	\$(16,868)	\$61,311	\$205,057
Rental property	86,179	9,444	95,623	176,038

Notes: Carrying amounts represent the acquisition costs less accumulated depreciation and impairment losses.

Net change for the year ended March 31, 2018 is mainly loss on sales of ¥(427) million (US\$(4,028) thousand).

Fair value of main property at March 31, 2018 is based on external appraisal, and fair value of other property is estimated based on the index prices deemed to reflect the market price accurately.

	Millions of yen			
	2017			
	Carrying amount			Fair value at March 31, 2017
Opening balance	Net change during the year	Closing balance		
Idle property	¥8,634	¥(347)	¥8,287	¥24,649
Rental property	9,227	(92)	9,135	18,328

Notes: Carrying amounts represent the acquisition costs less accumulated depreciation and impairment losses.

Net change for the year ended March 31, 2017 is mainly impairment loss of ¥(211) million.

Fair value of main property at March 31, 2017 is based on external appraisal, and fair value of other property is estimated based on the index prices deemed to reflect the market price accurately.

The amount of income and expenses related to investment and rental property for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen			
	2018			
	Rental income	Rental expenses	Net income	Others
Idle property	¥ —	¥ —	¥ —	¥(360)
Rental property	1,099	508	591	61

	Thousands of U.S. dollars			
	2018			
	Rental income	Rental expenses	Net income	Others
Idle property	\$ —	\$ —	\$ —	\$(3,396)
Rental property	10,368	4,793	5,575	575

	Millions of yen			
	2017			
	Rental income	Rental expenses	Net income	Others
Idle property	¥ —	¥ —	¥ —	¥(280)
Rental property	1,086	529	557	—

Notes: Others in the above table for idle property consist of taxes and dues of ¥(172) million (US\$ (1,622) thousand), impairment loss of ¥(126) million (US\$(1,189) thousand), loss on sales of ¥(62) million (US\$(585) thousand).

Others for rental property is impairment loss of ¥(24) million (US\$(226) thousand) and gain on sales of ¥85 million (US\$801 thousand).

Note: Others in the above table for idle property consist of taxes and dues of ¥(179) million, impairment loss of ¥(211) million and gain on sales of ¥110 million.

Stock options

Stock option expenses in the amounts of ¥115 million (US\$1,085 thousand) and ¥65 million were recognized as “Selling, general and administrative expenses” on the consolidated statement of income for the years ended March 31, 2018 and 2017, respectively.

The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017. Information on stock options at March 31, 2018, which reflects such share consolidation, is as follows:

2007 stock options	<i>Position and number of grantees</i>	Directors of the Company: 5 Executive officers of the Company: 12
	<i>Type and number of shares</i>	Common stock of the Company: 26,900 shares
	<i>Date of grant</i>	February 22, 2007
	<i>Settlement of rights</i>	After providing service for the period
	<i>Period of providing service for stock option</i>	For 1 year (From July 1, 2006 to June 30, 2007)
	<i>Exercise period of rights</i>	For 25 years from grant date (From February 22, 2007 to February 21, 2032)
	<i>Condition of exercise of rights</i>	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
	2008 stock options	<i>Position and number of grantees</i>
<i>Type and number of shares</i>		Common stock of the Company: 23,700 shares
<i>Date of grant</i>		July 13, 2007
<i>Settlement of rights</i>		After providing service for the period
<i>Period of providing service for stock option</i>		Directors of the Company: For 1 year (From July 1, 2007 to June 30, 2008) Executive officers of the Company: For 9 months (From July 1, 2007 to March 31, 2008) Newly designated executive officers of the Company: For 1 year (From April 1, 2007 to March 31, 2008)
<i>Exercise period of rights</i>		For 25 years from grant date (From July 13, 2007 to July 12, 2032)
<i>Condition of exercise of rights</i>		A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2009 stock options		<i>Position and number of grantees</i>
	<i>Type and number of shares</i>	Common stock of the Company: 24,300 shares
	<i>Date of grant</i>	July 14, 2008
	<i>Settlement of rights</i>	After providing service for the period
	<i>Period of providing service for stock option</i>	Directors of the Company: For 1 year (From July 1, 2008 to June 30, 2009) Executive officers of the Company: For 1 year (From April 1, 2008 to March 31, 2009)
	<i>Exercise period of rights</i>	For 25 years from grant date (From July 14, 2008 to July 13, 2033)
	<i>Condition of exercise of rights</i>	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
	2010 stock options	<i>Position and number of grantees</i>
<i>Type and number of shares</i>		Common stock of the Company: 32,200 shares
<i>Date of grant</i>		July 13, 2009
<i>Settlement of rights</i>		After providing service for the period
<i>Period of providing service for stock option</i>		Directors of the Company: For 1 year (From July 1, 2009 to June 30, 2010) Executive officers of the Company: For 1 year (From April 1, 2009 to March 31, 2010)
<i>Exercise period of rights</i>		For 25 years from grant date (From July 13, 2009 to July 12, 2034)
<i>Condition of exercise of rights</i>		A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2011 stock options		<i>Position and number of grantees</i>
	<i>Type and number of shares</i>	Common stock of the Company: 36,600 shares
	<i>Date of grant</i>	July 14, 2010
	<i>Settlement of rights</i>	After providing service for the period
	<i>Period of providing service for stock option</i>	Directors of the Company: For 1 year (From July 1, 2010 to June 30, 2011) Executive officers of the Company: For 1 year (From April 1, 2010 to March 31, 2011)
	<i>Exercise period of rights</i>	For 25 years from grant date (From July 14, 2010 to July 13, 2035)
	<i>Condition of exercise of rights</i>	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.

2012 stock options	<i>Position and number of grantees</i>	Directors of the Company: 5 Executive officers of the Company: 18
	<i>Type and number of shares</i>	Common stock of the Company: 35,500 shares
	<i>Date of grant</i>	July 14, 2011
	<i>Settlement of rights</i>	After providing service for the period
	<i>Period of providing service for stock option</i>	Directors of the Company: For 1 year (From July 1, 2011 to June 30, 2012) Executive officers of the Company: For 1 year (From April 1, 2011 to March 31, 2012)
	<i>Exercise period of rights</i>	For 25 years from grant date (From July 14, 2011 to July 13, 2036)
	<i>Condition of exercise of rights</i>	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
	2013 stock options	<i>Position and number of grantees</i>
<i>Type and number of shares</i>		Common stock of the Company: 37,700 shares
<i>Date of grant</i>		July 13, 2012
<i>Settlement of rights</i>		After providing service for the period
<i>Period of providing service for stock option</i>		Directors of the Company: For 1 year (From July 1, 2012 to June 30, 2013) Executive officers of the Company: For 1 year (From April 1, 2012 to March 31, 2013)
<i>Exercise period of rights</i>		For 25 years from grant date (From July 13, 2012 to July 12, 2037)
<i>Condition of exercise of rights</i>		A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2014 stock options		<i>Position and number of grantees</i>
	<i>Type and number of shares</i>	Common stock of the Company: 48,100 shares
	<i>Date of grant</i>	July 12, 2013
	<i>Settlement of rights</i>	After providing service for the period
	<i>Period of providing service for stock option</i>	Directors of the Company: For 1 year (From July 1, 2013 to June 30, 2014) Executive officers of the Company: For 1 year (From April 1, 2013 to March 31, 2014)
	<i>Exercise period of rights</i>	For 25 years from grant date (From July 12, 2013 to July 11, 2038)
	<i>Condition of exercise of rights</i>	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
	2015 stock options	<i>Position and number of grantees</i>
<i>Type and number of shares</i>		Common stock of the Company: 43,000 shares
<i>Date of grant</i>		July 14, 2014
<i>Settlement of rights</i>		After providing service for the period
<i>Period of providing service for stock option</i>		Directors of the Company: For 1 year (From July 1, 2014 to June 30, 2015) Executive officers of the Company: For 1 year (From April 1, 2014 to March 31, 2015)
<i>Exercise period of rights</i>		For 25 years from grant date (From July 14, 2014 to July 13, 2039)
<i>Condition of exercise of rights</i>		A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
2016 stock options		<i>Position and number of grantees</i>
	<i>Type and number of shares</i>	Common stock of the Company: 50,000 shares
	<i>Date of grant</i>	July 13, 2015
	<i>Settlement of rights</i>	After providing service for the period
	<i>Period of providing service for stock option</i>	Directors of the Company: For 1 year (From July 1, 2015 to June 30, 2016) Executive officers of the Company: For 1 year (From April 1, 2015 to March 31, 2016)
	<i>Exercise period of rights</i>	For 25 years from grant date (From July 13, 2015 to July 12, 2040)
	<i>Condition of exercise of rights</i>	A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.
	2017 stock options	<i>Position and number of grantees</i>
<i>Type and number of shares</i>		Common stock of the Company: 39,500 shares
<i>Date of grant</i>		July 14, 2016
<i>Settlement of rights</i>		After providing service for the period
<i>Period of providing service for stock option</i>		Directors of the Company: For 1 year (From July 1, 2016 to June 30, 2017) Executive officers of the Company: For 1 year (From April 1, 2016 to March 31, 2017)
<i>Exercise period of rights</i>		For 25 years from the next day of grant date (From July 15, 2016 to July 14, 2041)
<i>Condition of exercise of rights</i>		A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.

2018 stock options	<i>Position and number of grantees</i>	Directors of the Company: 4 Executive officers of the Company: 20
	<i>Type and number of shares</i>	Common stock of the Company: 42,100 shares
	<i>Date of grant</i>	July 14, 2017
	<i>Settlement of rights</i>	After providing service for the period
	<i>Period of providing service for stock option</i>	Directors of the Company: For 1 year (From July 1, 2017 to June 30, 2018) Executive officers of the Company: For 1 year (From April 1, 2017 to March 31, 2018)
	<i>Exercise period of rights</i>	For 25 years from the next day of grant date (From July 15, 2017 to July 14, 2042)
	<i>Condition of exercise of rights</i>	A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer.

	Exercise price	Average stock price at exercise	Fair value at grant date
2007 stock options	¥1	¥3,025	¥3,880
2008 stock options	¥1	¥3,025	¥3,510
2009 stock options	¥1	¥3,380	¥3,260
2010 stock options	¥1	¥3,269	¥2,230
2011 stock options	¥1	¥3,056	¥1,860
2012 stock options	¥1	¥3,083	¥2,270
2013 stock options	¥1	¥3,391	¥1,360
2014 stock options	¥1	¥3,360	¥1,560
2015 stock options	¥1	¥3,360	¥1,350
2016 stock options	¥1	—	¥1,810
2017 stock options	¥1	¥2,605	¥1,610
2018 stock options	¥1	—	¥2,820
	US\$0.01	—	US\$26.60

Assumptions used in estimation of the fair value of stock options were as follows:

	2018 stock options
Method of estimation	Black-Scholes model
Volatility*	27.084%
Expected remaining period**	4 years
Expected dividend***	¥60 (US\$0.57)
Risk-free interest rate****	(0.066)%

* Volatility is calculated based on the monthly closing prices of common stock of the Company for 4 years prior to the last month ahead of each date of grant.

** Mid-term between date of grant and estimated exercisable period

*** The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017, which was approved at the 111th Ordinary General Meeting of Shareholders held on June 29, 2017. Expected dividend reflects such share consolidation.

**** Interest rate for a government bond with 4 years remaining

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Related parties

Related party transactions

The Company sold cement and related products for resale in the amounts of ¥33,564 million (US\$316,642 thousand) and ¥34,487 million to Ube-Mitsubishi Cement Corporation (UMCC) for the years ended March 31, 2018 and 2017, respectively. The capital stock of UMCC is ¥8,000 million (US\$75,472 thousand), and it is accounted for by the equity method. The balances of accounts receivable were ¥12,558 million (US\$118,472 thousand) and ¥12,688 million as of March 31, 2018 and 2017, respectively.

Selling prices are negotiated based on the amount of goods sold after deducting UMCC's selling costs and logistics costs from its net sales.

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Subsequent events

Not applicable

Independent Auditor's Report

The Board of Directors
Ube Industries, Ltd.

We have audited the accompanying consolidated financial statements of Ube Industries, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ube Industries, Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.



June 28, 2018
Tokyo, Japan