

Lighting Edge Technologies

**USHIO**

**Annual Report 2006**

Year ended March 31, 2006

**Advancing Forward Through Light**

Ushio Inc. began operations as a manufacturer of industrial light sources in 1964. The Company has since evolved into a “light creator” that provides light units, devices, systems as well as “light solutions” through developing new light sources and developing and applying proprietary optical technology.

Ushio’s light technology is not only for “illumination” but also is widely employed in cutting-edge industrial segments and the science and technology arena as an energy source. In addition to producing countless products that have captured the top global share, we are currently cultivating new business fields in such areas as biotechnology, medical science and micro electronic mechanical systems (MEMS).

Amid the ever-accelerating pace of change, “light” plays an increasingly critical role as an effective means of resolving the various bottlenecks in technological innovation. Through the constant pursuit of “light innovations,” Ushio will continue to contribute to the development of an affluent society, industries and lifestyles.

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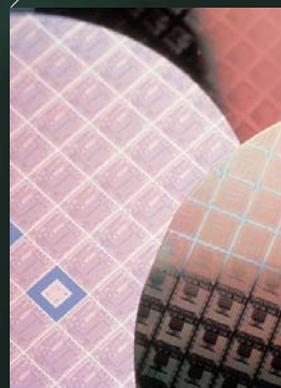
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## Forward-Looking Statements

The plans, strategies and other statements related to the outlook for future results in this annual report reflect the assumptions and beliefs of management based on currently available information. However, it should be noted that there is a possibility for actual results to differ significantly owing to such factors as changing social and economic conditions.

ELECTRONICS

VISUAL IMAGE EQUIPMENT



OA EQUIPMENT

ILLUMINATION

## Ushio Group Management Philosophy

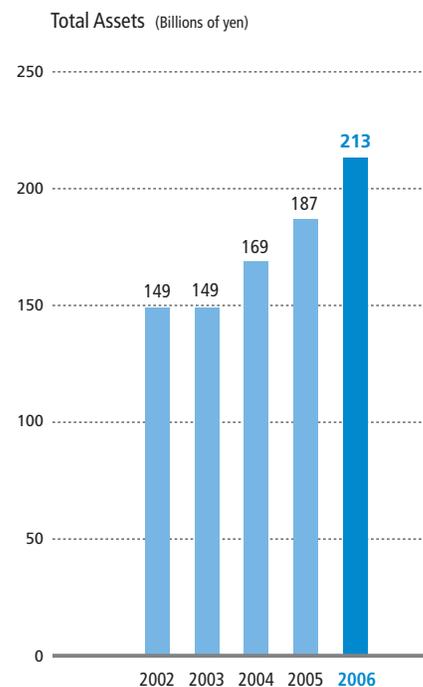
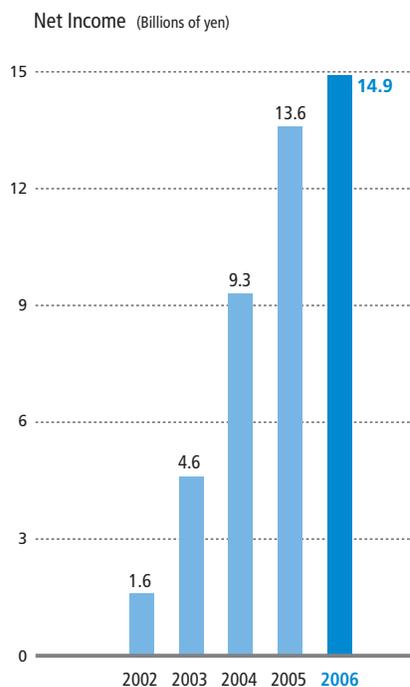
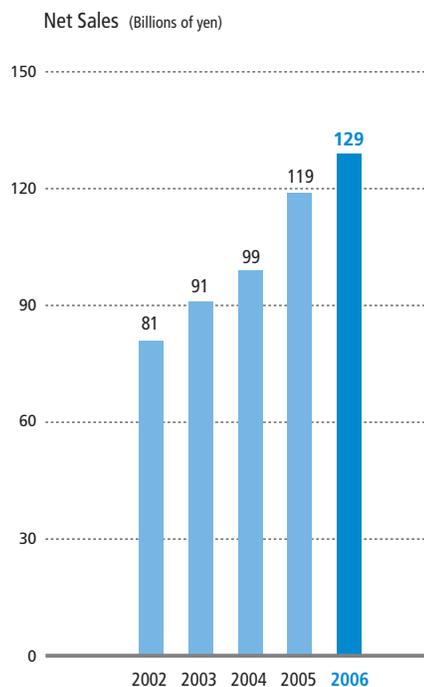
- 1 Build both a prosperous Company and prosperous employees.
- 2 Deliver products and services that are competitive in the global market.
- 3 Contribute to society through superior products and innovative research and development.
- 4 Expand profits, corporate responsibility and competitiveness through open and free-thinking business operations.

# Consolidated Financial Highlights

Ushio Inc. and Subsidiaries  
Years ended March 31

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
<b>FOR THE YEAR:</b>				
NET SALES .....	¥ 129,284	¥ 119,159	¥ 99,081	\$ 1,100,576
OPERATING INCOME .....	18,501	20,189	15,006	157,501
NET INCOME .....	14,895	13,634	9,346	126,800
<b>AT YEAR-END:</b>				
TOTAL ASSETS .....	213,027	187,251	169,771	1,813,460
TOTAL SHAREHOLDERS' EQUITY, NET .....	150,533	129,303	117,726	1,281,467
<b>PER SHARE OF COMMON STOCK (YEN AND U.S. DOLLARS):</b>				
NET INCOME .....	¥ 107.81	¥ 98.89	¥ 67.36	\$ 0.91
CASH DIVIDENDS .....	20.00	20.00	20.00	0.17
NET ASSETS .....	1,089.67	935.80	853.40	9.27

Note: Fiscal 2006 yen amounts have been translated into U.S. dollar amounts at ¥117.47=US\$1.00, the exchange rate prevailing on March 31, 2006.



# Pursuing a New Growth Strategy to Improve Productivity and Enhance Development Capabilities

## Record Highs for Net Sales, Ordinary Income and Net Income

### Operating Results for Fiscal 2006

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First of all, I would like to extend my gratitude to our shareholders and investors for their continuing support and encouragement.

The Japanese economy continued to show improvement in fiscal 2006, ended March 31, 2006, as corporate earnings improved, private-sector capital investment rose and consumer spending rebounded despite prolonged high prices for crude oil and raw materials.

Overseas, the U.S. economy maintained steady expansion supported by brisk domestic demand, while Asian economies continued to record strong growth overall, underpinned by high growth in China.

Amid such economic conditions, the Ushio Group posted an increase in orders for lamps and optical devices used to produce LCD panels in the Electronics Business, one of our core businesses, which benefited from expanded demand in the LCD-related sector. The Visual Image Equipment Business also achieved steady growth for digital cinema projection systems, large projection systems and stereoscopic imaging systems, primarily in the overseas market.

Meanwhile, in the market for lamps for data projectors, an inventory adjustment of data projectors following a period of high growth in the previous fiscal year came to an end. As a result, signs of a recovery became evident during the latter half of fiscal 2006.

Amid this environment, we have continued to focus on aggressive, future-oriented investment in new technologies and products while simultaneously working to improve productivity, cut costs and enhance our marketing structure to support overseas expansion.

**Shiro Sugata**  
President and Chief Executive Officer



Consolidated operating results for fiscal 2006 recorded an 8.5% growth in net sales over the previous fiscal year to ¥129,284 million; an 8.4% decline in operating income to ¥18,501 million; a 3.6% increase in ordinary income to ¥23,207 million; and net income of ¥14,895 million, up 9.3%. In addition to achieving record highs for net sales, ordinary income and net income, earnings per share topped ¥100 for the first time ever, to reach ¥107.8.

## **New Medium-Term Vision for Quick Market Response**

### **Targeting Operating Income of ¥27.5 Billion and ROE of 10% or More**

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Ushio drafted a three-year Medium-term Vision in 2004 based on the core principles of “providing high-quality products and services” and “expanding the scope of lighting applications.” Accordingly, we focused our efforts on strengthening existing products and developing new business and products for our core Visual Image Equipment and semiconductor photolithography businesses.

We have also formulated a new Medium-term Vision aimed at further growth, with 2009 as the final year. While encompassing the core principles of the previous Medium-term Vision, the new Medium-term Vision establishes quick response to rapidly changing markets as the cornerstone. As quantitative goals, we are targeting net sales of ¥172.0 billion, operating income of ¥27.5 billion and ROE of 10% or more by March 2009.

As new key measures, we are actively pursuing expansion of the digital cinema business and its accompanying solutions business; an increase in the market share of lamps for data projectors; augmentation of our product lineup for liquid crystal and semiconductor manufacturing devices; stronger development of cutting-edge semiconductor photolithog-

raphy technology; and rapid commercialization of new products and the launch of new businesses.

### **Digital Cinema Business Riding the Times**

Our program to promote the spread of digital cinema systems, which was initiated in the North American cinema market in June 2005, is well underway and orders for digital projection systems are growing rapidly. This program employs a business model that benefits the three contributing parties of the production and distribution industry, movie theaters and manufacturers of cinema projection systems (the Ushio Group), with more and more leading companies in each industry participating.

In addition to working to ensure the spread of digital cinema projection systems, the Ushio Group is also pursuing the solutions business to provide services such as installation, monitoring and maintenance. (See pages 11-13 for details.)

### **Promising Prospects for the LCD Sector with a New Lighting Lineup**

As the LCD-related sector continues to experience growth, a diversity of needs is emerging, including improving productivity, increasing panel size and miniaturizing production lines. To address these requirements, we have proposed using and are now utilizing unique characteristics of light in such processes as cleaning of substrates and glass, bonding and analysis. This market expansion is also leading to growth in demand for replacement lamps.

In addition to improving quality and performance of existing products, Ushio is strengthening the development of new products and enhancing the product lineup to contribute to the achievement of even larger panel displays, higher resolution and improved productivity for LCD panels.

### **Expanding Share and Profits on Rebounding Growth in the Data Projector Market**

We will work to reconfigure our business in lamps for data projectors in fiscal 2007 in order to facilitate rapid response to double-digit

growth projected for the data projector market. Establishing integrated production of lamps in China, a first for lamp manufacturers, will enable shortening of lead times and cost reduction. We will also work to increase market share and profits by introducing an enhanced product lineup ahead of competitors and expanding our user base.

### New Light to Illuminate the Way for the Next Generation of Semiconductors

Extreme ultraviolet (EUV) is capturing attention as the next-generation light source for semiconductor photolithography systems. Development of EUV is being proactively pursued in Japan, the United States and Europe.

The Ushio Group has participated in the Extreme Ultraviolet Lithography System Development Association (EUVA) Project, a national R&D program in Japan, since its inception. At the same time, Xtreme Technologies GmbH of Germany, which leads in product commercialization, has also become a member of the Ushio Group. Targeting a market scale of ¥50.0 billion by 2016, we are working to accelerate development to achieve early commercialization through a strong joint development framework comprising preeminent companies in Japan and Europe.

### A New Field for Light: Medical Science

Ushio is also exploring new possibilities for its optical technology in the field of medical science. With regard to "medical treatment using light," a dermatological treatment device is scheduled for introduction in the fiscal year ending March 31, 2007.

In terms of conducting "analysis using light," we have been steadily accumulating research results on a blood analysis device we developed in 2005, for which we are currently pursuing rapid commercialization.

Together, these form the cornerstone for Ushio's new business in the medical science field, and we are working to build the organizational structure for marketing and sales.

## Increasing Corporate Value on a Group-wide Basis

### Forecast for Fiscal 2007

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On the whole, we expect a gradual recovery in the economic environment for fiscal 2007, ending March 31, 2007.

However, elements of uncertainty persist, including the impact of rising long-term interest rates and exchange rate fluctuations on the Japanese economy, future trends in



protracted high prices of crude oil and raw materials and the direction of the U.S. economy.

The Ushio Group as a whole will promote the key measures of our new Medium-term Vision while working to strengthen our business base and increase corporate value.

For the fiscal year ending March 31, 2007, we are forecasting a 7.9% increase in net sales to ¥139.5 billion, a 2.6% rise in ordinary income to ¥23.8 billion and net income of ¥15.1 billion yen, up 1.4%.

We ask our shareholders and investors for their continued understanding and support.

## Realizing a Dream via Joint Development Between Japan and Europe

### Next-generation EUV light source prototype for semiconductor photolithography systems on the market in 2007

With a wavelength of 13.5 nanometers (one billionth of a meter), the EUV light source succeeds excimer lasers (KrF lasers and ArF lasers) in being the ultimate light source for semiconductor photolithography systems. Japan, Europe and the United States are actively pursuing development of a next-generation light source for photolithography systems.

As the leading maker of light sources for semiconductor photolithography systems, the Ushio Group, together with Group company Gigaphoton, Inc., has participated from the outset in EUVA, a Japanese national project to jointly develop a photolithography system using EUV. Accordingly, we are successfully achieving steady progress in research toward creating a new light source.

In addition, Germany-based Xtreme Technologies, the leader in commercialization of the product, joined the Ushio Group in 2005. Integrating the technologies of the top Japanese and European manufacturers has facilitated more efficient research, with the fruits of this research yielding a new prototype for mass production of semiconductors that is scheduled to go to market in 2007.

The Ushio Group projects the EUV market to reach ¥100.0 billion in 2016. Aiming to secure more than half of the market share, we are exerting every effort to develop a commercial version.

(Note)

#### Extreme Ultraviolet Lithography System Development Association (EUVA):

An association established in 2002 with the participation of three light source manufacturers, two photolithography system manufacturers and four device manufacturers in Japan, this is a national project for the joint development of a photolithography system using EUV. The association works in partnership with the Ministry of Economy, Trade and Industry; New Energy and Industrial Technology Development Organization; the Ministry of Education, Culture, Sports, Science and Technology; and university research institutes.

#### Xtreme Technologies GmbH:

A specialty German manufacturer conducting R&D for EUV, Xtreme Technologies possesses world-class technological expertise and has achieved the world's highest level of performance for the discharge produced plasma (DDP) method. Ushio acquired a 50% stake in the company in July 2005.

## Optical Systems on the Horizon in Japan

### New plant in Gotemba

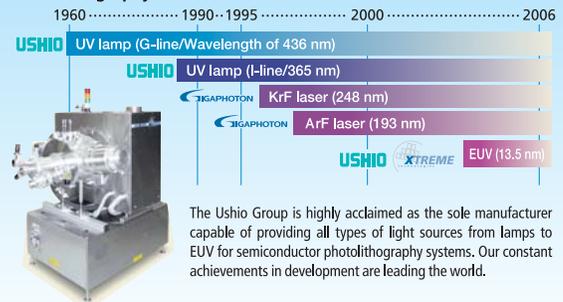
Ushio is building a new plant at its Gotemba site, scheduled for completion in summer 2007.

Foreseeing the internationalization of the optical market, the Ushio Group has been establishing plants in Asia, North America and Europe since 1986. We have continued to establish new overseas plants and pursue M&A, building a decentralized structure while maintaining close cooperation with production sites in Japan.

Ushio's optical technology has grown to be a great success in the high-tech field during that time, and tie-ups with other high-tech manufacturers for joint development are increasing rapidly. Accordingly, it has become ever more important to create an environment which facilitates the development and production of optical products based on close collaboration with these manufacturers.

Since 2004, the Ushio Group, looking 10 to 20 years into the future, has built three new offices at the Harima site and one new administrative office at the Gotemba site. The new plant being built at the Gotemba site is yet another step in this process. We intend to use this facility for R&D and production of new optical system products.

### Roadmap for the Development of Light Sources for Semiconductor Photolithography



### Intel Invests in Ushio's EUV Development

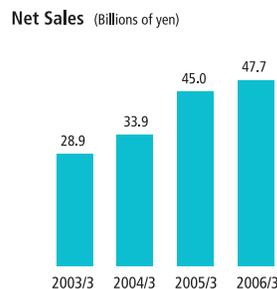
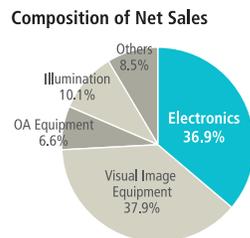
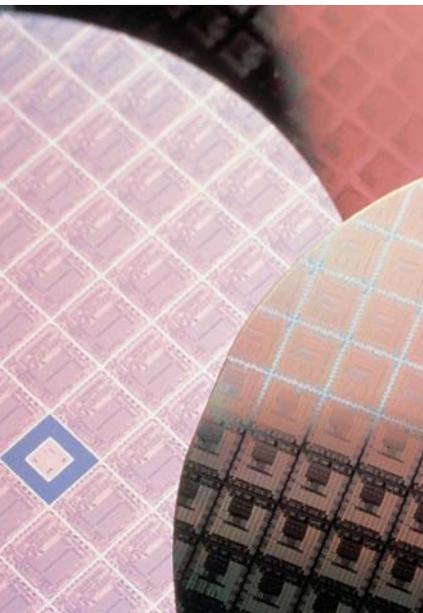
In December 2005, Intel Capital, the venture capital division of the world's largest semiconductor manufacturer, Intel Corporation, decided to provide EUV development funds to Xtreme Technologies. Intel Capital is a leader in worldwide investment in innovative companies in the semiconductor manufacturing device industry. This illustrates the high regard accorded to the Ushio Group's EUV development capabilities as well as its future potential.



Architectural illustration

## Electronics

Ushio provides a wide array of light sources and optical devices for the development and production of electronic products such as semiconductors and liquid crystal displays (LCDs). Ushio's optical technology plays a major role in the latest innovations for these fields, where there is a pressing need to develop next-generation as well as successive generations of products.



UV curing equipment for bonding LCD panels



Lamps for semiconductor and LCD photolithography



TAB exposure system



Xenon flash lamp for flash annealing



Mask/pellicle defect detection system

## Achieving Steady Growth in Operating Results

High-density semiconductors and high-precision electronic mountings enable miniaturization, lighter weight, greater functionality and higher performance for IT equipment and electronic products. In response to the needs of the semiconductor industry for larger diameters and microfabrication of wafers used for the manufacture of semiconductors, as well as for low-temperature and clean room environments during the manufacturing process, Ushio develops and provides such products as UV lamps for semiconductor photolithography, excimer lasers and other light sources, various types of photolithography systems and UV photoresist hardening systems, which are used for processes such as wafer and mask production and wafer processing. We are also making steady progress on the development of a next-generation EUV light source for semiconductors and plan to introduce a prototype to the market during the fiscal year ending March 31, 2007.

In the liquid crystal manufacturing equipment-related field, besides all types of light sources, Ushio also develops and offers ODF UV curing equipment for bonding LCD panels, Excimer VUV/O<sub>3</sub> surface cleaning equipment for LCD substrates and TAB exposure systems that connect LCD panels with integrated circuit drivers.

In the inspection field, which we entered to increase the efficiency of the manufacturing process required for further miniaturization, we have commercialized a mask/pellicle defect detection system during fiscal 2006, following the TAB External Inspection System commercialized in 2004.

Orders for replacement lamps rose on the back of brisk demand in the LCD panel industry while optical devices maintained high growth. Ushio was also successful with a new product for the next-generation semiconductor annealing process (heat treatment).

As a result, net sales in the Electronics Business totaled ¥47.7 billion, an increase of 6.0% over the previous fiscal year.

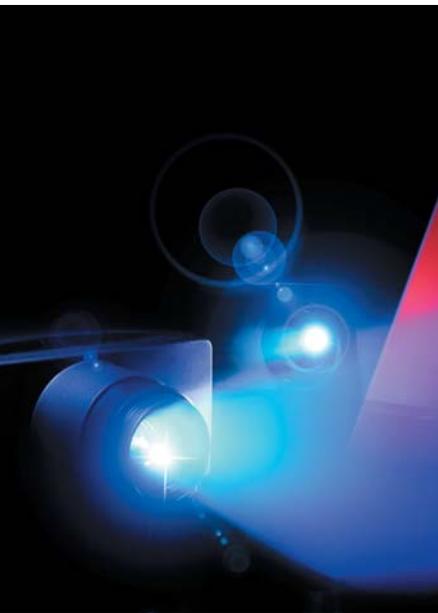
## Breaking into New Territory for the Next Generation

Ushio holds an 80% share of the global market for semiconductor photolithography light sources as well as an 80% share of the global market for LCD panel exposure system light sources. In optical devices for LCD manufacturing, Ushio holds a 70% global market share for ODF UV curing equipment, a 95% share for excimer cleaning systems for LCD substrates and a 100% share for TAB exposure systems.

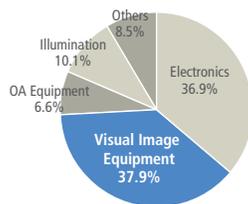
While further strengthening these preeminent fields, we are working to develop new products tailored for the next generation of semiconductors and LCD panel products and to conduct R&D that will allow us to break into new territory.

# Visual Image Equipment

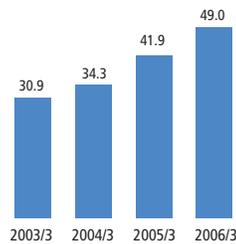
Ushio is focusing on the Visual Image Equipment Business as one of the cornerstones of its business over the medium to long term. We aim to become a "High-end Projection Solutions Provider" by offering services and maintenance in addition to developing the light sources for projection systems, which encompass data projectors, large projection systems and digital cinema projectors (DCPs), based on our core optical and digital technologies.



Composition of Net Sales



Net Sales (Billions of yen)



High-intensity discharge lamp (NSH lamp) for data projectors

## Rapidly Expanding DCP Market

In the Visual Image Equipment Business, our business plan to promote the spread of DCPs in North America is well underway, with shipments growing from 78 units in the previous fiscal year to 580 units in fiscal 2006.

In the non-cinema field, demand was strong for large projection systems used in concert and event halls, primarily in the U.S. and other overseas markets. We have also steadily expanded sales of 3D virtual reality systems, which enable stereoscopic imaging. Demand for data projector lamps, which recorded significant growth in the previous year, was sluggish due to an inventory adjustment of data projectors.

Consequently, net sales amounted to ¥49.0 billion for the Visual Image Equipment Business, up 17.0% over the previous fiscal year.

## Enhancing the Production System for Data Projector Light Sources

Ushio's high-intensity discharge lamps, which are installed in many data projectors, boast a world-leading market share of 35%. After experiencing a slowdown, the data projector market began showing signs of moving from recovery to growth in the latter half of fiscal 2006, with double-digit growth projected for the fiscal year ending March 31, 2007. In response, we are working to improve product strengths by expanding our product lineup. Ushio has also commenced integrated production of lamps in China to keep abreast of the shift in production by many data projector manufacturers, who are our customers. We intend to reinforce our business structure by shortening lead times and improving cost competitiveness to increase market share.

In projection equipment, the Christie Digital Systems (CDS) group of companies, which is part of the Ushio Group, holds a 35% global market share in cinema projectors and a 70% global market share for digital cinema projection systems. Ushio has secured a 55% global market share for xenon projector lamps.

We project shipment of 1,400 DCP systems in the fiscal year ending March 31, 2007. Accordingly, we are strengthening our production system and total service infrastructure, including installation and maintenance. In the non-cinema field, we will also continue to address the needs of various industries by offering a wide variety of products, including projection systems for control rooms, large projection systems, simulation systems and stereoscopic imaging systems.

The Ushio Group continues to actively develop our Visual Image Equipment Business as one of our key strategic businesses.



15kW xenon short-arc lamp for large projection equipment



3D automobile design review



Simulation projection for marine resource development

# Office Automation (OA) Equipment

Ushio offers light sources for a diverse array of OA equipment from printers to copiers, laser printers and facsimile machines, and has created a stable track record in this area. We are also focusing on development of new products to keep up with the move to energy efficiency and color for such equipment.

## Enhancing Energy Efficiency and Improved Productivity

Lamps for OA equipment are in stable demand for use in printers and copiers. While working to develop products that address users' needs for high energy efficiency, short warm-up periods and the move to color, Ushio has also worked for exceptional improvement in productivity and stringent cost reduction.

As a result, net sales in the OA Equipment Business rose 2.0% over the previous fiscal year to ¥8.6 billion in fiscal 2006.

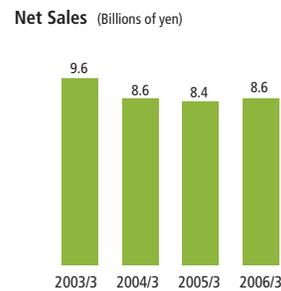
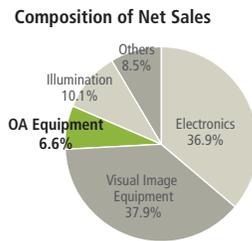
## Addressing User Needs Through Flexible Structure

Lamps serve two purposes in printers and copiers. One is for exposure light sources for scanning a document and another for heat sources for fixing toner.

Within such applications, exposure light sources have shifted from halogen lamps to the highly energy-efficient xenon fluorescent lamps to address digitalization in OA equipment. Ushio supplies these lamps to all major office equipment manufacturers, and with a 65% share of the market, is the world's top maker of xenon fluorescent lamps.

In response to the growing trend of OA equipment manufacturers shifting production to China, we are moving to establish a manufacturing structure optimally located near markets to improve productivity and cut costs. Ushio established Ushio (Suzhou) Co., Ltd., a lamp factory in Suzhou, Jiangsu Province, in 2004 and began full-scale production of lamps for OA equipment in January 2005. With the inclusion of Ushio Philippines, Inc. and a contract fabrication plant in Pan Yu, Guangzhou, China, the Ushio Group manufacturing bases operating in the OA Equipment Business now total three. We are considering the optimal balance for both production and marketing to respond rapidly and flexibly to user needs.

We continue to actively pursue even greater productivity and reduction in costs, while working to establish a product line and an organization that enjoys a high level of user confidence.



Xenon fluorescent lamp exposure unit for copiers



Toner fixing halogen lamp



Ushio (Suzhou) Co., Ltd. in Suzhou, China



Contract fabrication plant in Pan Yu, Guangzhou, China



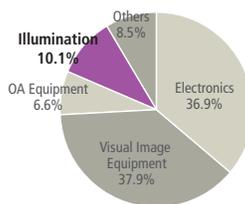
Ushio Philippines, Inc.

# Illumination

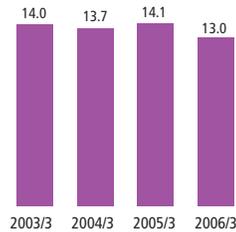
The Ushio Group has an outstanding track record in providing a wide range of lighting products, including illumination systems for the creation of magnificent stages and events and to lend color to retail and other commercial facilities. Through light, we contribute to the creation of original spaces. We also fulfill a wide range of needs in many different industries with such products as halogen lamps for automobiles and aviation illumination.



Composition of Net Sales



Net Sales (Billions of yen)



World's first mass-produced "U-ONE" ceramic metal halide lamp with integrated ballast



"U-ONE OUTDOOR" drip-proof lamp for outdoor use



"MRX.JR" reduced glare halogen lamp



## Winning High Acclaim for High-Value-Added Products

The market for our Illumination Business, which accounts for approximately 10% of Ushio's total sales, experienced a global downturn, resulting in a 7.0% decline in net sales from the previous fiscal year to ¥13.0 billion.

In response to heightening concern over the environment, we focused on the development of ecological, energy-efficient lighting in fiscal 2006, developing new products superior in both design and functionality.

## Comprehensively Supporting Market Needs

In 2004, Ushio Lighting, Inc. was born from a merger between Ushio U-Tech, Inc., known for its expertise in lighting, sound and imaging systems, and Ushio Lighting, recognized for its expertise in the development and marketing of light sources for original lighting. This has enabled us to offer total support—from the design of light sources, illumination systems, imaging and sound systems to other fixtures and fittings.

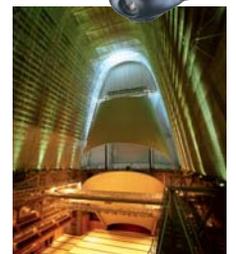
Ushio develops light sources in close collaboration with illumination designers and users in order to reflect their needs for better presentation and safety. Using proprietary optical design and bulb development technology, we are pursuing improved quality and efficiency of light with substantially reduced UV radiation. We are also developing and commercializing highly energy-efficient lighting in response to heightened concern over the environment in recent years.

In illumination for commercial facilities, Ushio's technologies have gained a strong reputation through wide application in the illumination systems of new shopping malls and fashionable buildings built in connection with redevelopment efforts in central Tokyo.

In February 2006, Ushio Lighting relocated its headquarters to Chuo-ku in Tokyo to further strengthen its customer-based sales structure and meet a variety of needs.

We will continue to provide the means of enriching different spaces with light and keep pace with the needs in changing times.

"DL-2" digital lighting system



Illumination for large facilities

## Leading Hollywood Studios Participating in New Business Model

The North America-based Christie Digital Systems (CDS) group of companies, a part of the Ushio Group and the world's leading manufacturer of cinema projectors, has launched a program to promote the spread of digital cinema systems, leading toward the digitalization of cinema and opening up new possibilities for the imaging business.

Through integration activities\*<sup>1</sup> targeted at the North American market, which is the largest in the world, large-scale introduction of DCPs to movie theaters in North America is underway, with leading Hollywood studios participating in the program.

Access Integrated Technologies, Inc. (AccessIT), a distributor of digital content to movie theaters, established Christie/AIX, Inc. to work closely with CDS in making digital cinema a reality. Christie/AIX was established to raise equity funds from investors, purchase DCP systems from CDS, license the systems to movie theater chains for little or no cost to the theaters and conclude agreements with Hollywood studios regarding the use of licensed systems to display digital films. Distribution of films in digital format eliminates the need to make and ship film prints, and the studios have agreed to apply some of the cost savings to payment of "virtual print fees" for digital

films displayed on the licensed systems. The virtual print fees paid by the studios to Christie/AIX defray the cost of the DCP systems purchased by Christie/AIX from CDS.

This solved the initial investment cost problem, which has been the stumbling block for the introduction of digital imaging systems in the cinema industry. In addition, not only do film prints become unnecessary in the production and distribution industry due to satellite and other digital distribution, thereby substantially reducing movie production and distribution costs, but this also enables widespread distribution of digital works such as 3D computer graphics and 3D imaging. Each of the three partners in this business model, including the Ushio Group which supplies the digital systems, benefit from the arrangement.

As of August 2006, following the creation of Christie/AIX, Christie and AccessIT announced the signing of leading Hollywood studios in rapid succession.\*<sup>2</sup> On the theater circuit side, a total of six companies are participating, including Carmike Cinemas, Inc., one of the three largest theater owners in the United States, which has decided to deploy DCP systems to 2,300 screens by October 2007. General Electric Capital Corporation, the finance arm of General Electric Company, is providing financing for this business model.

# The Digital Revolution in Cinema

## Program to Spread DCP Takes Off

As our program for wide deployment of digital cinema systems takes off, in sync with our efforts to expand the use of digital cinema projectors (DCPs), more and more movie theaters, chiefly in North America, are beginning to make the move to DCPs.

### \*1) Integration activities

Providing top performance by offering not just product and system service (sales network, maintenance, etc.), but a comprehensive package that includes financing (leases, loans, insurance, etc.), operations, software and other services.

### \*2) Participating distributors and producers

Buena Vista Pictures Distribution, the distribution division for Walt Disney Studios, Twentieth Century Fox, Universal Studios, Sony Pictures, DreamWorks and Warner Bros.

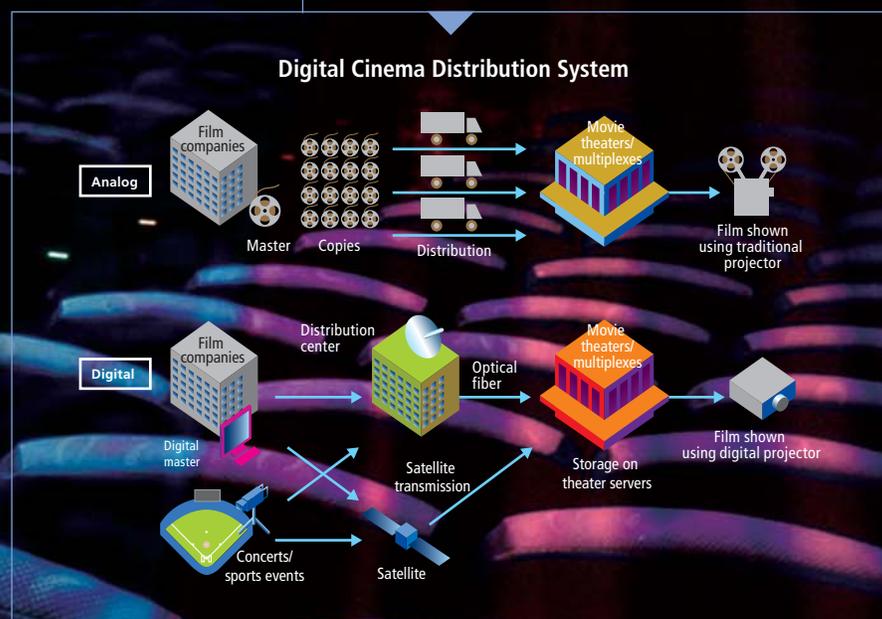


## Use of DCPs Rapidly Increasing

The United States is said to have one half of the theater screens in the world, or about 36,000 screens. No more than 1-2% of those screens are digital. Through this business model, CDS has expanded its production of DCP systems and shipments of systems are growing rapidly, mainly in North America, amounting to 78 units in fiscal 2005, 580 units in fiscal 2006 and an estimated 1,400 units in fiscal 2007. As DCPs become more popular, Ushio is collaborating with its Group companies to expand its solutions business, including lamp replacement, equipment installation, maintenance and monitoring.

In the video and graphics industry, digitalization has rapidly swept through the television, DVD, data projector and photography fields. However, with a few minor exceptions, the switch to digital has been slow in the cinema business. Establishing a seamless, digital infrastructure from production through to distribution opens up new possibilities for the motion picture business itself. Not only can theaters offer their customers high-quality movies without any degrading of the image, but there is the potential of a large entertainment space usable for real-time enjoyment of soccer matches, Olympic competitions and other sports events, concerts and theater performances, and even online games offering two-way participation extending across national boundaries.

The Ushio Group is calling on even more companies in the cinema industry to participate in this business model with the aim of securing new business in this era of digital imaging. Along with expanding the potential of digital cinema in Asia and Europe as well, we aim to be a provider of high-end solutions, to build upon our leading global track record and to contribute to the next generation of the imaging business.



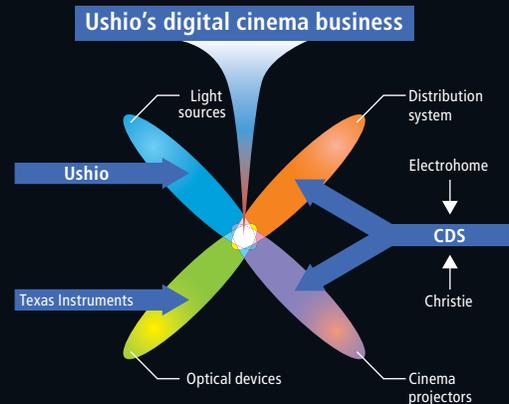
## Ushio Technology Earns Cinema Industry Trust

Today, Ushio holds the leading global share in xenon short-arc lamps for cinema projectors, which we developed in 1957. Since then, we have worked over many long years to build strong relationships of trust with the cinema industry.

In 1992, Ushio acquired Christie, Inc., the world's leading manufacturer of cinema projectors. In 1999, Ushio acquired the digital imaging division of Canada-based Electrohome Limited. Today, those two businesses comprise CDS. Subsequently, in 2000, a supply contract was concluded with U.S. semiconductor manufacturer Texas Instruments Incorporated for the optical devices (DLP) that form the heart of DCP. In this way, the Ushio Group put together the four key technologies of light sources, projectors, digital imaging technology and optical devices, and in 2000, through CDS, succeeded in commercialization of the world's first digital cinema projector.

Ushio and CDS were able to establish this business plan very smoothly since the two companies hold the top global share for light sources and projectors, respectively, and have worked to build close relationships of trust with the Hollywood film industry and the movie theater industry.

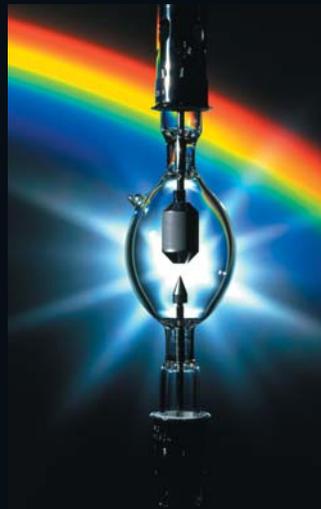
## Technological Interrelationships



## Ushio Cinema Products Capture the Top Global Market Share

Light sources — **55%** global share

With the development of the xenon short-arc lamp for cinema projectors in 1957 and the large xenon short-arc lamp for 70mm cinerama projectors in 1966, Ushio is the industry leader in projector light source technology. Today, we hold a 55% share of the global market for cinema projector lamps.



Xenon short-arc lamp

Projectors —

Digital projectors **70%** global share

Film projectors **35%** global share

CDS holds the top global share of 35% for cinema projectors and a 70% global share for digital cinema projection systems. In Japan, Xebex, Inc. handles sales and maintenance for projector systems and holds a 70% share of the cinema projector market. Xebex has been achieving steady results since delivering the first digital cinema projectors to movie theaters in 2001.



CP2000, the latest model in digital cinema projectors

## What is the DLP Format?

The world's first digital cinema projector, which CDS commercialized in 2000, incorporates DLP (Digital Light Processing) technology employing DMDs (Digital Micromirror Device), as developed by Texas Instruments. The DMD/DLP format uses light more efficiently than the liquid crystal format, allowing for high resolution, so it has been commercialized for large projection systems as well as cinema projectors. The CP2000, the latest in digital cinema projectors, uses three DMD devices to achieve maximum light efficiency and high resolution of 2048 x 1080 pixels.

# Expansion of High-Tech Projection Systems to Various Industries

The Ushio Group also has a broad track record in the field of non-cinema projector systems. These systems are being used in a variety of sectors, including large projection systems for theme parks, amusement facilities and concert halls, as well as visual monitoring systems, simulation training systems and 3D virtual reality systems.

## Large Projection Systems

From permanently installed projectors for videoconferences, art museums and exhibit halls to large projection systems for exposition halls, amusement facilities, concert halls and sports venues, we have commercialized a wide variety of high-brightness, high-resolution large projectors.



Roadie 25K, DLP projector for large projection systems

## Simulation Systems

Ushio provides realistic simulation systems for such applications as operator training for airplanes, trains and automobiles, as well as military training and geological surveys.



Simulation system for air traffic control training

## Projection Systems for Control Rooms (Rear Projection Systems for Monitoring)

Built around rear projectors measuring 50 to 70 inches in size, these systems are characterized by seamless, smooth imaging. Italian State Railways, Shanghai Expressway Control Center and KSTS (South Korean public broadcasting), among others, are using these systems, which are designed for use in control rooms for railways, roads, broadcasting facilities and disaster centers.



Shanghai Expressway Control Center



## 3D Virtual Reality Systems

The 3D virtual reality system offers natural stereoscopic imaging through the use of a large projection system and special shutter goggles.

“Holo Stage,” an immersive virtual reality system using five projectors, has been highly regarded for its ability to reproduce a visual environment equivalent to a virtual world. Leading automobile manufacturers use this system in design development to produce full-sized, 3D images of automobiles. Appliance manufacturers are also using the system to design home appliances tailored to specific interior designs by reproducing living spaces. These systems are also increasingly being used in the areas of earth sciences, medicine and meteorology in order to visualize phenomena that are not normally visible. More widespread applications are anticipated in a broad variety of fields such as architectural design and entertainment.



Immersive virtual reality system

## Environmental Activities and Corporate Social Responsibility

# Realizing a Sustainable Society Through Better Sustainable Management

The Ushio Group is contributing to the realization of a sustainable society by improving sustainable management practices based on the triple bottom line of the economy, society and environment, as designated in our Management Philosophy drafted in March 2005.

## Engaging in Activities that Support the Diverse Aspects of CSR

The scope of corporate social responsibility (CSR) at Ushio covers a wide range of areas such as compliance, environmental preservation, human rights advocacy, coexistence with society, a sound financial structure and corporate information disclosure. We are working hard to realize a sustainable society by gaining social acceptance and addressing the needs of stakeholders through these activities.



## Compliance Efforts as the Foundation of Corporate Management

At Ushio, compliance does not stop with legal compliance; it encompasses the practical actions fundamental to fulfilling our social responsibilities as a good corporate citizen by putting the Management Philosophy and Standards of Business Conduct into practice. Daily business activities are based on the company regulations and rules that were stipulated to ensure compliance with international regulations and laws in Japan. Through the Compliance Committee, Ushio is striving to make sure every employee is thoroughly familiar with and puts into practice such regulations and rules, as well as carrying out educational activities.

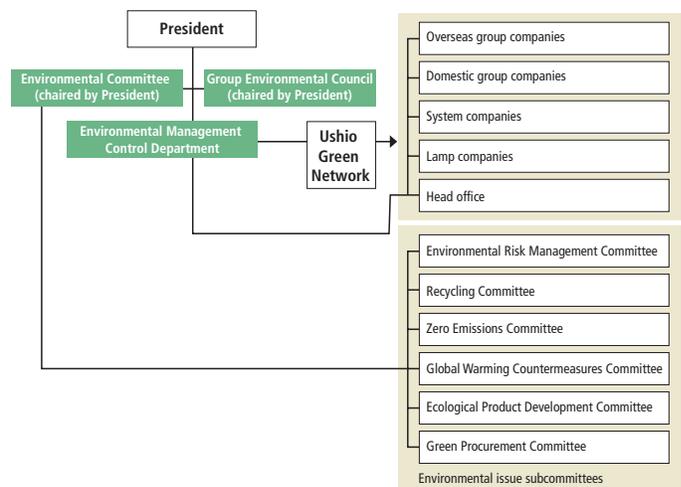
- Ushio complies with all laws and ordinances pertaining to the protection of personal information. We have stipulated Personal Information Protection Policies and put these into practice to ensure proper handling and protection of personal information.
- We set forth internal regulations for export control to meet catch-all regulations and continue to be publicly noted on the "Public List of Companies with an Export Control Compliance Program" of Japan's Ministry of Economy, Trade and Industry (METI) website (<http://www.meti.go.jp/policy/anpo/index.html>) as a company that enforces monitoring. In February 2006, METI conducted an on-site audit of the status of implementation for the voluntary controls checklist. We received an evaluation of "Good controls; no findings."

## Enforcing Group Consolidated Environmental Management Through a Top-down Structure

Ushio is focusing every effort on promoting environmental management through natural resource conservation and CO<sub>2</sub> reduction, design and manufacture of ecological products, prevention of pollution and zero emissions.

The Ushio Group engages in unified environmental preservation efforts based on a top-down structure consisting of the Environmental Committee and the Group Environmental Council, with both executive organizations chaired by the President. The Environmental Committee consists of six environmental issue subcommittees and engages in a wide variety of initiatives to encourage environmental and social contributions (environmental communication), including contributing to the market through products, environmental preservation at offices, promotion of green partnerships, improving the environmental management system and prevention of global warming.

Through the Environmental Management Control Department and the Ushio Green Network, we are also supporting active participation of environment-related divisions at each site and efficient use of the PDCA (Plan, Do, Check, Act) cycle to further initiatives for achieving our goals.



## Establishing an Environment and Systems for a Worry-free Workplace

At Ushio, we are striving to establish and foster a comprehensive system and environment for a worry-free workplace through support for employees' lives, including support for balancing work and home as well as raising children.

We have also established a program for re-employment of retired staff and are actively engaged in initiatives to promote an ageless society to respond to the falling birthrate and the aging population.

### •Main Programs

Childcare leave, nursing care leave, shorter work hours, time off for pregnancy check-ups, time off for complications during pregnancy, time off for spouses due to the birth of a child, accumulated paid leave, education fund for orphaned children and re-employment of retired staff (Senior Partner and Senior Expert systems), etc.

## Coexistence with Local Communities

In addition to designing products that are useful to society, Ushio is engaged in many different activities to contribute culturally to local communities and encourage employees to participate in local volunteer work.

Since 2005, we have been participating in "Team Minus 6%," a national project to prevent global warming. As part of encouraging lower of energy consumption, we are promoting changing thermostat settings, dressing lightly and turning off nonessential lights Company-wide and educating employees on the importance of energy-saving measures via our website and Company newsletter.

Ushio is also cooperating in Japan's Ministry of the Environment's "Black Illumination" campaign to reduce CO<sub>2</sub> emissions and turned the lights off at our Harima office and in the advertising tower in front of the JR Himeji Station on June 18, 2005, thereby reducing energy usage by 60kWh. We will continue to participate in the "Team Minus 6%" project and "Black Illumination" campaign in 2006 onward.



Summer poster announcing "Team Minus 6%" project



Participation in "Black Illumination" campaign (Advertising tower in front of JR Himeji Station)

## Ensuring Fair and Timely Information Disclosure

As we work to disclose corporate information to stakeholders through various means, Ushio is also actively providing feedback to management on the opinions of stakeholders and information obtained from our social and environmental activities.

Ushio has produced the *Environmental Report* since 2003. In 2005, Ushio published the *Ushio Sustainability Report*, which combines the financial, social and environmental reports, and further augmented contents of the 2006 edition. Ushio also provides details regarding company CSR initiatives in our business reports and *Investors' Guides*.

In addition to disseminating information widely through our environmental website, we added a section on our website to give environmental preservation tips that can be easily practiced at home.



Ushio's environmental website

Ushio has conducted Group-wide investigation into asbestos, which has become a social problem in recent years, and disclosed information on products containing asbestos (used in the past) on our website (<http://www.ushio.co.jp/eco/pdf/asbestos1220.pdf>).

The Ushio Group has published the *2006 Sustainability Report*, which provides details about our CSR initiatives. Please contact us via our website or at the contact point listed below for a copy.



Website:  
<http://www.ushio.co.jp/prog/seikyuu/>  
 Environmental Management Control Department:  
 Tel: 03-3242-1892  
 Fax: 03-3245-0589

## Five-Year Summary of Consolidated Financial Data

Ushio Inc. and Consolidated Subsidiaries  
Years ended March 31

Millions of yen

	2006	2005	2004	2003	2002
<b>FOR THE YEAR:</b>					
Net sales . . . . .	¥ 129,284	¥ 119,159	¥ 99,081	¥ 91,937	¥ 81,301
Net income. . . . .	14,895	13,634	9,346	4,651	1,643
Capital expenditures . . . . .	6,810	12,837	5,376	2,692	4,837
Depreciation and amortization . . . . .	4,763	3,014	2,748	2,889	2,813
R&D expenses . . . . .	4,645	4,174	3,358	3,355	3,557
<b>AT YEAR-END:</b>					
Total assets. . . . .	213,027	187,251	169,771	149,390	149,669
Total shareholders' equity, net. . . . .	150,533	129,303	117,726	105,582	106,837
<b>CASH FLOWS:</b>					
Net cash provided by operating activities . . . . .	9,397	12,408	7,969	13,394	7,305
Net cash used in investing activities. . . . .	(9,762)	(6,473)	(9,490)	(5,524)	(7,496)
Net cash used in financing activities . . . . .	(3,324)	(1,757)	(1,592)	(4,117)	(2,112)
<b>PER SHARE OF COMMON STOCK (YEN):</b>					
Net income. . . . .	¥ 107.81	¥ 98.89	¥ 67.36	¥ 33.14	¥ 11.77
Cash dividends . . . . .	20.00	20.00	20.00	13.00	13.00
Net assets . . . . .	1,089.67	935.80	853.40	764.94	765.32
<b>KEY FINANCIAL RATIOS:</b>					
Return on equity (%) . . . . .	10.7	11.0	8.4	4.4	1.6
Return on assets (%) . . . . .	7.4	7.6	5.9	3.1	1.1
Asset turnover (times) . . . . .	0.7	0.7	0.6	0.6	0.6
Return on sales (%) . . . . .	11.5	11.4	9.4	5.1	2.0

Note: Return on equity = Net income / Average shareholders' equity X 100  
Return on assets = Net income / Average total assets X 100  
Asset turnover = Net sales / Average total assets  
Return on sales = Net income / Net sales X 100

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The Ushio Group is composed of the parent company (Ushio Inc.), 36 subsidiaries and four affiliates. The Group's core operations are the manufacture and sale of products that apply the special properties of light. The Group is also engaged in R&D related to its business operations and the development of other services and business activities.

## OPERATING ENVIRONMENT AND MEASURES FOR THE TERM

During fiscal 2006, ended March 31, 2006, despite prolonged high prices of crude oil and raw materials, the Japanese economy continued its mild recovery supported by improved corporate earnings, an increase in private-sector capital investment and a rebound in consumer spending.

Overseas, the U.S. economy maintained steady expansion on the back of an improvement in the employment environment and brisk consumer spending supported by strong domestic demand. In Asia, China continued to register a high growth rate mainly via exports.

Amid such economic conditions, demand for replacement lamps increased in line with expanded demand for LCD panels in the LCD-related industry. At the same time, the large projection systems business grew in the overseas market.

In the market for high-intensity discharge lamps for data projectors, which recorded significant increases in the previous fiscal year, demand was temporarily stagnant following an inventory adjustment of data projectors. However, signs of regaining momentum were apparent in the second half of fiscal 2006, putting this market on a path to recovery.

The Ushio Group is making proactive, future-oriented investments in the development of new technologies and products. At the same time, we will continue to improve business performance through Company-wide efforts to improve productivity, reduce manufacturing costs and augment the sales structure to support overseas expansion.

In fiscal 2006, we aggressively promoted the full-fledged popularization of digital cinema projectors in alliance with the cinema industry comprising production, distribution and movie theater companies. As part of such efforts, we launched our program to promote the spread of digital cinema systems together with AccessIT. Leading U.S. movie distribution companies have successively joined this program upon concluding a content supply agreement. Furthermore, we have officially signed an agreement to introduce digital cinema projectors with major multiplex chains and commenced product shipments.

On another front, we are accelerating the technological development of an EUV light source for commercialization as the next-generation light source for semiconductor photolithography through our involvement in the national EUVA Project, as well as through investments in preeminent companies in this field. Highly commended for our R&D by the venture capital division of the world's largest semiconductor company, Intel, we have also signed an agreement for strategic investment to promote the development of an EUV light source.

Through such endeavors, Ushio posted net sales of ¥129,284 million, up 8.5% over fiscal 2005; operating income of ¥18,501 million, down 8.4%; ordinary income of ¥23,207 million, up 3.6%; and net income of ¥14,895 million, up 9.3%.

## RESULTS BY BUSINESS SEGMENT

### Light Source Application Products

Total sales for light source application products increased 8.4% to ¥125,389 million, while operating income decreased 8.6% to ¥18,212 million.

In the tube-style lamp product group, while demand waned for high-intensity discharge lamps for data projectors, sales of replacement lamps for LCD panels increased.

In the optical systems product group, sales increased for large projection systems, such as fixed installation projectors and digital cinema projectors. However, demand contracted for LCD-related products due to a temporary adjustment phase of capital investment within certain geographical areas of the LCD industry.

### Machinery for Industrial Uses and Other Business

Total sales increased 13.2% to ¥4,084 million. Operating income amounted to ¥289 million, up 17.5%. Machinery for industrial uses and other business overall expanded, with food wrapping machinery registering increased demand.

## RESULTS BY GEOGRAPHIC SEGMENT

### Japan

Total sales declined 3.9% to ¥78,272 million. In addition to decreased demand for high-intensity discharge lamps for data projectors, demand was sluggish for LCD-related products stemming from an adjustment of capital investment in the LCD-related industry.

### North America

Total sales jumped 40.4% to ¥39,403 million. In the Visual Image Equipment Business, we strengthened system integration packages that include networking, maintenance and related services in addition to such hardware as projectors, light sources and projection systems. Through this measure, demand increased for large projection systems such as digital cinema projectors.

### Europe

Despite a decrease in demand for UV lamps for semiconductor photolithography systems, strong demand for xenon lamps for cinema projectors and various lamps for stage lighting and general illumination resulted in a 2.7% increase in total sales to ¥6,283 million.

### Asia

Although demand declined for high-intensity discharge lamps for data projectors, increases in demand for UV lamps for semiconductor and LCD photolithography systems, Excimer VUV/O<sub>3</sub> Cleaning systems for LCD panels and excimer lamps resulted in a 12.2% increase in total sales to ¥29,946 million.

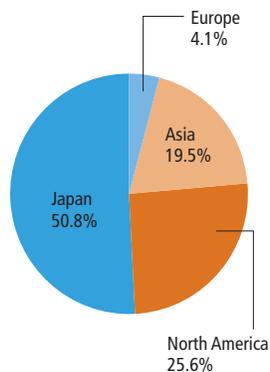
## OVERSEAS SALES

Ushio's total overseas sales increased 16.9% to ¥72,688 million. Regarding the composition of overseas sales, North America accounted for ¥29,874 million, Europe ¥10,295 million, Asia ¥31,860 million and other regions ¥656 million. Overseas sales made up 56.2% of consolidated net sales, up 4.0 percentage points from the previous fiscal year.

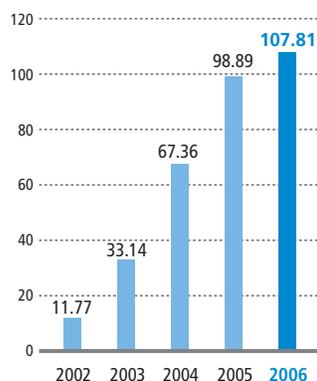
## EARNINGS

Consolidated net sales rose 8.5% to ¥129,284 million, while operating income declined 8.4% to ¥18,501 million. Cost of sales rose 12.1% to ¥85,025 million. Selling, general and administrative expenses increased 11.4% to ¥25,757 million. The cost of sales ratio improved 2.1 percentage points to 65.8%, and the gross profit to net sales ratio was 34.2%. Income before income taxes and minority interests in earnings of affiliates increased 7.3% to ¥23,170 million. Net income edged up 9.3% to ¥14,895 million. Return on assets declined 0.2 percentage point to 7.4%.

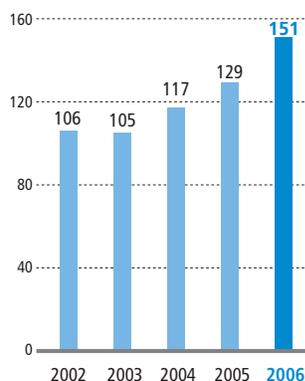
Proportion of Total Sales, by Geographic Segments



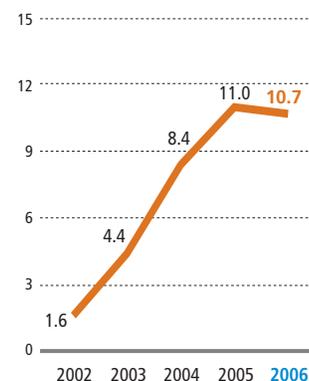
Net Income Per Share (Yen)



Total Shareholders' Equity, Net (Billions of yen)



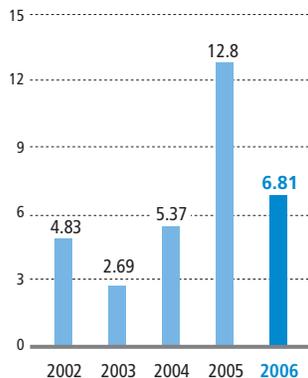
Return on Equity (%)



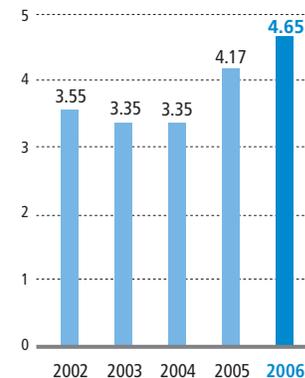
Return on Assets (%)



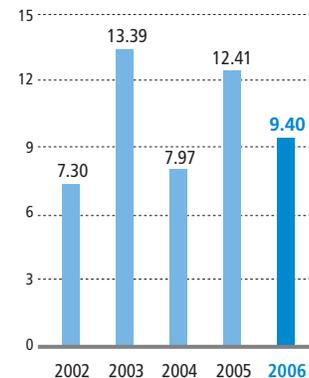
Capital Expenditures (Billions of yen)



R&amp;D Expenses (Billions of yen)



Net Cash Provided by Operating Activities (Billions of yen)



## LIQUIDITY AND SOURCES OF FUNDS

### Cash Flows

In addition to a 7.3% increase in income before incomes taxes and minority interests in earnings of affiliates to ¥23,170 million, proceeds from sale of investment securities rose 277.9% to ¥3,598 million. However, these increases were offset by a 33.8% rise in income taxes paid to ¥10,038 million and a 20.4% increase in investment securities to ¥5,014 million. As a result, cash and cash equivalents at end of the year decreased ¥2,734 million, or 10.8%, to ¥22,701 million.

### Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥3,010 million to ¥9,397 million. Despite an increase of ¥1,579 million in income before income taxes and minority interests in earnings of affiliates, the key factors for the decrease were an increase of ¥3,590 million in notes and accounts payable and an increase of ¥2,535 million in income taxes paid arising from higher profits in the previous fiscal year.

### Cash Flows from Investing Activities

Net cash used in investing activities increased ¥3,289 million to ¥9,762 million. This increase was attributable mainly to proceeds from sale of investment securities offset by an increase in investment securities and purchases of property, plant and equipment.

### Cash Flows from Financing Activities

Net cash used in financing activities rose ¥1,566 million to ¥3,324 million due primarily to cash dividends paid.

## FINANCIAL POSITION

Total assets rose ¥25,775 million, or 13.8%, to ¥213,027 million. Notes and accounts receivable rose 11.7% to ¥39,793 million following an increase in business volume, and inventories improved 18.2% to ¥26,511 million. As a result, total current assets increased 9.1% to ¥102,875 million.

Active capital investment produced an 11.1% boost in property, plant and equipment, net to ¥34,200 million.

Total investments and other assets jumped 22.2% to ¥75,951 million due chiefly to the effect of a 23.1% rise in investment securities to ¥69,188 million.

On the liabilities side, notes and accounts payable slightly decreased to ¥17,417 million, and total current liabilities declined 1.4% to ¥41,006 million.

An increase of 9.1% in long-term debt to ¥3,090 million and a 42.1% rise in deferred tax liabilities to ¥15,447 million resulted in a 30.7% increase in total long-term liabilities to ¥20,746 million.

Retained earnings expanded 18.0% to ¥79,350 million, contributing to a 16.4% increase in total shareholders' equity, net to ¥150,533 million. The shareholders' equity ratio edged up 1.6 percentage points to 70.7%.

## CAPITAL INVESTMENTS

Capital expenditures decreased 53.0% to ¥6,810 million. Capital investment chiefly targeted light source application products and the digital visual image equipment business geared toward the current IT era; the high-density mounting technology business, in which information and communications technology and electronics products are rapidly growing more compact, sophisticated and powerful; and the semiconductor photolithography business, where Ushio is working to develop applications for next-generation memory. Capital investment in the light source application products business rose 52.8% to ¥6,781 million. Capital investment in the machinery for industrial uses and other business rose 190.0% to ¥29 million.

Funds for investments were provided by internal reserves and loans.

## RESEARCH AND DEVELOPMENT

Ushio's R&D expenses rose 11.3% to ¥4,645 million. R&D programs are centered on the development and manufacturing of industrial light sources and optical technology, and extend to the fields of electronics and mechatronics, new applications for light and the development of various essential peripheral technologies. Ushio is also fostering businesses related to optical units, devices and systems.

## PERSONNEL

The Ushio Group employed 4,390 people as of March 31, 2006, down 365 from the previous term. The parent company, Ushio Inc., increased staff by 91 persons for a total of 1,589 employees at the end of the fiscal year.

## BUSINESS RISKS

Business risks that could potentially impact the Ushio Group's operating results, stock price and financial condition are indicated below. Forward-looking statements contained therein reflect data available at the time of the release of the Group's financial results on June 29, 2006.

### **1. Risks in Demand for Semiconductors and Liquid Crystal Products**

The Ushio Group's performance is impacted considerably by changes in demand in the semiconductor and LCD industries. Products handled for these industries include expendable components for manufacturing equipment, with stable demand provided by the various operating processes of factories. Nevertheless, the Group's performance and financial condition could be heavily impacted by medium- and long-term changes in demand in industries for semiconductor and liquid crystal manufacturing equipment.

### **2. Risks in Demand for Illumination and Exposure Light Sources**

The Ushio Group offers installable light sources for data projectors, as well as illumination and exposure light sources to markets outside the semiconductor and LCD industries. The Group's performance and financial condition could be heavily impacted by changes in technology, prices and demand for these light sources.

### **3. Risks from Developments in Semiconductor Manufacturing Photolithography Technologies**

Amid ongoing miniaturization of circuits in semiconductors, while the Ushio Group's discharge lamp-based manufacturing equipment represents a large portion of equipment currently in operation, there is always the possibility that semiconductor manufacturing photo-

lithography technologies will evolve away from existing systems.

Exposure using excimer lasers is an example of such new trends, and is currently being developed by the Company's affiliate, Gigaphoton, Inc. The Company is also engaged in the development of an EUV extreme ultraviolet light source jointly with Xtreme Technologies GmbH, another Company affiliate. In this respect, the Group's performance and financial condition could be heavily impacted by any potential breakthroughs by Gigaphoton or Xtreme Technologies as well as by future developments in semiconductor manufacturing photolithography technologies.

### **4. Latent Risks from International Activities and Entry into Foreign Markets**

The Ushio Group conducts manufacturing and marketing activities in such overseas locations as the United States, Europe and Asia. Recently, the majority of OA equipment has come to be produced in Asia, with the largest portion being produced in China. With its high market share, the Group is no exception in contributing to the increased production of OA equipment lamps, particularly in China. Therefore, the Group's performance and financial condition could be heavily impacted by any future alterations in policy or regulations in China.

### **5. Risks Regarding Foreign Exchange Fluctuations**

The Ushio Group conducts general business transactions as well as loans and investments in both Japanese yen and foreign currencies. Accordingly, the Group's performance could be impacted from profits and losses stemming from fluctuations in foreign currencies as well as loans and investment in those currencies. While foreign exchange contracts are employed when necessary, the Group's performance and financial condition could be heavily impacted by fluctuations in foreign currencies whose effects are unavoidable.

### **6. Risks in Price Fluctuations for Marketable Securities**

While the Ushio Group holds marketable securities as financial assets whose market value currently exceed their original purchase price, the Group is cognizant that future market value could decline for unforeseen reasons. In relation, the Group's performance and financial condition could be heavily impacted by the price fluctuation risks that it incurs in holding these marketable securities.

### **7. Risks Associated with Employee Retirement Benefit Obligations**

The Company and its domestic consolidated subsidiaries have such defined benefit plans as welfare pension fund plans and lump-sum payment plans. The Ushio Group's performance and financial condition could be heavily impacted by revisions in basic accounting practices for retirement benefit obligations, a worsening portfolio management environment for pension equities as well as increases in retirement benefit expenses owing to revisions in retirement benefit systems.

### **8. Risks Associated with Environmental Regulations**

Environmental and other legal restrictions targeting the electric industry entail a broad range of obligations ranging from safety to contaminants emitted from plants. Revisions in these regulations very often result in even stricter regulations. Accordingly, the Group's performance and financial condition could be heavily impacted by expenses stemming from compliance with these regulations.

# Consolidated Balance Sheets

Ushio Inc. and Subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	2006	2005	2006
<b>CURRENT ASSETS:</b>			
Cash and bank deposits (Note 12) . . . . .	¥ 22,182	¥ 24,636	\$ 188,836
Short-term investments (Note 7) . . . . .	5,539	3,399	47,160
Notes and accounts receivable . . . . .	39,793	35,622	338,754
Less: Allowance for doubtful accounts . . . . .	(618)	(312)	(5,265)
Inventories (Note 3) . . . . .	26,511	22,431	225,688
Deferred tax assets (Note 4) . . . . .	2,982	2,594	25,388
Prepaid expenses and other current assets . . . . .	6,484	5,938	55,200
<b>Total current assets . . . . .</b>	<b>102,875</b>	<b>94,308</b>	<b>875,761</b>
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST:</b>			
Land (Note 3) . . . . .	8,785	8,198	74,788
Buildings and structures (Note 3) . . . . .	24,972	21,149	212,584
Machinery and equipment (Note 3) . . . . .	32,589	27,210	277,425
Construction in progress . . . . .	936	3,489	7,976
	<b>67,283</b>	<b>60,046</b>	<b>572,773</b>
Less: Accumulated depreciation . . . . .	(33,083)	(29,253)	(281,631)
<b>Property, plant and equipment, net . . . . .</b>	<b>34,200</b>	<b>30,793</b>	<b>291,142</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 7) . . . . .	69,188	56,190	588,993
Investments in and advances to affiliates . . . . .	1,031	540	8,784
Deferred tax assets (Note 4) . . . . .	540	658	4,603
Other assets . . . . .	5,189	4,762	44,177
<b>Total investments and other assets . . . . .</b>	<b>75,951</b>	<b>62,150</b>	<b>646,557</b>
<b>Total assets . . . . .</b>	<b>¥ 213,027</b>	<b>¥ 187,251</b>	<b>\$1,813,460</b>

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	2006	2005	2006
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 3) . . . . .	¥ 10,333	¥ 9,783	\$ 87,967
Current portion of long-term debt (Note 3) . . . . .	102	466	871
Notes and accounts payable . . . . .	17,417	17,574	148,272
Income taxes payable . . . . .	4,351	5,746	37,042
Other current liabilities . . . . .	8,801	8,006	74,926
<b>Total current liabilities . . . . .</b>	<b>41,006</b>	<b>41,575</b>	<b>349,078</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 3) . . . . .	3,090	2,832	26,305
Deferred tax liabilities (Note 4) . . . . .	15,447	10,867	131,500
Retirement benefits (Note 9) . . . . .	448	1,194	3,815
Other long-term liabilities . . . . .	1,761	979	14,994
<b>Total long-term liabilities . . . . .</b>	<b>20,746</b>	<b>15,872</b>	<b>176,614</b>
<b>MINORITY INTERESTS . . . . .</b>	<b>740</b>	<b>501</b>	<b>6,301</b>
<b>SHAREHOLDERS' EQUITY (Note 10):</b>			
Common stock:			
Authorized — 300,000,000 shares			
Issued — 139,628,721 shares . . . . .	19,556	19,556	166,479
Additional paid-in capital . . . . .	28,371	28,371	241,520
Retained earnings . . . . .	79,350	67,219	675,498
Unrealized holding gain on other securities . . . . .	24,611	17,950	209,516
Translation adjustments . . . . .	539	(1,959)	4,590
	<b>152,429</b>	<b>131,137</b>	<b>1,297,603</b>
Treasury stock, at cost:			
1,482,083 shares in 2006 and 1,455,200 shares in 2005 . . . . .	(1,895)	(1,834)	(16,136)
<b>Total shareholders' equity, net . . . . .</b>	<b>150,533</b>	<b>129,303</b>	<b>1,281,467</b>
<b>Total liabilities, minority interests and shareholders' equity . . . . .</b>	<b>¥ 213,027</b>	<b>¥ 187,251</b>	<b>\$ 1,813,460</b>

# Consolidated Statements of Income

Ushio Inc. and Subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
Net sales . . . . .	¥ 129,284	¥ 119,159	\$ 1,100,576
Cost of sales . . . . .	85,025	75,845	723,808
Gross profit . . . . .	44,258	43,314	376,768
Selling, general and administrative expenses (Note 5) . . . . .	25,757	23,125	219,267
Operating income . . . . .	18,501	20,189	157,501
Other income (expenses):			
Interest and dividend income . . . . .	1,156	1,016	9,848
Interest expense . . . . .	(416)	(293)	(3,544)
Other, net . . . . .	3,928	679	33,441
	4,666	1,402	39,745
Income before income taxes and minority interests in earnings of affiliates . . .	23,170	21,591	197,246
Income taxes (Note 4):			
Current . . . . .	8,253	8,298	70,262
Deferred . . . . .	(187)	(603)	(1,598)
	8,066	7,695	68,664
Income before minority interests in earnings of affiliates . . . . .	15,104	13,896	128,582
Minority interests in earnings of affiliates . . . . .	(209)	(262)	(1,782)
Net income (Note 11) . . . . .	¥ 14,895	¥ 13,634	\$ 126,800

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Ushio Inc. and Subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>COMMON STOCK</b>			
Balance at beginning of year			
(2006 — 139,628,721 shares; 2005 — 139,628,721 shares) . . . . .	¥ 19,556	¥ 19,556	\$ 166,479
Balance at end of year			
(2006 — 139,628,721 shares; 2005 — 139,628,721 shares) . . . . .	<u>19,556</u>	<u>19,556</u>	<u>166,479</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at beginning of year . . . . .	28,371	28,119	241,520
Gain on sale of treasury stock . . . . .	—	252	—
Balance at end of year . . . . .	<u>28,371</u>	<u>28,371</u>	<u>241,520</u>
<b>RETAINED EARNINGS</b>			
Balance at beginning of year . . . . .	67,219	56,394	572,223
Add:			
Net income . . . . .	14,895	13,634	126,800
Deduct:			
Cash dividends . . . . .	(2,763)	(2,757)	(23,525)
Bonuses to directors and corporate auditors . . . . .	—	(52)	—
Balance at end of year . . . . .	<u>79,350</u>	<u>67,219</u>	<u>675,498</u>
<b>UNREALIZED HOLDING GAIN ON OTHER SECURITIES</b>			
Balance at beginning of year . . . . .	17,950	18,708	152,811
Net change during the year . . . . .	6,661	(758)	56,705
Balance at end of year . . . . .	<u>24,611</u>	<u>17,950</u>	<u>209,516</u>
<b>TRANSLATION ADJUSTMENTS</b>			
Balance at beginning of year . . . . .	(1,959)	(2,925)	(16,690)
Net change during the year . . . . .	2,498	966	21,280
Balance at end of year . . . . .	<u>¥ 539</u>	<u>¥ (1,959)</u>	<u>\$ 4,590</u>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Ushio Inc. and Subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>OPERATING ACTIVITIES</b>			
Income before income taxes and minority interests in earnings of affiliates . . .	¥ 23,170	¥ 21,591	\$ 197,246
Depreciation and amortization . . . . .	4,763	3,014	40,553
Interest and dividend income . . . . .	(1,156)	(1,016)	(9,848)
Interest expense . . . . .	416	293	3,544
Gain on investments in business partnerships . . . . .	(1,014)	—	(8,639)
Gain on sale of investment securities . . . . .	(1,309)	(456)	(11,143)
Equity in gains of affiliates . . . . .	(409)	(79)	(3,486)
Increase in notes and accounts receivable . . . . .	(3,045)	(2,614)	(25,929)
Increase in inventories . . . . .	(2,283)	(5,034)	(19,443)
(Decrease) increase in notes and accounts payable . . . . .	(633)	2,957	(5,391)
Other . . . . .	104	381	895
Bonuses paid to directors and corporate auditors . . . . .	—	(52)	—
Subtotal . . . . .	18,602	18,985	158,359
Interest and dividends received . . . . .	1,256	1,217	10,692
Interest paid . . . . .	(422)	(291)	(3,594)
Income taxes paid . . . . .	(10,038)	(7,503)	(85,459)
Net cash provided by operating activities . . . . .	9,397	12,408	79,998
<b>INVESTING ACTIVITIES</b>			
Decrease in time deposits . . . . .	(1,389)	(1,481)	(11,830)
Proceeds from time deposits . . . . .	1,415	1,342	12,049
Decrease in short-term loans receivable . . . . .	(2,932)	—	(24,965)
Proceeds from collection of short-term loans receivable . . . . .	1,720	—	14,650
Purchases of short-term investments . . . . .	(1,099)	(881)	(9,363)
Proceeds from redemption and sale of short-term investments . . . . .	1,050	6,327	8,941
Purchases of property, plant and equipment . . . . .	(8,119)	(8,403)	(69,124)
Proceeds from sale of property, plant and equipment . . . . .	269	437	2,297
Increase in intangible fixed assets . . . . .	(199)	(1,623)	(1,695)
Increase in investment securities . . . . .	(5,014)	(4,163)	(42,684)
Proceeds from sale of investment securities . . . . .	3,598	952	30,629
Increase in investments in capital . . . . .	(193)	—	(1,645)
Increase in long-term loans . . . . .	(502)	(138)	(4,274)
Decrease in long-term loans . . . . .	1,660	1,073	14,131
Other . . . . .	(26)	85	(223)
Net cash used in investing activities . . . . .	(9,762)	(6,473)	(83,106)
<b>FINANCING ACTIVITIES</b>			
(Decrease) increase in short-term bank loans . . . . .	(346)	1,337	(2,950)
Proceeds from long-term bank loans . . . . .	360	2,480	3,065
Repayment of long-term debt . . . . .	(466)	(2,757)	(3,969)
Purchases of treasury stock . . . . .	(61)	(205)	(520)
Proceeds from sale of treasury stock . . . . .	—	155	—
Payment of dividends to minority interests . . . . .	(53)	(30)	(458)
Proceeds from minority shareholders . . . . .	—	15	—
Cash dividends paid . . . . .	(2,756)	(2,752)	(23,469)
Net cash used in financing activities . . . . .	(3,324)	(1,757)	(28,301)
Effect of exchange rate changes on cash and cash equivalents . . . . .	954	363	8,129
Net (decrease) increase in cash and cash equivalents . . . . .	(2,734)	4,541	(23,280)
Cash and cash equivalents at beginning of the year . . . . .	25,436	20,895	216,532
Cash and cash equivalents at end of the year (Note 12) . . . . .	¥ 22,701	¥ 25,436	\$ 193,252

See notes to consolidated financial statements.

## 1. Summary of Significant Accounting Policies

### (a) Basis of presentation

USHIO INC. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain reclassifications have been made to the prior year's consolidated financial statements to conform them to the current year's presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

### (b) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies after the elimination of unrealized intercompany profits.

All assets and liabilities of the consolidated subsidiaries and affiliates are revalued on acquisition, if applicable. The excess of

cost over the underlying net equity in the assets at the dates of acquisition is amortized by the straight-line method over five years or is charged or credited to income as an extraordinary item when incurred, if immaterial.

### (c) Foreign currency translation

The revenue and expense accounts of the overseas subsidiaries are translated into yen at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. The differences arising from translation when two exchange rates have been used are presented as translation adjustments, a component of shareholders' equity, in the accompanying consolidated financial statements.

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the current exchange rates in effect at each balance sheet date. Gains and losses resulting from the settlement of these items are credited or charged currently to income.

### (d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

### (e) Short-term investments and investment securities

Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

### (f) Inventories

Finished goods, merchandise and work in process of the Company and the subsidiaries are stated at cost or at the lower of cost or market based on the following methods:

	Company	Subsidiaries
Finished goods, merchandise and work in process	Stated at cost determined by the average method.	Principally stated at the lower of cost or market, cost determined by the FIFO method.
Raw materials	Stated at cost determined by the moving-average method.	Principally stated at the lower of cost or market, cost determined by the FIFO method.

### (g) Depreciation and amortization

Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives of the respective assets. However, buildings (excluding leasehold improvements) acquired after April 1, 1998 by the Company and its domestic subsidiaries are depreciated by the straight-line method.

Property, plant and equipment of the overseas subsidiaries are depreciated mainly by the straight-line method over the estimated useful lives of the respective assets.

Intangible assets are amortized by the straight-line method.

Software development costs are amortized by the straight-line method over an estimated useful life of five years.

### (h) Leases

Except for finance lease agreements, under which the ownership of the leased assets is deemed to be transferred to the lessee, lease fees are charged to income when incurred.

### (i) Research and development expenses

Research and development expenses are charged to income when incurred.

**(j) Allowance for doubtful accounts**

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables, and has been determined based on historical experience with write-offs plus an estimated amount for probable specific doubtful accounts after a review of the collectibility of individual receivables.

**(k) Allowance for employees' bonuses**

The allowance for employees' bonuses represents a provision for the future payment of employees' bonuses. The allowance is provided at the amount which is expected to be paid.

**(l) Retirement and severance benefits**

Accrued retirement benefits for employees have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the year-end. The fair value of the plan assets under the employees' pension fund scheme exceeds the retirement benefit obligation of the plan, adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. This excess has been recognized as prepaid pension expenses. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the eligible employees (15 years). Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of service of the eligible employees (15 years).

Consolidated subsidiaries in Japan provide for retirement allowances for directors and corporate auditors at the full amount, which would be required to be paid if all directors and corporate auditors resigned at the balance sheet date based on their internal regulations.

The Company's system of retirement bonuses for directors and corporate auditors was terminated as of the end of the ordinary general meeting of the shareholders held on June 29, 2005. Until that time, in accordance with internal regulations, the Company recognized allowances for retirement bonuses at the amounts due. In terminating the system, shareholders at the general meeting of June 29, 2005 approved a final payment in amounts proportional to time served on the board. The ¥816 million approved for this purpose is reported on the balance sheet under "Other long-term liabilities."

The Company and certain of its subsidiaries participate in a contributory defined benefit pension plan, which entitles employees of the Company and these subsidiaries upon retirement to

either a lump-sum payment or annuity payments for life, or a combination of both, based on length of service, basic salary at retirement and the number of years of participation in the plan.

**(m) Derivative financial instruments**

The Company and certain consolidated subsidiaries have entered primarily into currency and interest-related derivative transactions in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. In accordance with the accounting standard for financial instruments, derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

**(n) Deferred income taxes**

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

**(o) Appropriation of retained earnings**

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 14.

**(p) Impairment of fixed assets**

Effective the year ended March 31, 2005, the Company and consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets in accordance with Opinion Concerning the Establishment of an Accounting Standard for Impairment of Fixed Assets and Implementation Guidelines for the Accounting Standard for Impairment of Fixed Assets announced by the Business Accounting Deliberation Council on August 9, 2002 and October 31, 2003, respectively.

The standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whether events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and consolidated subsidiaries are required to recognize an impairment loss in their income statement or if certain indicators of assets impairment exist and if the book value of the fixed assets exceeds the undiscounted sum of their future cash flows.

## 2. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2006 have been presented in U.S. dollars by translating all yen amounts at ¥117.47 = US\$1.00, the exchange rate prevailing on March 31,

2006. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 3. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans consisted mainly of unsecured and secured loans payable to banks at interest rates ranging from 0.62% to 9.50% and from 0.58% to 5.38% per annum at March 31, 2006 and 2005, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Ushio Inc.:			
Loans from banks, due through 2008 at rates from 0.66 % to 0.88 %	¥ 2,840	¥ 2,840	\$ 24,176
Subsidiaries:			
Loans from banks, due through 2008 at rates from 0.99 % to 5.65 %	352	458	3,000
Total long-term debt	3,192	3,298	27,176
Less: Current portion	102	466	871
	¥ 3,090	¥ 2,832	\$ 26,305

The assets pledged as collateral for debt at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Inventories	¥ 58	\$ 501
Buildings and structures	22	192
Machinery and equipment	90	767
Land	4	40
	¥ 176	\$ 1,500

The related debt for which the above assets were pledged as collateral at March 31, 2006 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term bank loans	¥ 62	\$ 532
Current portion of long-term debt	2	20
	¥ 64	\$ 552

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 102	\$ 871
2008	3,090	26,305
	¥ 3,192	\$ 27,176

## 4. Income Taxes

Income taxes applicable to the Company and certain of its domestic subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax

rate of approximately 40.7% for 2006 and 2005. Income taxes of the overseas consolidated subsidiaries are based, in general, on the tax rates applicable in their countries of incorporation.

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Enterprise tax payable	¥ 294	¥ 394	\$ 2,508
Allowance for employees' bonuses	847	876	7,214
Retirement benefit expenses	1,503	1,458	12,798
Allowance and accrual for retirement benefits for directors and corporate auditors	649	861	5,527
Net loss carryforward	644	418	5,488
Other	2,357	1,812	20,074
<b>Total deferred tax assets</b>	<b>6,297</b>	<b>5,819</b>	<b>53,609</b>
Deferred tax liabilities:			
Unrealized holding gain on other securities	(16,938)	(12,290)	(144,191)
Depreciation	(224)	(97)	(1,911)
Gain on contribution of securities to employees' retirement benefit trust	(766)	(766)	(6,529)
Other	(292)	(280)	(2,488)
<b>Total deferred tax liabilities</b>	<b>(18,221)</b>	<b>(13,433)</b>	<b>(155,119)</b>
<b>Net deferred tax liabilities</b>	<b>¥ (11,924)</b>	<b>¥ (7,614)</b>	<b>\$ (101,510)</b>

A reconciliation between the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the years ended March 31, 2006 and 2005 is summarized as follows:

	2006	2005
Statutory tax rate	40.7%	40.7%
Reconciliation:		
Increase in valuation allowance for deferred tax assets	(0.4)	0.9
Income not recognized for income tax purposes	(0.4)	(0.4)
Expenses non-deductible for income tax purposes	0.2	0.4
Tax deductions related to R&D activities	(2.1)	(2.0)
Foreign tax credits	(1.1)	(0.6)
Different tax rates applied to overseas subsidiaries	(3.4)	(3.8)
Other	1.3	0.4
<b>Effective tax rate</b>	<b>34.8%</b>	<b>35.6%</b>

## 5. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	¥ 4,645	¥ 4,174	\$ 39,545

## 6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2006 and 2005, which would have been reflected in the

consolidated balance sheets if lease accounting had been applied to the finance leases currently accounted for as operating leases.

2006						
Millions of yen						
	Machinery and vehicles	Other (tools and equipment)	Intangible fixed assets (software)	Total		
Acquisition costs	¥ 48	¥ 202	¥ 36	¥	¥	287
Accumulated depreciation	20	149	19			190
Book value	¥ 27	¥ 52	¥ 16	¥	¥	97
Thousands of U.S. dollars						
Acquisition costs	\$ 411	\$ 1,725	\$ 312	\$	\$	2,448
Accumulated depreciation	176	1,275	170			1,621
Book value	\$ 235	\$ 450	\$ 142	\$	\$	827

2005						
Millions of yen						
	Machinery and vehicles	Other (tools and equipment)	Intangible fixed assets (software)	Total		
Acquisition costs	¥ 72	¥ 266	¥ 104	¥	¥	442
Accumulated depreciation	48	178	72			298
Book value	¥ 24	¥ 88	¥ 32	¥	¥	144

Lease expenses relating to finance leases accounted for as operating leases for the years ended March 31, 2006 and 2005 totaled ¥76 million (\$647 thousand) and ¥105 million, respectively. The following pro forma amounts represent interest expense and

depreciation for the years ended March 31, 2006 and 2005, which would have been reflected in the statements of income if lease accounting had been applied to the finance leases currently accounted for as operating leases.

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	
Interest expense	¥ 76	¥ 5	\$ 654	
Depreciation	76	105	654	

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases, except for lease agreements which

stipulate the transfer of ownership of the leased property to the Company and its subsidiaries, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
Due within one year or less	¥ 49		\$ 424	
Due after one year	47		403	
Total	¥ 97		\$ 827	

The amount of future minimum lease payments was less than the threshold indicated by the Accounting Board of the Japanese Institute of Certified Public Accountants. Accordingly, the acquisition costs of the leased assets and future minimum lease

payments include the related interest. This inclusion of interest was deemed insignificant. Future lease payments on operating lease, which are lease transactions other than finance leases, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
Due within one year or less	¥ 156		\$ 1,330	
Due after one year	278		2,374	
Total	¥ 435		\$ 3,704	

## 7. Short-Term Investments and Investment Securities

Securities classified as trading securities, held-to-maturity securities and other securities as of March 31, 2006 and 2005 are summarized as follows:

### 1. Trading securities

		As of March 31, 2006			
		Millions of yen		Thousands of U.S. dollars	
		Carrying value	Gain	Carrying value	Gain
		¥ 727	¥ 221	\$ 6,197	\$ 1,887
As of March 31, 2005					
		Millions of yen			
		Carrying value	Gain		
		¥ 427	¥ 31		

### 2. Marketable held-to-maturity securities

		As of March 31, 2006					
		Millions of yen			Thousands of U.S. dollars		
		Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:							
(1) Government bonds, municipal bonds	¥	50	¥ 50	¥ 0	\$ 427	\$ 432	\$ 5
(2) Corporate bonds		70	70	0	596	597	1
(3) Other		—	—	—	—	—	—
Subtotal		120	120	0	1,023	1,029	6
Securities whose carrying value exceeds their estimated fair value:							
(1) Government bonds, municipal bonds		130	128	(1)	1,112	1,095	(17)
(2) Corporate bonds		205	200	(5)	1,753	1,705	(48)
(3) Other		—	—	—	—	—	—
Subtotal		336	328	(7)	2,865	2,800	(65)
Total		¥ 456	¥ 449	¥ (6)	\$ 3,888	\$ 3,829	\$ (59)

		As of March 31, 2005		
		Millions of yen		
		Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:				
(1) Government bonds, municipal bonds	¥	—	¥ —	¥ —
(2) Corporate bonds		238	240	2
(3) Other		—	—	—
Subtotal		238	240	2
Securities whose carrying value exceeds their estimated fair value:				
(1) Government bonds, municipal bonds		—	—	—
(2) Corporate bonds		—	—	—
(3) Other		1	1	—
Subtotal		1	1	—
Total		¥ 239	¥ 241	¥ 2

### 3. Marketable other securities

	As of March 31, 2006					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
(1) Stock	¥ 12,445	¥ 53,511	¥ 41,065	\$ 105,948	\$ 455,533	\$ 349,585
(2) Bonds						
Government bonds, municipal bonds	420	457	36	3,582	3,893	311
Corporate bonds	4,584	4,889	304	39,029	41,622	2,593
(3) Other	639	978	339	5,445	8,334	2,889
Subtotal	18,090	59,837	41,746	154,004	509,382	355,378
Securities whose acquisition cost exceeds their carrying value:						
(1) Stock	4	3	(0)	42	34	(8)
(2) Bonds						
Government bonds, municipal bonds	—	—	—	—	—	—
Corporate bonds	5,809	5,574	(235)	49,455	47,453	(2,002)
(3) Other	3,000	2,429	(570)	25,539	20,679	(4,860)
Subtotal	8,814	8,007	(807)	75,036	68,166	(6,870)
Total	¥ 26,905	¥ 67,844	¥ 40,939	\$ 229,040	\$ 577,548	\$ 348,508

	As of March 31, 2005		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Stock	¥ 8,932	¥ 39,461	¥ 30,529
(2) Bonds			
Government bonds, municipal bonds	952	976	24
Corporate bonds	3,344	3,406	62
Other	104	159	55
(3) Other	602	779	177
Subtotal	13,934	44,781	30,847
Securities whose acquisition cost exceeds their carrying value:			
(1) Stock	152	128	(24)
(2) Bonds			
Government bonds, municipal bonds	—	—	—
Corporate bonds	5,889	5,343	(546)
Other	3,000	2,576	(424)
(3) Other	472	428	(44)
Subtotal	9,513	8,475	(1,038)
Total	¥ 23,447	¥ 53,256	¥ 29,809

### 4. Other securities sold during the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Sale of securities	¥ 2,579	¥ 9,930	\$ 21,960
Gain on sale	1,244	456	10,597
Loss on sale	4	32	35

### 5. Non-marketable securities

	Carrying value		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other securities			
Unlisted stocks (excluding over-the-counter traded securities)	¥ 1,311	¥ 1,102	\$ 11,163
Money management funds	1,666	1,888	14,187
Investments in business partnerships with limited liability and similar types of funds	2,720	2,674	23,163

6. The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity securities as of March 31, 2006 and 2005 is summarized as follows:

	As of March 31, 2006					
	Millions of yen			Thousands of U.S. dollars		
	Due within one year	Due after one year through five years	Due after five years through ten years	Due within one year	Due after one year through five years	Due after five years through ten years
1. Bonds						
(1) Government bonds, municipal bonds	¥ —	¥ 649	¥ —	\$ —	\$ 5,532	\$ —
(2) Corporate bonds	3,066	5,889	469	26,109	50,134	4,000
(3) Other	0	0	0	0	6	0
2. Other	—	—	2,429	—	—	20,680
Total	¥ 3,067	¥ 6,539	¥ 2,899	\$ 26,109	\$ 55,672	\$ 24,680

	As of March 31, 2005		
	Millions of yen		
	Due within one year	Due after one year through five years	Due after five years through ten years
1. Bonds			
(1) Government bonds, municipal bonds	¥ 537	¥ 429	¥ —
(2) Corporate bonds	386	7,159	—
(3) Other	—	—	—
2. Other	—	—	2,576
Total	¥ 923	¥ 7,588	¥ 2,576

## 8. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2006 and 2005.

Currency-related transactions:

	As of March 31, 2006					
	Millions of yen			Thousands of U.S. dollars		
	National amount	Fair value	Unrealized gain (loss)	National amount	Fair value	Unrealized gain (loss)
Bilateral transactions						
Forward foreign exchange contracts						
Sell:						
US\$	¥ 465	¥ 471	¥ (5)	\$ 3,966	\$ 4,011	\$ (45)
Euro	183	185	(2)	1,559	1,582	(23)
Buy:						
Yen	—	—	—	—	—	—
Total	¥ 648	¥ 657	¥ (8)	\$ 5,525	\$ 5,593	\$ (68)

	As of March 31, 2005		
	Millions of yen		
	National amount	Fair value	Unrealized gain (loss)
Bilateral transactions			
Forward foreign exchange contracts			
Sell:			
US\$	¥ 1,479	¥ 1,495	¥ (16)
Euro	308	310	(2)
Buy:			
Yen	—	—	—
Total	¥ 1,787	¥ 1,805	¥ (18)

## 9. Retirement Benefits Plans

The Company and certain of its consolidated subsidiaries have defined benefit plans such as welfare pension fund plans and lump-sum payment plans, covering substantially all employees who are entitled, upon retirement, to annuity or lump-sum payments, the amounts of which are determined by reference to their basic rate of pay, length of service, and the conditions under which termina-

tion occurs. The Company has established an employees' retirement benefit trust.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(1) Retirement benefit obligation	¥ (15,975)	¥ (14,658)	\$ (135,998)
(2) Plan assets at fair value (including trust fund for retirement benefits)	14,592	11,046	124,222
(3) Unfunded net retirement benefit obligation (1)+(2)	(1,383)	(3,612)	(11,776)
(4) Unrecognized actuarial gain or loss	1,588	3,936	13,522
(5) Unrecognized prior service cost	(372)	(408)	(3,171)
(6) Net liability for retirement benefits (3)+(4)+(5)	(167)	(84)	(1,425)
(7) Prepaid pension expenses	220	259	1,874
(8) Accrued retirement benefits (6)-(7)	¥ (387)	¥ (343)	\$ (3,299)

Notes: 1. The government-sponsored portion of the benefits under the welfare pension fund plans is included in the amounts presented in the above table.  
2. Certain consolidated subsidiaries have adopted a simplified method for computing their retirement benefit obligation.

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(1) Service cost *1 and *2	¥ 774	¥ 722	\$ 6,596
(2) Interest cost	359	358	3,059
(3) Expected return on plan assets	(357)	(307)	(3,044)
(4) Amortization of actuarial gain or loss	311	189	2,656
(5) Amortization of prior service cost	(36)	(36)	(308)
Total retirement benefit expenses *3	¥ 1,052	¥ 926	\$ 8,959

Notes: \*1. The employees' portion of the contributions to the welfare pension fund plans has been excluded.  
\*2. The retirement benefit expenses of the consolidated subsidiaries which adopted the simplified method have been included in (1) service cost.  
\*3. In addition to total retirement benefit expenses, the Company paid ¥19 million (\$162 thousand) and ¥6 million as additional retirement payments for the years ended March 31, 2006 and 2005, respectively.

The assumptions used in accounting for the retirement benefit obligation were as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	4.5%	4.5%
Actual cost method	Unit credit method	
Amortization period of prior service cost	15 years (straight-line method)	
Amortization period of actuarial gain or loss	15 years (straight-line method)	

## 10. Shareholders' Equity

The Commercial Code of Japan provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock

account. The Code also stipulates that, to the extent that sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

## 11. Amounts Per Share

Amounts per share of net income and net assets, as presented below, are based on the weighted-average number of shares of common stock outstanding during each year and the number of shares outstanding at each balance sheet date, respectively.

	Yen		U.S. dollars	
	2006	March 31, 2005	2006	
Net income	¥ 107.81	¥ 98.89	\$ 0.91	
Net assets	1,089.67	935.80	9.27	

Per share amounts assuming full dilution have not been presented because no common stock equivalents remained outstanding at March 31, 2006 and 2005.

## 12. Supplementary Cash Flow Information

The following table presents a reconciliation of cash and bank deposits with cash and cash equivalents at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and bank deposits	¥ 22,182	¥ 24,636	\$ 188,836
Time deposits with a maturity of more than three months	(1,147)	(1,088)	(9,771)
Short-term investments	5,539	3,399	47,160
Equity and debt securities with a maturity of more than three months	(3,873)	(1,511)	(32,973)
Cash and cash equivalents	¥ 22,701	¥ 25,436	\$ 193,252

## 13. Segment Information

The business and geographical segment information and overseas sales for the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are outlined as follows:

### Business segments

	Year ended March 31, 2006				
	Millions of yen				
	Light source application products	Machinery for industrial uses and other business	Total	Eliminations or unallocated amounts	Consolidated
<b>I. Sales and operating income</b>					
Sales to external customers	¥ 125,306	¥ 3,977	¥ 129,284	¥ —	¥ 129,284
Intersegment sales or transfers	83	106	189	(189)	—
Total sales	125,389	4,084	129,474	(189)	129,284
Operating expenses	107,177	3,795	110,972	(189)	110,783
Operating income	¥ 18,212	¥ 289	¥ 18,501	¥ (0)	¥ 18,501
<b>II. Total assets, depreciation and capital expenditures</b>					
Total assets	¥ 159,874	¥ 6,561	¥ 166,436	¥ 46,590	¥ 213,027
Depreciation	4,735	28	4,763	—	4,763
Capital expenditures	6,781	29	6,810	—	6,810
	Thousands of U.S. dollars				
	Light source application products	Machinery for industrial uses and other business	Total	Eliminations or unallocated amounts	Consolidated
<b>I. Sales and operating income</b>					
Sales to external customers	\$ 1,066,713	\$ 33,863	\$ 1,100,576	\$ —	\$ 1,100,576
Intersegment sales or transfers	707	910	1,617	(1,617)	—
Total sales	1,067,420	34,773	1,102,193	(1,617)	1,100,576
Operating expenses	912,380	32,312	944,692	(1,617)	943,075
Operating income	\$ 155,040	\$ 2,461	\$ 157,501	\$ (0)	\$ 157,501
<b>II. Total assets, depreciation and capital expenditures</b>					
Total assets	\$ 1,360,985	\$ 55,859	\$ 1,416,844	\$ 396,616	\$ 1,813,460
Depreciation	40,309	244	40,553	—	40,553
Capital expenditures	57,731	249	57,980	—	57,980

Year ended March 31, 2005

	Millions of yen				
	Light source application products	Machinery for industrial uses and other business	Total	Eliminations or unallocated amounts	Consolidated
<b>I. Sales and operating income</b>					
Sales to external customers	¥ 115,641	¥ 3,518	¥ 119,159	¥ —	¥ 119,159
Intersegment sales or transfers	75	91	166	(166)	—
Total sales	115,716	3,609	119,325	(166)	119,159
Operating expenses	95,787	3,363	99,150	(180)	98,970
Operating income	¥ 19,929	¥ 246	¥ 20,175	¥ 14	¥ 20,189
<b>II. Total assets, depreciation and capital expenditures</b>					
Total assets	¥ 137,624	¥ 6,876	¥ 144,500	¥ 42,751	¥ 187,251
Depreciation	3,006	8	3,014	—	3,014
Capital expenditures	12,827	10	12,837	—	12,837

- Notes: a) Basis of segmentation  
 (1) Business segments are divided into categories based on the usage of each product in the market.  
 (2) Major products in each business segment:  
 Light source application products — halogen lamps, xenon lamps, high pressure UV lamps, projection lamps for movie theaters and peripheral equipment, UV curing systems, and various other exposure systems  
 Machinery for industrial uses and other business — injection molding machinery, food packaging systems, and automatic controls
- b) Included in eliminations or unallocated amounts of the total assets are unallocated amounts totaling ¥52,957 million (\$450,818 thousand) and ¥46,152 million at March 31, 2006 and 2005, respectively, which consisted primarily of surplus funds (cash and short-term investments) and long-term investments (investment securities, etc.) of the Company.
- c) Included in depreciation and capital expenditures are amortization and additions to long-term prepaid expenses.

## Geographical segments

Year ended March 31, 2006

	Millions of yen					Eliminations or unallocated amounts	Consolidated
	Japan	North America	Europe	Asia	Total		
<b>I. Sales and operating income</b>							
Sales to external customers	¥ 60,338	¥ 38,623	¥ 5,617	¥ 24,705	¥ 129,284	¥ —	¥ 129,284
Intersegment sales or transfers	17,934	780	666	5,241	24,622	(24,622)	—
Total sales	78,272	39,403	6,283	29,946	153,907	(24,622)	129,284
Operating expenses	65,490	37,811	6,002	25,868	135,172	(24,389)	110,783
Operating income	12,782	1,592	281	4,078	18,734	(233)	18,501
<b>II. Total assets</b>	¥ 125,172	¥ 28,933	¥ 12,252	¥ 21,922	¥ 188,280	¥ 24,746	¥ 213,027

Thousands of U.S. dollars

<b>I. Sales and operating income</b>							
Sales to external customers	\$ 513,650	\$ 328,794	\$ 47,821	\$ 210,311	\$ 1,100,576	\$ —	\$ 1,100,576
Intersegment sales or transfers	152,673	6,642	5,672	44,621	209,608	(209,608)	—
Total sales	666,323	335,436	53,492	254,932	1,310,184	(209,608)	1,100,576
Operating expenses	557,509	321,881	51,095	220,213	1,150,698	(207,623)	943,075
Operating income	108,814	13,555	2,398	34,719	159,486	(1,985)	157,501
<b>II. Total assets</b>	\$ 1,065,569	\$ 246,302	\$ 104,305	\$ 186,621	\$ 1,602,797	\$ 210,664	\$ 1,813,460

Year ended March 31, 2005

	Millions of yen					Eliminations or unallocated amounts	Consolidated
	Japan	North America	Europe	Asia	Total		
<b>I. Sales and operating income (loss)</b>							
Sales to external customers	¥ 63,858	¥ 27,275	¥ 5,446	¥ 22,580	¥ 119,159	¥ —	¥ 119,159
Intersegment sales or transfers	17,591	796	669	4,104	23,160	(23,160)	—
Total sales	81,449	28,071	6,115	26,684	142,319	(23,160)	119,159
Operating expenses	65,130	28,189	5,791	22,882	121,992	(23,022)	98,970
Operating income (loss)	16,319	(118)	324	3,802	20,327	(138)	20,189
<b>II. Total assets</b>	¥ 113,051	¥ 22,652	¥ 10,726	¥ 17,384	¥ 163,813	¥ 23,438	¥ 187,251

- Notes: a) Geographical segments are divided into categories based on their geographical proximity.  
 b) Major nations or regions included in each geographical segment:  
 (1) North America — U.S.A., Canada  
 (2) Europe — Netherlands, Germany, England, France  
 (3) Asia — China, Taiwan, Korea, Philippines, Singapore
- c) Included in eliminations or unallocated amounts of total assets are unallocated amounts totaling ¥52,957 million (\$450,813 thousand) and ¥46,152 million at March 31, 2006 and 2005, respectively, which consisted primarily of surplus funds (cash and short-term investments) and long-term investments (investment securities, etc.) of the Company.

**Overseas sales**

	Year ended March 31, 2006				
	Millions of yen				
	North America	Europe	Asia	Other areas	Total
III. Overseas sales					
Overseas sales	¥ 29,874	¥ 10,295	¥ 31,860	¥ 656	¥ 72,688
Consolidated net sales					¥ 129,284
Overseas sales as a percentage of consolidated net sales	23.1%	8.0%	24.6%	0.5%	56.2%

	Thousands of U.S. dollars				
	North America	Europe	Asia	Other areas	Total
	III. Overseas sales				
Overseas sales	\$ 254,320	\$ 87,648	\$ 271,222	\$ 5,590	\$ 618,780
Consolidated net sales					\$ 1,100,576
Overseas sales as a percentage of consolidated net sales	23.1%	8.0%	24.6%	0.5%	56.2%

	Year ended March 31, 2005				
	Millions of yen				
	North America	Europe	Asia	Other areas	Total
III. Overseas sales					
Overseas sales	¥ 20,637	¥ 8,420	¥ 31,859	¥ 1,260	¥ 62,176
Consolidated net sales					¥ 119,159
Overseas sales as a percentage of consolidated net sales	17.3%	7.1%	26.7%	1.1%	52.2%

Notes: a) Geographical areas are divided into categories based on their geographical proximity.  
 b) Major nations or regions included in each geographical area:  
 (1) North America — U.S.A., Canada

(2) Europe — Netherlands, Germany, England, France  
 (3) Asia — China, Taiwan, Korea, Philippines, Singapore  
 (4) Other areas — Argentina, Brazil  
 c) Overseas sales are sales of the Company and its subsidiaries.

**14. Subsequent Events**

The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2006, was approved at a shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥20 = US\$0.17 per share)	¥ 2,762	\$ 23,520
	¥ 2,762	\$ 23,520

**Purchases of treasury stock**

On June 9, 2006, the Board of Directors of the Company approved a resolution to purchase its own shares of common stock on the Tokyo Stock Exchange in accordance with the Corporation Law of Japan. Following this decision, the Company purchased treasury stock as follows:

- (1) Purpose: To facilitate implementing speedy and systematic funding policy
- (2) Number of shares: 456,000 shares
- (3) Purchase cost: ¥1,058 million (\$9,007 thousand)
- (4) Purchase period: June 12 - June 21, 2006

## Ernst & Young ShinNihon

The Board of Directors  
USHIO INC.

We have audited the accompanying consolidated balance sheets of USHIO INC. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of USHIO INC. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.



Tokyo, Japan  
June 29, 2006

## Domestic Group Companies

June 29, 2006

### USHIO LIGHTING, INC.

**Business activities:**

Manufacture and sale of halogen lamps, metal halide lamps, ceramic metal halide lamps for illumination, halogen heaters, fiber optic lights and LEDs. Sale of stage effect lighting systems, marine lighting systems, emergency and security lighting systems, UV exposure systems, plastic factory automation systems, food wrapping systems and other products

• **FUKUSAKI HEAD OFFICE / PLANT**

860-22 Saiji, Fukusaki-cho, Kanzaki-gun, Hyogo 679-2215  
Tel: +81 790-22-6371  
Fax: +81 790-22-6502

• **TOKYO HEAD OFFICE**

Shuwa Higashi-Yaesu Bldg., 2-9-1 Hatchobori, Chuo-ku, Tokyo 104-0032  
Tel: +81 3-3552-8261  
Fax: +81 3-3552-8263

• **TSUKUBA TECHNICAL CENTER**

5-2-4 Toukodai, Tsukuba-shi, Ibaraki 300-2635  
Tel: +81 29-847-7421  
Fax: +81 29-847-8475

### HYOGO USHIO LIGHTING, INC.

**Business activities:**

Manufacture of halogen lamps for illumination

159-1 Igidani, Yamasaki-cho, Shiso-shi, Hyogo 671-2517  
Tel: +81 790-64-4832  
Fax: +81 790-64-4831

### GUNMA USHIO ELECTRIC, INC.

**Business activities:**

Manufacture and sale of office equipment, medical equipment, fitness industry equipment and other products

262 Kondo-cho, Tatebayashi-shi, Gunma 374-8521  
Tel: +81 276-73-4611  
Fax: +81 276-74-7471

### TSUKUBA USHIO ELECTRIC, INC.

**Business activities:**

Manufacture and sale of xenon flash lamps, compact fluorescent lamps and other products

5-2-1 Toukoudai, Tsukuba-shi, Ibaraki 300-2635  
Tel: +81 298-47-5111  
Fax: +81 298-47-5051

### XEBEX, INC.

**Business activities:**

Sale of cinema projection and sound systems, peripheral equipment and other products

NishinoKinryo Bldg., 4-9-4 Hatchobori, Chuo-ku, Tokyo 104-0032  
Tel: +81 3-5566-9100  
Fax: +81 3-3553-9700

### USHIO SPAX, INC.

**Business activities:**

Manufacture and sale of lighting equipment and optical equipment; room lighting design

1-20-19 Horikiri, Katsushika-ku, Tokyo 124-0006  
Tel: +81 3-5672-7711  
Fax: +81 3-5672-7734

### GIGAPHOTON, INC.

**Business activities:**

Research, development, manufacture, sale and servicing of excimer lasers for the exposure of semiconductors

400 Yokokurashinden, Oyama-shi, Tochigi 323-8558  
Tel: +81 285-28-8410  
Fax: +81 285-28-8439

### NIHON DENSHI GIJUTSU CO., LTD.

**Business activities:**

Design of control circuits

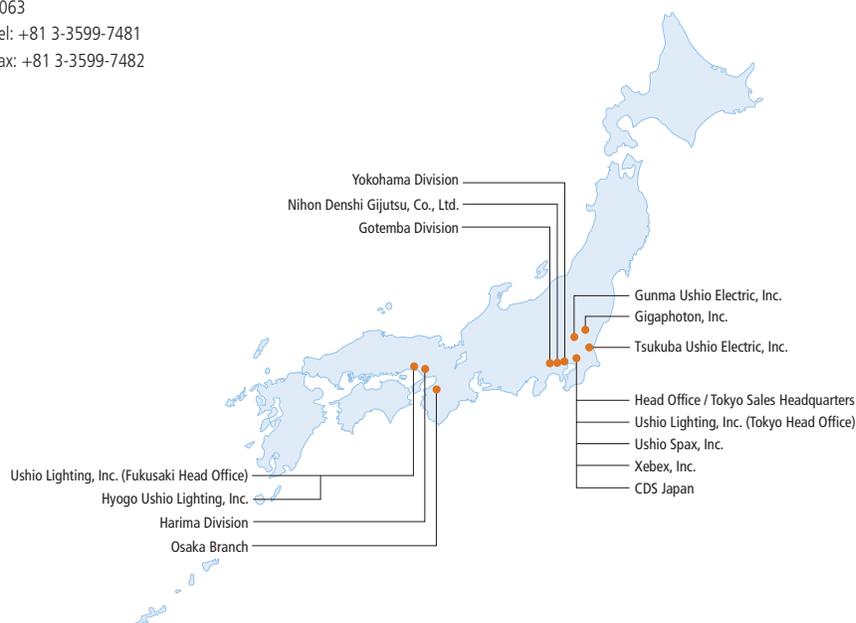
2-2-27 Takane, Sagami-hara-shi, Kanagawa 229-0021  
Tel: +81 42-756-9400  
Fax: +81 42-758-6847

### CDS JAPAN

**Business activities:**

Sale of various projection systems and light source-related equipment

Ariake-Frontier Bldg., 2/F, 3-1-25 Ariake, Koto-ku, Tokyo, 135-0063  
Tel: +81 3-3599-7481  
Fax: +81 3-3599-7482



**NORTH AMERICA****USHIO AMERICA, INC.****Business activities:**

Sale of super high-pressure UV lamps; manufacture and sale of metal halide lamps and halogen lamps for OA equipment and other products

5440 Cerritos Avenue, Cypress, CA 90630, U.S.A.

Tel: +1 714-236-8600

Fax: +1 714-229-3180

**USHIO CANADA, INC.****Business activities:**

Sale of super high-pressure UV lamps, metal halide lamps, halogen lamps and other products

2730 Brighton Road, Oakville, Ontario, L6H 5T4, Canada

Tel: +1 905-829-3338

Fax: +1 905-829-5343

**CHRISTIE DIGITAL SYSTEMS USA, INC.****Business activities:**

Manufacture and sale of movie theater projection systems and light source-related equipment

10550 Camden Drive, Cypress, CA 90630, U.S.A.

Tel: +1 714-236-8610

Fax: +1 714-503-3385

**EUROPE****USHIO EUROPE B.V.****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps and systems and other products

Sky Park, Breguetlaan 16-18, 1438BC Oude Meer, the Netherlands

Tel: +31 20-446-9333

Fax: +31 20-446-0360

**USHIO FRANCE S.A.R.L.****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps and other products

Z.I. du Vert Galant-Allée St. Simon B.P. 7043-St. Ouen

L'Aumone 95051, Cergy Pontoise Cedex, France

Tel: +33 1-34-64-94-94

Fax: +33 1-34-64-44-97

**USHIO DEUTSCHLAND GmbH****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps and other products

Münchner Straße 10, 85643 Steinhöring, Germany

Tel: +49 8094-9054-0

Fax: +49 8094-9054-190

**USHIO U.K., LTD.****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps and other products

Unit 25 & 26, Rabans Close, Rabans Lane Industrial Estate,

Aylesbury, Bucks HP19 8TR, U.K.

Tel: +44 1296-339-988

Fax: +44 1296-339-908

**ASIA****USHIO SINGAPORE PTE LTD.****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps and systems and other products

#1, Jalan Kilang #05-01, Dynasty Industrial Bldg., Singapore 159402

Tel: +65 6274-5311

Fax: +65 6274-5300

- **THAILAND REPRESENTATIVE OFFICE**

159 Serm-Mit Tower, 10/F, Unit 111, Sukhumvit 21 Road

(Asoke), Khlongtoey-nua, Wattana, Bangkok 10110 Thailand

Tel: +66 2-661-7907

Fax: +66 2-661-7460

**USHIO TAIWAN, INC.****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps, various exposure systems, optical systems, lasers and other products

#31, 10/F, Sec. 1, Chung-Shiaw E. Road, Taipei, Taiwan, R.O.C.

Tel: +886 2-2322-4103

Fax: +886 2-2394-4140

**USHIO KOREA, INC.****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps, various exposure systems, optical systems, excimer lasers for semiconductor photolithography and other products

Dukheung Bldg., 14/F, 1328-10, Seocho-dong, Seocho-ku, Seoul, Korea

Tel: +82 2-587-1115

Fax: +82 2-587-1118

**USHIO SHANGHAI, INC.****Business activities:**

Sale of super high-pressure UV lamps, xenon short-arc lamps, halogen lamps, various exposure systems, optical systems and other products

HSBC Tower, 10/F, 1000 Lujiazui Ring Road, Pudong New Area, Shanghai, P.R.C. 200120

Tel: +86 21-6841-1135

Fax: +86 21-6841-1150

**USHIO HONG KONG LTD.****Business activities:**

Sale of halogen lamps and rare gas fluorescent lamps and units for OA equipment, lamps for projectors and other products

Tower 6, 31/F, Suites 3113-14, The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

Tel: +852 2756-7880

Fax: +852 2798-9861

- **YUEN LONG OFFICE**

29-31, Wang Lok Street, Yuen Long Industrial Estate, Yuen

Long, New Territories, Hong Kong

Tel: +852 2478-0090

Fax: +852 2476-6701

**USHIO LIGHTING (HONG KONG) CO., LTD.****Business activities:**

Sale of plastic factory automation system and other products

Tower 6, 22/F, Suites 2209-11, The Gateway, 9 Canton Road,

Tsim Sha Tsui, Kowloon, Hong Kong

Tel: +852 2305-1802

Fax: +852 2305-1803

Overseas Group Production Companies

June 29, 2006

**NORTH AMERICA**

**USHIO AMERICA, INC.**

**Business activities:**

Sale of super high-pressure UV lamps; manufacture and sale of metal halide lamps and halogen lamps for OA equipment and other products

• **OREGON OPERATIONS DIVISION**

2050 East Mountainview Drive, Newberg, OR 97132, U.S.A.  
Tel: +1 503-538-6515  
Fax: +1 503-538-4333

• **IRVINE FACTORY**

14 Mason Avenue, Irvine, CA 92618, U.S.A.  
Tel: +1 714-236-8600  
Fax: +1 949-472-0159

**CHRISTIE DIGITAL SYSTEMS CANADA, INC.**

**Business activities:**

Development and manufacture of digital movie projection systems, monitoring control systems and other projectors

809 Wellington Street, North Kitchener, Ontario, N2G 4Y7, Canada

Tel: +1 519-744-8005  
Fax: +1 519-749-3136

**EUROPE**

**BLV LICHT- UND VAKUUMTECHNIK GmbH**

**Business activities:**

Manufacture and sale of metal halide lamps, halogen lamps and other products

Münchner Straße 10, 85643 Steinhöring, Germany  
Tel: +49 8094-906-0  
Fax: +49 8094-906-111

**XTREME TECHNOLOGIES GmbH**

**Business activities:**

Manufacture, sale, research and development of EUV light source

Hans-Adolf-Krebs-Weg 1, D-37077 Göttingen, Germany  
Tel: +49 551-8207-3100  
Fax: +49 551-8207-3110

**NATRIUM S.A.**

**Business activities:**

Manufacture, sale, research and development of energy-saving light sources such as sodium lamps and other lamps

ul. Grodziska 15, 05-870 Blonie, Poland  
Tel: +48 22-7319005-10  
Fax: +48 22-7319005

**ASIA**

**TAIWAN USHIO LIGHTING, INC.**

**Business activities:**

Manufacture and sale of halogen lamps for illumination, metal halide lamps and other products

#82, Taiho Road, Taiho-Li, Chupei, Hsinchu Hsien, Taiwan, R.O.C.  
Tel: +886 35-51-3207  
Fax: +886 35-51-4523

**USHIO (SUZHOU) CO., LTD.**

**Business activities:**

Manufacture of halogen lamps and rare gas fluorescent lamps for OA equipment, lamps for projectors and other products

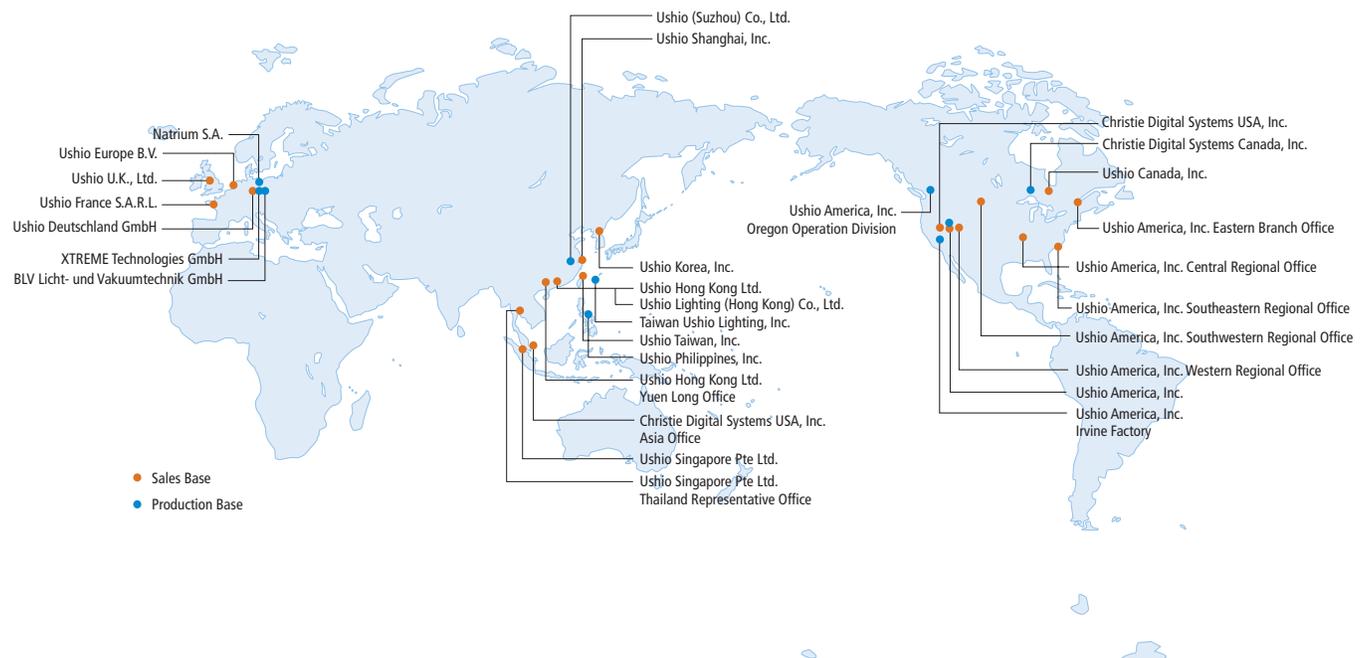
6, Yuyang Street, Suzhou New District, Suzhou, P.R.C.  
Tel: +86 512-6807-6628  
Fax: +86 512-6809-9271

**USHIO PHILIPPINES, INC.**

**Business activities:**

Manufacture of halogen lamps for illumination and OA equipment and other products

First Cavite Industrial Estate, Barangay Langkaan, Dasmariñas, Cavite, Philippines  
Tel: +63 046-402-1422  
Fax: +63 046-402-1421



## Corporate Data

<b>Company name</b>	Ushio Inc.	
<b>Address</b>	2-6-1 Otemachi, Chiyoda-ku, Tokyo 100-8150	
<b>URL</b>	http://www.ushio.co.jp	
<b>Establishment</b>	March 1964	
<b>Paid-in capital</b>	¥19,556,326,316	
<b>Common stock</b>	Authorized: 300,000,000 shares Issued: 139,628,721 shares	
<b>Stock listings</b>	Tokyo Stock Exchange and Osaka Stock Exchange, First Section	
<b>Independent accountants</b>	Ernst & Young ShinNihon	
<b>Transfer agent</b>	The Chuo-Mitsui Trust & Banking Co., Ltd.	
<b>Board of directors (As of June 29, 2006)</b>	Chairman and Ushio Group Representative	Jiro Ushio
	Representative Director and Vice Chairman	Akihiro Tanaka
	President and Chief Executive Officer	Shiro Sugata
	Directors and Corporate Executive Vice Presidents	Manabu Goto Soichi Shide Tadashi Taki Seiji Oshima Shiro Ushio
	Corporate Auditors	Tadashi Shibuichi Katsunori Kakimi
	Statutory Auditors	Shinji Sekiguchi Shuichi Hattori Koji Aso

## Divisions

### Head Office

2-6-1 Otemachi, Chiyoda-ku, Tokyo 100-8150  
Tel: +81 3-3242-1811  
Fax: +81 3-3242-0695

### Manufacturing and R&D

**Harima Division**  
2-6-1 Otemachi, Chiyoda-ku, Tokyo 100-8150  
Tel: +81 3-3242-1811  
Fax: +81 3-3242-0695

### Yokohama Division

6409 Moto-Ishikawa-cho, Aoba-ku, Yokohama-shi, Kanagawa 225-0004  
Tel: +81 45-901-2571  
Fax: +81 45-901-1004

### Gotemba Division

1-90 Komakado, Gotemba-shi, Shizuoka 412-0038  
Tel: +81 550-87-3000  
Fax: +81 550-87-3200

## Sales

### Tokyo Sales Headquarters

2-6-1 Otemachi, Chiyoda-ku, Tokyo 100-8150  
Tel: +81 3-3242-5610  
Fax: +81 3-3242-2700

### System Company Sales Division

Hazuki Bldg., 5-14-6 Utsukushigaoka, Aoba-ku, Yokohama-shi, Kanagawa 225-0002  
Tel: +81 45-901-2572  
Fax: +81 45-901-0883

### Osaka Branch

Shin-Osaka MT Bldg. 1, 5-13-9 Nishi-Nakajima, Yodogawa-ku, Osaka 532-0011  
Tel: +81 6-6306-5711  
Fax: +81 6-6306-5718

## Stock Price Range and Trading Volume



Lighting Edge Technologies  
**USHIO**

**The Things You Can Do with Light!**

Sometimes it feels as if technology is moving forward at the speed of light, getting smaller, faster, and more precise every day. Light is helping to solve some of the problems this dizzying pace of change causes. Light—more indispensable than ever. USHIO the light creation company—more promising than ever. Lighting the Way to the Future: USHIO.

For further information on Ushio or our products, please contact the Company's head office or visit our website:  
<http://www.ushio.co.jp>



Please contact:

**Corporate Communications Department, Office of The President  
USHIO INC.**

2-6-1, Otemachi, Chiyoda-ku, Tokyo 100-8150, Japan  
TEL: +81 3-3242-1815 FAX: +81 3-3245-0589