USHIO Lighting—Edge Technologies

## 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/global**

**Environmental Consciousness of this Publication**

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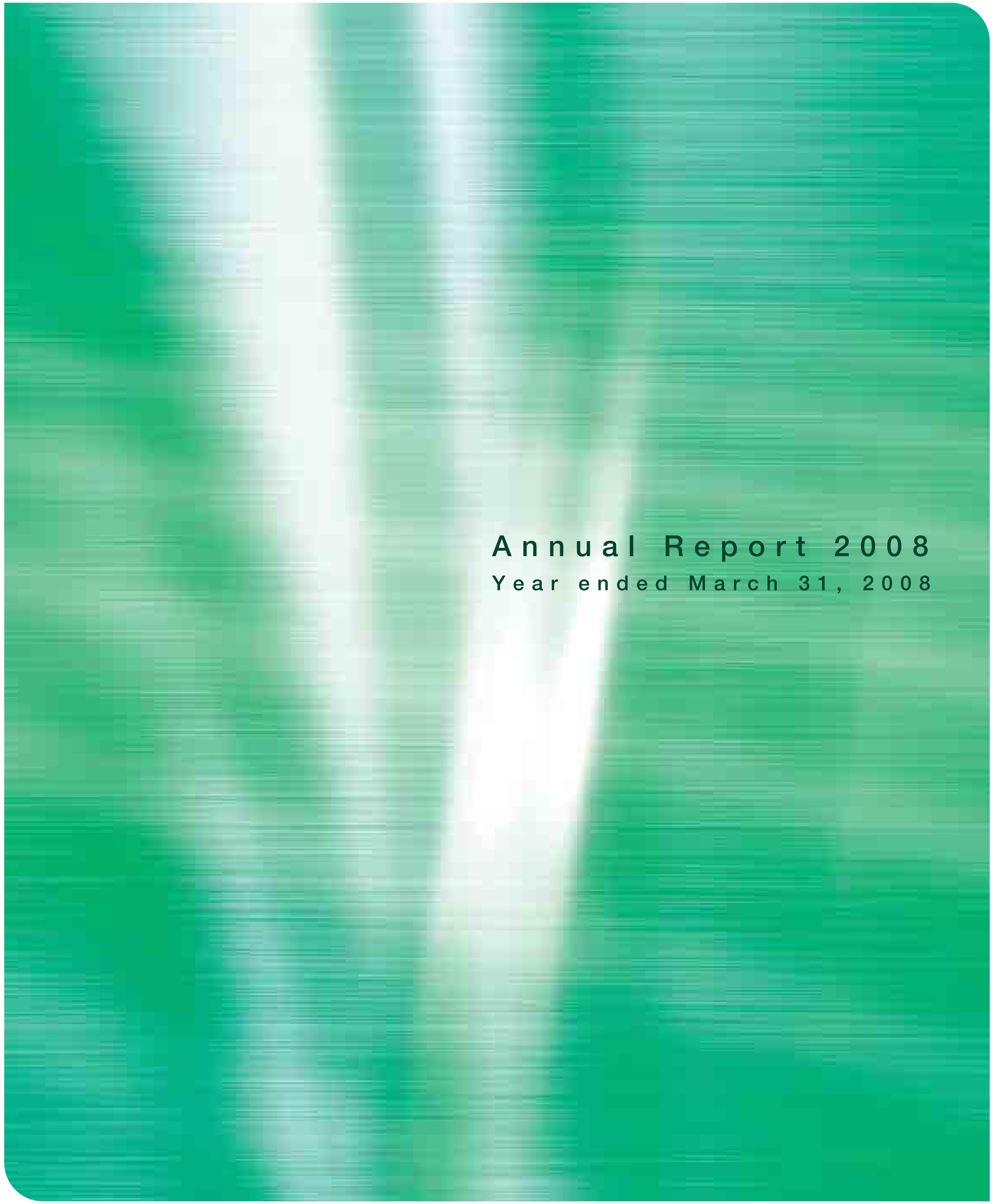


# Annual Report 2008

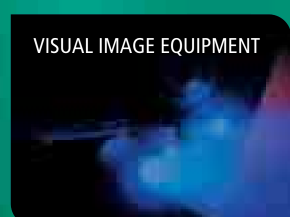
## Year ended March 31, 2008

USHIO Lighting—Edge Technologies

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.




**Contents**



**Forward-Looking Statements**

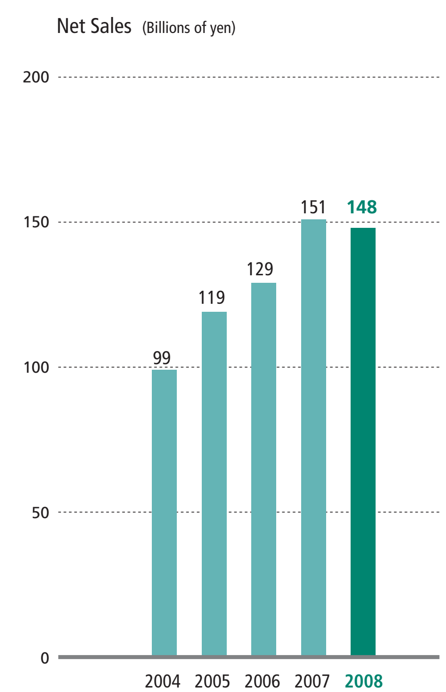
The plans, strategies and other statements related to the outlook for future results in this annual report reflect the assumptions and beliefs of management based on currently available information. However, it should be noted that there is a possibility for actual results to differ significantly owing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

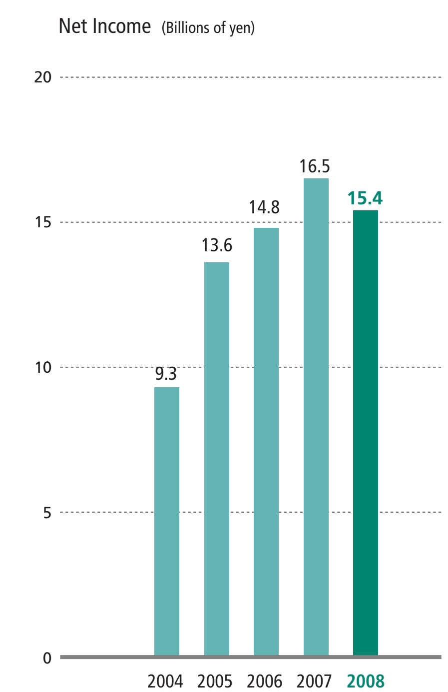
# Consolidated Financial Highlights

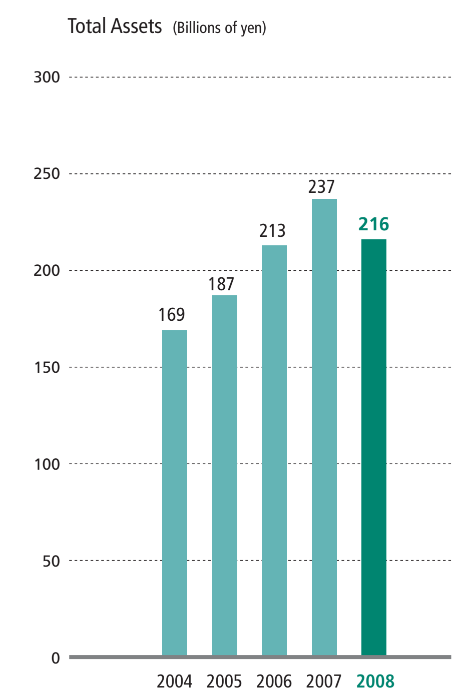
USHIO INC. and Subsidiaries
Years ended March 31

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2008** | 2007 | 2006 | **2008** |
| FOR THE YEAR: | | | | |
| NET SALES | ¥ 148,148 | ¥ 151,495 | ¥ 129,284 | $1,478,672 |
| OPERATING INCOME | 20,050 | 19,727 | 18,501 | 200,126 |
| NET INCOME | 15,486 | 16,553 | 14,895 | 154,567 |
| AT YEAR-END: | | | | |
| TOTAL ASSETS | 216,659 | 237,520 | 213,027 | 2,162,486 |
| NET ASSETS | 162,092 | 170,738 | 150,533 | 1,617,847 |
| PER SHARE OF COMMON STOCK (YEN AND U.S. DOLLARS): | | | | |
| NET INCOME | ¥ 112.96 | ¥ 120.16 | ¥ 107.81 | $ 1.12 |
| CASH DIVIDENDS | 24.00 | 24.00 | 20.00 | 0.24 |
| NET ASSETS | 1,177.77 | 1,233.65 | 1,089.67 | 11.75 |

Note: Fiscal 2007 yen amounts have been translated into U.S. dollar amounts at ¥100.19 = US$1.00, the exchange rate prevailing on March 31, 2008.



# Aiming to Increase Corporate Value as a Business Group Supporting the Digital Industry through a Focus on Seven Themes in Our Core Business Strategy

Shiro Sugata President and Chief Executive Officer

## Driven by Strong Sales of Lamps for LCDs, Semiconductors and Data Projectors

We are extremely grateful to our shareholders and investors for their exceptional support and encouragement.

The Japanese economy was stable in fiscal 2007, ended March 31, 2008, particularly in the export sector, despite soaring prices for crude oil and raw materials in addition to the impact of the rapidly appreciating yen against the U.S. dollar in the second half of the fiscal year. Driven by strong private-sector capital investment and the stable employment situation, there were signs of an upturn in consumer spending. Overall, the economy expanded, albeit moderately.

Overseas, the economic slowdown became prominent in the United States as financial uncertainty exacerbated by the subprime loan issue led to stagnant housing demand and personal income. In contrast, the European economy was solid due primarily to growth in employment and income while the Asian economy continued to expand, led by China.

Looking at the performance of key products of the USHIO Group, LCD-related products posted sales gains, as inventory adjustments for LCD panels ran its course and production gradually moved back on track, leading to strong replacement demand for lamps for liquid crystal photolithography systems. Sales of optical devices for production systems fell below expectations, however, as capital investment has yet to be fully recovered. The semiconductor industry remained firm, with steady growth in sales of lamps for semiconductor photolithography systems and optical devices. Demand in the data projector market expanded, particularly overseas, and the USHIO Group increased its share of AC lamps (alternating current lighting method) thanks to efforts to increase brightness and add value. Regarding visual image-related products, despite strong sales of large projectors in the non-cinema field, sales of digital cinema projectors (DCPs), which are core products in the cinema field, fell short of targets. This was because we completed delivery of DCPs under the first phase of our program to promote the proliferation of digital cinema systems in North America in the first half of the fiscal year, while the start of phase two of the program has been pushed back to after fiscal 2008 due in part to concerns over the economic slowdown in the United States.

For the past few years, the USHIO Group has been promoting reorganization in development, production and sales functions aimed at enhancing business efficiency and strengthening competitiveness. As the final step, in fiscal 2007 we implemented a variety of initiatives to solidify a comprehensive organizational structure that will provide us with fresh new impetus. Such measures included the transfer of production from the Harima Division to subsidiaries both in Japan and overseas; the liquidation of GUNMA USHIO ELECTRIC, INC.; the relocation of the System Company Sales Division to the Tokyo Head Office; and the integration of the System Company Manufacturing and Technology Division into the Gotemba Division.

As a result of these factors, we posted net sales of ¥148,148 million for fiscal 2007, down 2.2% from the previous fiscal year; operating income of ¥20,050 million, up 1.6%; ordinary income of ¥23,319 million, down 7.3%; and net income of ¥15,486 million, down 6.5%.

Cash dividends were ¥24.00 per share. Since providing a stable return on profits to our shareholders is one of management's most important issues, we aim to maintain and improve a payout ratio of 20% on a consolidated basis.

## Aiming to Achieve the Targets of the New Medium-Term Vision Ending in Fiscal 2010

The USHIO Group initiated a three-year Medium-Term Vision in fiscal 2004 as a rolling plan with new objectives set each fiscal period. For the fiscal year ending March 2011, the final year of the Medium-Term Vision unveiled in April 2008, we are aiming for operating income of ¥28.5 billion, ROE of 10% or more and net sales of ¥190.0 billion.

We are focusing on the seven themes indicated at the right as key elements of our core business strategy for the current Medium-Term Vision.

In particular, we will focus on expanding our program to promote the proliferation of digital cinema systems on a global scale, practicing sustainable management from both environmental and business perspectives, developing leading-edge light sources ranging from light-emitting diode (LED) to extreme ultraviolet (EUV), making inroads in new businesses and strengthening existing products.

To achieve these goals, we plan to make capital investments in new products and augment production, as well as to relocate and expand the Network Operations Center of CHRISTIE DIGITAL SYSTEMS aimed at further promoting the spread of digital cinema. We will also continue to aggressively promote business collaboration, including capital tie-ups, targeting business domains in which we can fully exploit the strengths of the USHIO Group.

### Core Businesses in the Medium-Term Vision

**1. Proceeding with a diversified rollout in the digital cinema business**

CHRISTIE DIGITAL SYSTEMS (U.S.A. and Canada) group of companies, which are part of the USHIO Group, have set up DCP for over 4,000 screens at movie theaters mainly in North America. We will promote the spread of digital cinema systems in regions throughout the world other than North America as well.

**2. Developing businesses while protecting the environment and conserving natural resources**

USHIO aims to practice meaningful sustainable management from both environmental and business perspectives by collecting used lamps and reusing materials in addition to effectively utilizing resources through the development of efficient products.

**3. Maintaining a high market share in data projector lamps**

USHIO will develop and provide new high value-added products that meet market needs as a means to maintain market share, while working to boost profitability by expanding its production and sales network in Japan and overseas along with enhancing productivity to reduce costs.

**4. Developing the LED business**

In January 2008, EPITEX INC., an infrared LED maker, joined the USHIO Group. We expect this move to make a significant contribution to development of the Group's solid-state light source business.

**5. Developing the product lineup for LCDs, semiconductors and fine printed circuit board (PCB) markets**

USHIO will cultivate new markets through the development of new products that satisfy leading business market needs ahead of competitors.

**6. Bolstering EUV development**

XTREME technologies GmbH, a Group company based in Germany, announced a business alliance with Philips Extreme UV GmbH of the Netherlands in 2007. In addition, GIGAPHOTON, INC., another Group company (joint venture with Komatsu Ltd.) conducts research and development into EUV as well. Facilitating interactions in the USHIO Group, these companies are aiming at future mass production of EUV light sources.

**7. Launching new products and businesses while strengthening existing products**

USHIO will bolster the competitiveness of its existing products through measures such as expanding its range of products that meet diversifying market needs. At the same time, we will work toward the full-fledged development of new businesses such as a dermatological treatment device using light.

## Remaining a Business Group that Continues to Boost Corporate Value and Keep Growing

Various uncertainties remain in the outlook for the business environment, such as U.S. economic trends, continuing appreciation of the yen against the U.S. dollar as well as high crude oil and raw material prices. Nonetheless, a gradual revival in capital investment in the LCD industry since the start of 2008 is expected to lead to strong replacement demand for lamps and robust sales of related optical devices. Despite a moderate slowdown in capital investment in the semiconductor industry, we forecast solid production activities and an increase in replacement demand for lamps.

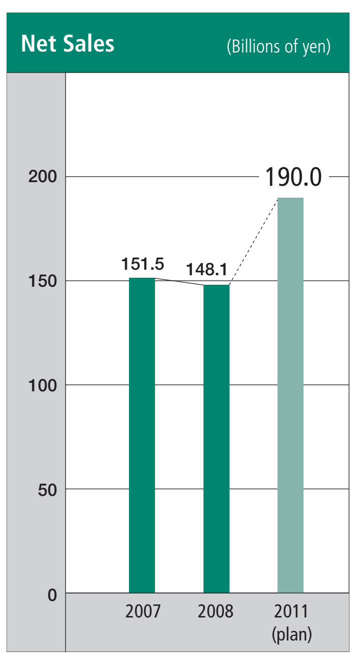
The USHIO Group will focus on its core business strategy outlined in the Medium-Term Vision based on the new development, production and sales structure. We will also continue to attach importance to quality and work to further raise efficiency, reduce costs and further strengthen business foundations.

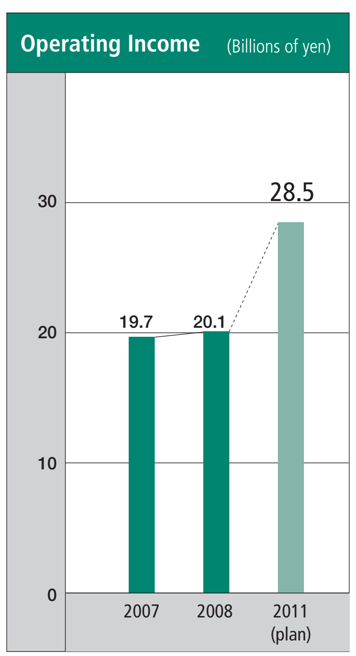
At the same time, USHIO will proactively implement activities related to corporate social responsibility (CSR), a key focal point of the international community. In this regard, we will proactively strive to raise management transparency and efficiency, reduce environmental load and drive ongoing expansion and growth in corporate value.

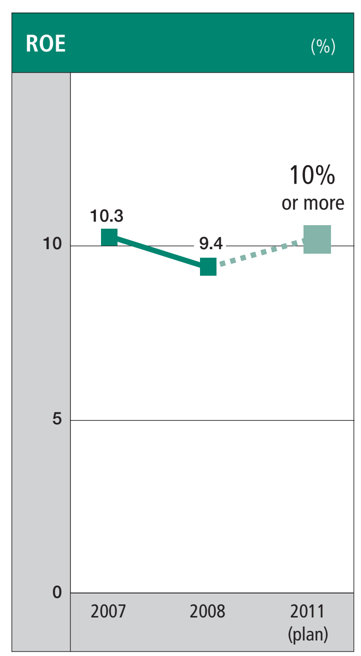
For the fiscal year ending March 31, 2009, we are forecasting consolidated net sales of ¥152.0 billion, an increase of 2.6% year-on-year; operating income of ¥20.5 billion, an increase of 2.2%; ordinary income of ¥24.5 billion, an increase of 5.1%; and net income of ¥16.0 billion, an increase of 3.3%.

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

## Numerical Objectives of USHIO's Medium-Term Vision






### Actively Developing and Commercializing Environmentally Conscious Products

## Launch of XEFL® Mercury-Free Fluorescent Lamp

The USHIO Group has developed the XEFL® mercury-free rare gas fluorescent lamp. Since it does not use mercury, XEFL® has the following major advantages over conventional fluorescent lamps: (1) it is environmentally conscious, befitting the times; (2) there is very little ultraviolet damage caused to irradiated objects; (3) colors do not become uneven when the lamp is positioned vertically; (4) it can withstand the impact of ambient temperatures, so can be used in a low-temperature environment and outdoors; and (5) the external electrode structure enables longer service life since the impact of flickering on life-span is minimal.

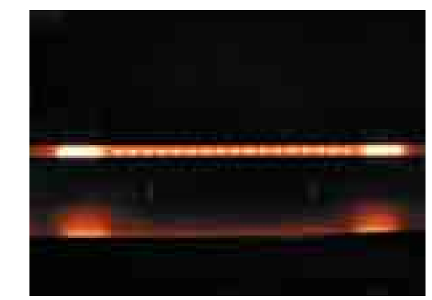
By making the most of these merits, XEFL® has application in industrial, commercial and entertainment circles. We have also succeeded in the commercialization of the product as the backlight for large monitors for digital signage commercial advertising media, thereby stimulating new demand.


XEFL® can be positioned vertically when lit

## Release of Multifilament Heater® with Optimum Heating Designed for Semiconductor and Solar Cell Applications

USHIO INC. has developed the Multifilament Heater®, a halogen heater lamp that ensures high-precision control of in-plane temperatures in the process of fabricating films and performing heat treatment for semiconductors, solar cells and flat panel displays. The product was released in July 2008.

Traditionally, it was difficult to evenly heat a wafer on its peripheral area when using a conventional halogen lamp heater. In addition, the process involved unnecessary power consumption caused by the heating of parts other than the wafer. In contrast, the Multifilament Heater® can apply the necessary light to the necessary area in the necessary volume, enabling optimum temperature control. Moreover, the straight-tube configuration provides benefits that include long life, high efficiency and low power consumption.


Multifilament Heater® when lit (The central part is set at a lower temperature while both ends are set at a higher temperature.)

### Promoting M&A Strategy Aimed at Strengthening Business and Cultivating Markets

## Infrared LED Manufacturer EPITEX INC. Joins the USHIO Group

USHIO INC. and USHIO LIGHTING, INC. jointly acquired 55% of the outstanding shares of Kyoto-based EPITEX INC. in January 2008, thereby bringing EPITEX INC. into the USHIO Group.

EPITEX is a manufacturer of LEDs that provides infrared devices and an array of other distinctive products. The company boasts industry-leading technologies.

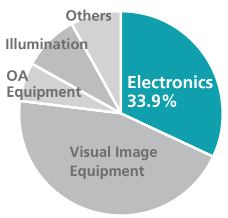
USHIO has been committed to basic research on LEDs. Access to the outstanding technologies of EPITEX will provide impetus for cultivating applications in such promising fields in the LED market as biometric authentication, automobile-related products, medical devices and industrial-use optical sensors. We have high expectations for the swift development of new business.


Head office of EPITEX INC.

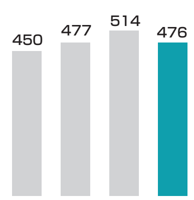
# Electronics

For the USHIO Group, the electronics field is the most expansive market in which light is used as energy. With technological innovations leading to more compact, sophisticated and functional electronic products, light is gaining attention as the new method for realizing miniaturization, high-density mounting and low-temperature processing in the manufacturing processes for these products. USHIO has formed ties with various corporate users to drive the commercial viability of light as well as fresh new applications.

**Composition of Net Sales**




**Net Sales** (Billions of yen)




**Major Group Companies**

GIGAPHOTON, INC.
NIHON DENSHI GIJUTSU CO., LTD.
TSUKUBA USHIO ELECTRIC, INC.

## Growth in Replacement Demand of UV Lamps for Semiconductor Photolithography

A variety of digital products, including personal computers, mobile phones, flat panel TVs and digital cameras, are fitted with printed circuit boards, LCD panels and semiconductors. USHIO's "light" is used as the processing technology for the manufacture of these components and devices.

UV lamps for semiconductor photolithography and excimer lasers are employed in the manufacturing process of semiconductors, where continued advancement in high-density mounting is propelling the shift from the megabit ($10^6$ bit) era to the gigabit ($10^9$ bit) era. The manufacturing process of flat panel displays not only utilizes UV lamps for semiconductor photolithography but also Excimer VUV/$O_3$ surface cleaning equipment to dry clean LCD substrates and ODF UV curing equipment, which shortens the bonding time of LCD panels to 1/100th that of conventional equipment. Meanwhile, the manufacturing process of electronic components utilizes different kinds of projection exposure systems for circuit exposure, as well as spot UV curing systems for fixing and bonding tiny components instantaneously.

Production was solid for LCD panels, semiconductors and electronic components in fiscal 2007, culminating in growth in replacement demand for UV lamps for photolithography. On the other hand, LCD-related capital investment stagnated temporarily, causing sales for optical devices such as Excimer VUV/$O_3$ surface cleaning equipment and ODF UV curing equipment to fall below those recorded in the previous fiscal year. As a result, net sales in the Electronics Business totaled ¥47.6 billion, a decrease of 7.4% compared with the previous fiscal year.

## Realizing the Top Share in Excimer Lasers

The photolithography process is key to semiconductor manufacturing. USHIO's UV lamps, which command over 80% of global market share, and excimer lasers made by GIGAPHOTON, INC. both play integral roles as light sources for semiconductor photolithography.

In January 2008, GIGAPHOTON established GIGAPHOTON USA, INC. with the objectives of strengthening support for its customer base in North America and cultivating new users. The following month, GIGAPHOTON shipped the first of its latest GT62A argon fluoride (ArF) excimer laser that achieves double-patterning immersion with high output and high throughput. Its outstanding reliability has been well received by corporate users, resulting in capturing more than 40% share of the global excimer laser market.

### Lamps and Lasers


Ultra high-pressure UV lamp for photolithography

**GIGAPHOTON**

GIGAPHOTON, INC. was founded in 2000 as a 50/50 joint venture between USHIO and Komatsu Ltd. Besides engaging in the development and manufacture of ArF and krypton fluoride (KrF) excimer lasers used as light sources for cutting-edge semiconductor photolithography systems, GIGAPHOTON promotes the development of extreme ultraviolet (EUV) as the light source for next-generation semiconductor photolithography systems.

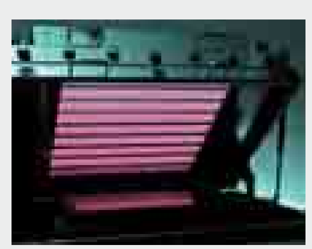

GT62A ArF excimer laser

### Optical Devices


TAB exposure system


Step & repeat projection exposure system

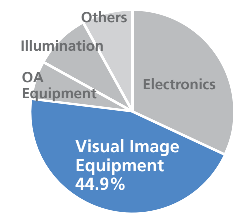

UV curing equipment for bonding LCD panels


Excimer VUV/$O_3$ surface cleaning equipment

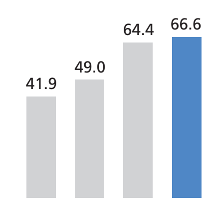
# Visual Image Equipment

The rise of IT and digital technology in the 21st century has transformed the visual image equipment field into a new market for light. USHIO provides state-of-the-art visual solutions through the development of digital imaging systems such as cinema projectors, 3D virtual reality systems, projection systems for control rooms and simulation systems, as well as high-intensity discharge lamps and xenon lamps for large screens and high image quality.

**Composition of Net Sales**




**Net Sales** (Billions of yen)




**Major Group Companies**

CHRISTIE DIGITAL SYSTEMS U.S.A., INC.
CHRISTIE DIGITAL SYSTEMS CANADA, INC.
CHRISTIE DIGITAL SYSTEMS U.S.A., INC. JAPAN BRANCH
XEBEX, INC.

## Strong Performance in Non-Cinema Business and Data Projector Business

In the cinema field, our program to promote the proliferation of digital cinema systems that commenced in 2005 was concluded in October 2007. As a result, cumulative shipments of digital cinema projectors (DCPs) have exceeded 3,700 units. Concerns over an economic slowdown in the United States, however, have pushed back the start date of the next phase of the program to after fiscal 2008. Consequently, sales volume on a full-year basis declined compared with the previous fiscal year.

In the non-cinema field, our unique projection technology combined with our image processing technology for projectors has received critical acclaim, leading to significant sales growth in large venue imaging systems, 3D imaging systems, venue imaging systems for control rooms and various simulation systems.

In the light source field, we proceeded smoothly with the transfer of production of lamps for data projectors to China, aimed at raising profitability. At the same time, high-intensity, high value-added AC lamps (alternating current lighting method) exhibited sales growth, commanding over 25% share of the global market.

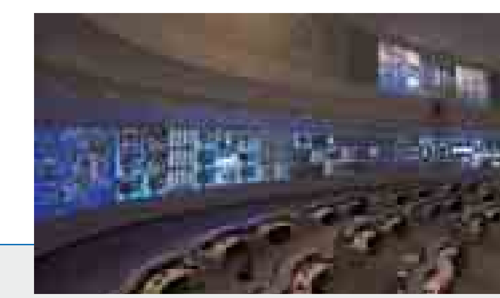
As a result, net sales in the Visual Image Equipment Business amounted to ¥66.6 billion, up 3.4% over the previous fiscal year.

## DCP Business Enters the Next Stage

In fiscal 2008, we will seek to further promote the shift to digital cinema in North America in line with the commencement of the next phase of our program to promote the proliferation of digital cinema systems. DCP is also gaining popularity in regions other than North America, with continued growth projected.

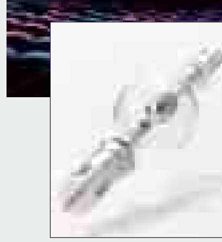
The USHIO Group will strive to expand sales in this area with a particular focus on medium-sized models with high profit margins.

Monitoring display wall at the Global Network Operations Center of AT&T, the world's largest telecommunications company (autumn 2007, made by CHRISTIE DIGITAL SYSTEMS, INC.)



### Cinema

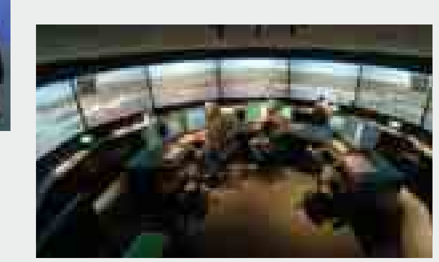
CP2000-ZX digital cinema projector


Xenon short-arc lamp for large venue imaging equipment

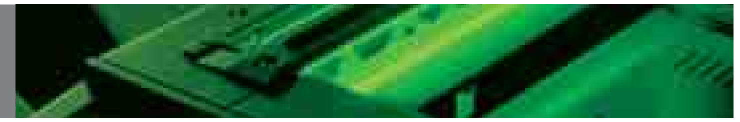
### Non-Cinema


Immersive virtual reality system


High-intensity discharge lamp for data projectors

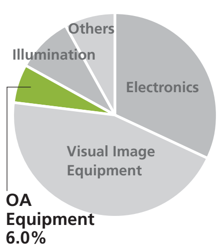

Simulation system for air traffic control training

# Office Automation (OA) Equipment

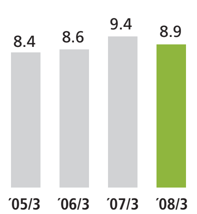


Light sources for OA equipment are one of USHIO's most traditional businesses. We have been engaged in this business since our earliest days when we pursued the industrial application of light. As an example, we have developed new light sources for copiers in step with technological advancements, starting with UV lamps for diazo-type copiers before shifting to halogen lamps for plain paper copiers and then rare gas fluorescent lamps for digital copiers. To this day, we maintain over 65% of global market share.

**Composition of Net Sales**




**Net Sales**
(Billions of yen)




**Major Group Companies**

USHIO HONG KONG LTD.
USHIO (SUZHOU) CO., LTD.
USHIO PHILIPPINES, INC.

## New Needs for Environmentally Conscious Products

During the fiscal year under review, we witnessed the proliferation of high value-added OA equipment such as multifunctional color printers and color copiers. This drove a steady increase in demand for lamps used for document scanning and fixing toner. The impact of the appreciating yen and an economic downturn in the United States, however, culminated in a harsh market environment overall for OA equipment.

Amid heightening concern over the environment, energy conservation has become an important issue in the OA equipment industry as well. At USHIO, we endeavor to reduce the power consumption and shorten the warm-up period of lamps. In addition, we commercialized a halogen lamp for fixing toner that realizes a more than 15% improvement in thermal efficiency. Many OA equipment manufacturers have employed this lamp.

Meanwhile, the continued transfer of production to China and the Philippines has made a significant contribution to profitability.

As a result, net sales in the OA Equipment Business decreased 5.3% from the previous fiscal year to ¥8.9 billion.

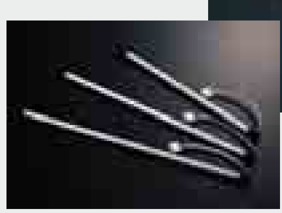
## Further Reinforcement of a Manufacturing Structure Optimally Located Near Markets

Future expansion is expected in new markets for OA equipment such as China, Brazil, India, Russia and Eastern Europe.

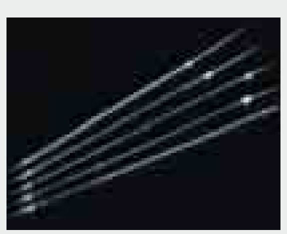
USHIO will concentrate on the development of high value-added lamps that address market needs for high energy efficiency and the move to color in OA equipment. We will also strive to further expand market share through the development of new light sources based on the keyword "environment."

On the production front, we seek to enhance competitiveness by promoting greater production efficiency and lower costs. At the same time, we will strive to strengthen a manufacturing structure optimally located near markets to meet the overseas production needs of major users.

### Lamps and Lamp Units

Rare gas fluorescent lamp for document scanning (left) and lamp unit



Toner fixing halogen lamp

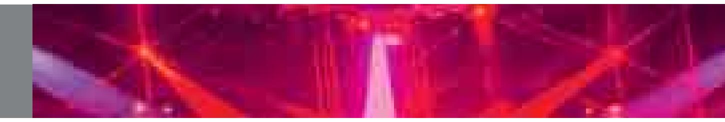
### Manufacturing Bases

USHIO (SUZHOU) CO., LTD. in Suzhou, China

USHIO PHILIPPINES, INC.

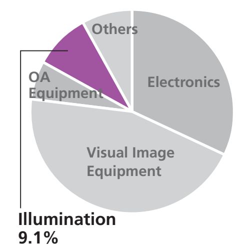
Contract fabrication plant in Panyu, Guangzhou, China

# Illumination

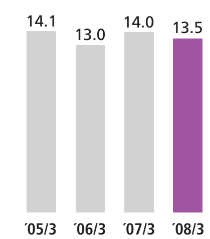


In lighting for illumination purposes, USHIO goes beyond a mere focus on brightness to pursue the ultimate in quality from such perspectives as color, size and light distribution pattern. The thrusts of our development theme concern harmony with the environment and the fusion of image and sound. Found in numerous commercial spaces ranging from stages and studios to boutiques, restaurants, banquets and events, USHIO provides a more sophisticated, personalized and ambient touch through outstanding illumination performance.

**Composition of Net Sales**




**Net Sales**
(Billions of yen)




**Major Group Companies**

USHIO LIGHTING, INC.
USHIO SPAX, INC.
BLV Licht- und Vakuumtechnik GmbH

## High Value-Added Products and Services Stimulate Demand

During the fiscal year under review, we focused on expanding sales of such products as high-profile eco-conscious lamps that consume minimal energy, in addition to lamps and image illumination systems superior in design and functionality that satisfy the demands of lighting and architectural designers. Moreover, USHIO's illumination systems have been employed in various retail stores and high-rise buildings in China, which has become a huge market in step with rapid economic growth.

Net sales in the Illumination Business amounted to ¥13.5 billion, down 3.6% from the previous fiscal year.

## Utilizing Group Collaboration to Ensure Harmony with the Environment and Integrate Imaging Technology

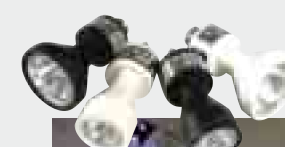
In fiscal 2007, USHIO accelerated initiatives to conserve energy in illumination in consideration of environmental issues, including switching from incandescent lamps to fluorescent lamps. The mainstream use of halogen lamps to display products in the best light, such as in shop windows, has stimulated new demand for lower power consumption without sacrificing lighting effectiveness.

In response, USHIO commercialized the new ADVANCE dichroic halogen lamp that cuts power consumption by around 25% by suppressing wasteful light diffusion and increasing light-focusing efficiency through a newly designed mirror and filament combined with optical design technology. Seeking to reduce the use of harmful substances, we developed the XEFL® mercury-free rare gas fluorescent lamp and have already started cultivating applications for this product in industrial and commercial fields.

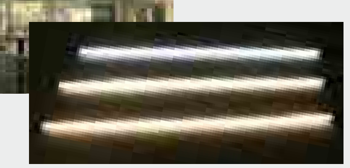
We will continue to develop new products that strike a harmonious balance with the environment and to commercialize next-generation lighting systems that integrate imaging technology including projectors and moving lights. By leveraging collaboration among USHIO Group companies, we will focus on further penetration of the USHIO brand in the global illumination market.

### Various Types of Lamps for Illumination

U-ONE ceramic metal halide lamp with integrated ballast




ADVANCE dichroic halogen lamp



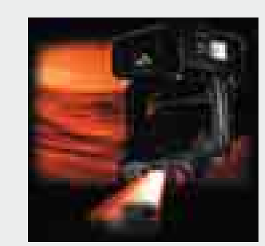
XEFL® rare gas fluorescent lamp

### Space Illumination and Staging Systems

Pin spots, a standard type of stage lighting

SHOWGUN™ Introduced by U.S.-Based High End Systems, Inc.

SHOWGUN™ provides numerous entertainment lighting design possibilities by being the world's first moving light that enables a long reach with a 2000-watt lamp. USHIO LIGHTING, INC., the exclusive agent of High End Systems in Japan, commenced sales of SHOWGUN™ in 2007.



DL-2 digital lighting system

Special | Feature

# UV Curing—An Instantaneous Drying and Bonding Technology Using Ultraviolet Light

Wide Application in the Semiconductor, LCD, Printing, Painting and Coating, and Many Other Sectors

Ultraviolet (UV) light has the energy to facilitate chemical reactions. This form of energy is used widely in combination with resins that react to UV light for drying ink and paint, bonding precision components and other applications. Such technology is referred to as "Photo-Curing" or "UV Curing."

UV Curing is a process with the superior characteristics of requiring little time and being achievable at low temperatures, being space-saving and energy-efficient, enabling precision fabrication and being non-polluting. The fields of application are expanding considerably from high-tech to other fields.

## What is UV Curing Technology?

### Instantaneous Drying and Bonding through Photopolymerization Reaction

Substances consist of molecules with strings of atomic elements such as oxygen, hydrogen, carbon and nitrogen. UV light has the ability to sever this chain. The severed atoms find new partners and create a new chain, while the leftover atoms then link with still other atoms in a domino-like, continuous progression. This phenomenon is called a photopolymerization reaction. The molecular structure of a substance is transformed, thereby changing characteristics such as hardness and color.

The active use of this reaction is "Photo-Curing" or "UV Curing" through the combination of UV light with photo-curing resin. Photo-curing resins are initially liquid or paste-like in consistency, but are hardened instantaneously through photopolymerization when subjected to UV light, allowing ink to be dried and components to be bonded together.

### Expansion from the Printing Sector to Many Different Sectors

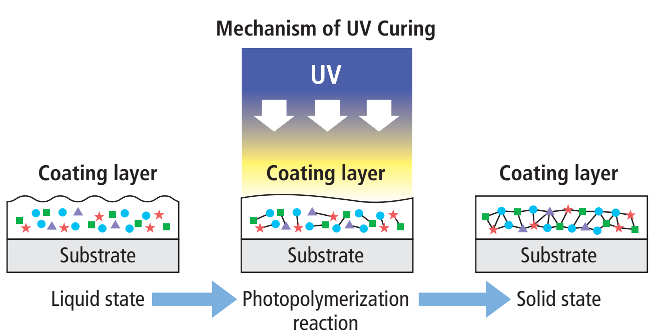
The practical use of UV Curing began with the printing sector. The fact that it was hard to dry ink when printing on metal or plastic presented a big problem. Drying was therefore hastened by the application of heat, a process referred to as thermal polymerization. The equipment was massive and it took time to dry the ink; at the same time, however, the effect of the heat on the materials could not be ignored.

UV Curing came to be established in the 1970s when photo-curing resin was mixed in with the ink and instantaneously cured by exposure to a UV light, enabling the ink to dry in a matter of seconds. Today, the numerous and varying applications include printing on beverage cans and PET bottles, stickers and labels, and IC cards as well as high-speed printing of business forms.

This technology is also used in such applications as curing the paint or coatings on vehicles, electronic appliances and construction materials, and for photoresist curing for semiconductor photolithography (circuit creation).

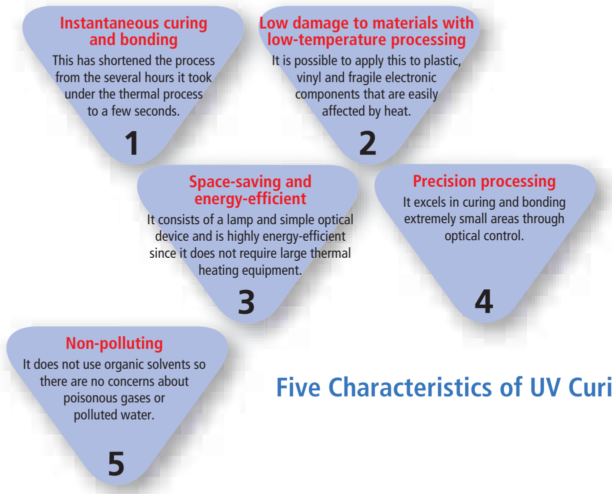
UV Curing is also used frequently for bonding purposes. It is a particularly indispensable technology for manufacturing electronic components and optical products, which require precision processing. It is also used for bonding tiny precision components that cannot be attached with screws such as camera lenses and CD and DVD pick-up lenses, as well as for bonding electronic components to printed circuit boards (PCB), spring parts to hard disk drives and engine parts.

In addition to these applications, UV Curing is also used in optical fiber coating, molding DVDs (pouring resin in a mold and hardening it), laser beam lithography (creating solid objects of complex shape using photo-curing resins based on 3D computer-aided design), and has contributed immensely to the miniaturization and increased precision of high-tech products.




### Mechanism behind UV Curing and Bonding

Photo-curing resin mainly consists of a monomer with a low molecular weight (liquid state), including a UV-sensitive photo initiator. Subjecting the photo initiator to UV light induces a photopolymerization reaction. The molecules of the monomer link together, creating a polymer (solid state) with a higher molecular weight, thereby causing it to harden and bond. The reaction occurs in a matter of seconds.




Five Characteristics of UV Curing

### Environmentally Conscious UV Curing Technology

The general thinking up to this point was to process the polluting substances emitted during the manufacturing process and dispose of them after proper treatment. In recent years, however, the view of so-called "green chemistry," whereby useful chemical products are produced without creating or emitting the polluting substances, has increasingly gained currency.

The unique characteristics of being "energy-efficient, space-saving, low-waste, offering room temperature curing and high productivity" possessed by photo-curing materials, such as UV curing resin used in the UV curing process, fit with this view of green chemistry and the scope of application is expanding in many different directions.



# USHIO & UV Curing Technology

## Top Share in UV Curing Systems

In 1974, the USHIO Group perfected UNICURE, an instantaneous UV curing system, and commercialized a high-output UV lamp for curing ink. The system was used for printing labels and stickers using materials such as plastic or film, which possess poor heat resistance. The Spot-Cure series of spot curing system for bonding electronic components was commercialized at nearly the same time. Today, the USHIO UV curing system and UV lamps are used frequently in a wide variety of sectors, such as printing on beverage cans and metal paint on plastic. USHIO has secured a top share in many areas of the electronics sector as well, including bonding electronic components and substrates and photoresist curing in the semiconductor manufacturing process.

## Contributing to Innovation in Liquid Crystal Manufacturing with ODF Method

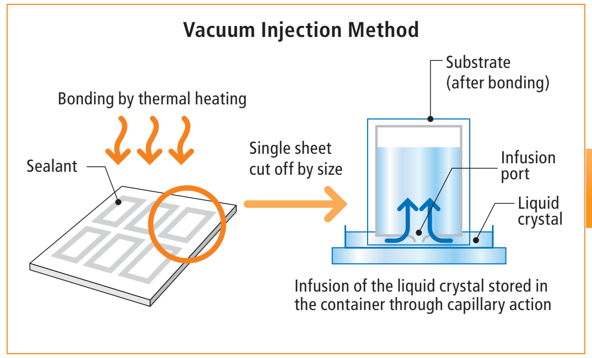
Of these devices, UV curing systems that bond liquid crystal panels together employ technology that maximizes the use of the special characteristics of UV Curing.

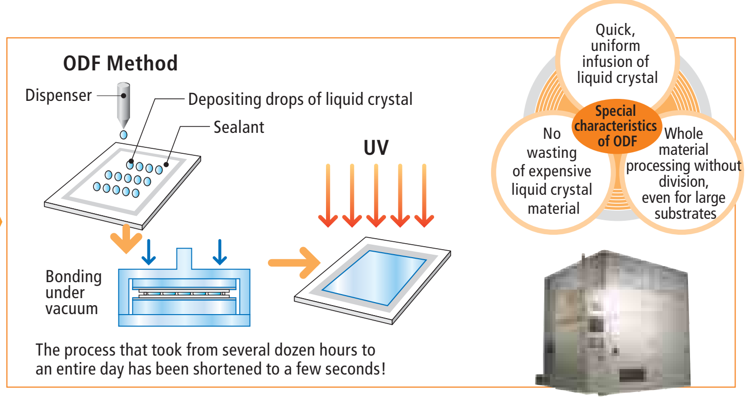
Liquid crystal panels consist of two sheets of glass with liquid crystal sandwiched between. Since liquid crystal is a fragile chemical substance easily affected by heat, it cannot be employed to cure the adhesive used to glue the glass together. To address this, a method of first gluing the glass together and then infusing the liquid crystal into the gap between the glass sheets using capillary action had been used. As panel size has increased, however, so has the time required to dry the adhesive as well as the difficulty of infusing the liquid crystal quickly and evenly.

Research on the groundbreaking innovation of the ODF (one drop fill) method has been conducted from the 1990s onward in response to these difficult problems. Drops of liquid crystal are first deposited on one side of the glass with a device resembling an inkjet printer. It is then layered with another glass sheet and the two are bonded together. The base technology that made this ODF method possible was UV Curing, with its unique characteristics of quick curing, low-temperature processing and precision bonding. ODF has been used on a practical basis since around the year 2000. It not only made large-screen LCD televisions possible but also is used for gluing together almost every type of LCD panel today.

The USHIO Group presently holds a global share of 70% in ODF UV curing systems.

### Vacuum Injection Method and ODF Method




UV curing equipment for bonding LCD panels

## Total Package with USHIO's Optical Technology

The strength of the USHIO Group in UV Curing lies in our ability to offer a "total package" consisting of the optimal lamp, lamp housing, optics, power source unit and blower unit appropriate to the special characteristics and purpose of the photo-curing resin and the production line. We also have the ability to develop light sources such as high-output lamps that utilize the experience and expertise we have accumulated over the years.

For example, product quality is easily compromised by even the slightest variation in electrical current caused by lamp heat generation in the clean room of a semiconductor manufacturing plant. The USHIO Group developed such products in-house as a lamp that generates little heat, a lamp housing highly resistant against waste heat, an optical system and a circulation cooling system in an attempt to resolve this issue. Our high-intensity, wide-area uniform illumination system, dual cleaning system with low-temperature processing and optical feedback system that maintains a set intensity for UV light are used actively in a wide variety of manufacturing sites.

The scope of application is expanding rapidly for UV Curing, given the need to streamline production lines, increase efficiency and cut costs. There have also been remarkable advances in photo-curing resins, which are being used frequently for bonding miniature components in high-tech products. Moreover, the emissions restrictions on volatile organic compounds (VOCs) have been tightened due to environmental considerations. This has caused a growing trend toward switching from thermal treatment processes to the UV curing process for resins, which may potentially emit VOCs.

The USHIO Group has been increasing joint research on UV Curing with photo-curing resin manufacturers since the initial stages and has built trust among the manufacturers by providing equipment and lamps for many different sectors and making proposals that anticipate the needs of corporate users. We are utilizing our achievements to support further advances in printing, liquid crystal, semiconductors and other areas, and to actively make inroads into new applications for UV Curing such as solar cells.

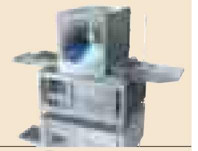
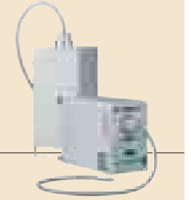
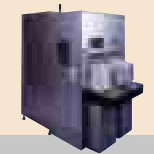
### UV Curing and Lamps

A high-pressure UV lamp and a metal halide lamp are used in UV Curing. Because high-pressure UV lamps generate high energy at short UV wavelengths, they are often used in the clear coating sector for coated thin film. Since metal halide lamps generate high energy from long UV wavelengths, they are used widely in bonding and ink applications.

**High-Pressure UV Lamps**
High-pressure UV lamps consist of purified mercury and rare gas infused into a quartz glass luminous tube. With the primary UV wavelength of 365nm, they emit 254nm, 303nm and 313nm very efficiently. High-pressure UV lamps have a higher output at short UV wavelengths than metal halide lamps, which is optimal for clear coating applications.

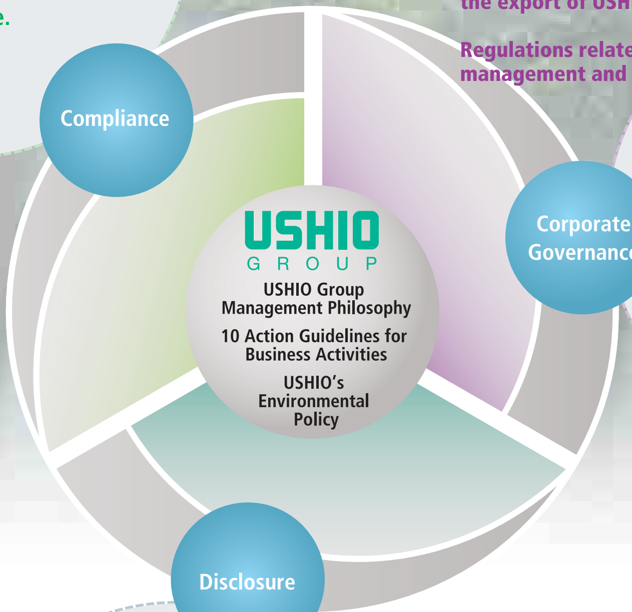
**Metal Halide Lamps**
Metal halide lamps consist of a luminous tube infused with mercury and metal halide and emit a broad range of UV wavelengths from 200-450nm. The high output at longer wavelengths than UV lamps is the chief characteristic and they are often used in the ink application for curing adhesives and pigments.

### USHIO's UV Curing & Bonding Systems

| | Purpose | Product |
|---|---|---|
| **UNICURE instantaneous UV curing system** | Flat panel displays, electronic components, printing, etc. |  |
| **Spot-Cure Series spot UV curing system** | Lenses, electronic components, bonding of optical fiber components, medical treatment and research, etc. |  |
| **Flash UV irradiation system** | Bonding and surface curing of recording media (DVDs, Blu-ray discs); delamination of semiconductor tape; curing, improvement in quality and surface treatment of thin films; various types of bonding and curing, etc. |  |
| **Unihard UV photoresist hardening system** | Large-scale integration manufacturing, forming insulation film for thin-film magnetic heads, etc. |  |

**The USHIO Group aims to help create a sustainable society by improving the capabilities of our human resources with a keen awareness of our corporate responsibility to society and by promoting innovation through the themes of a sound financial structure, living in harmony with society and protecting the environment. Through these efforts, we aim to become "USHIO, a company chosen by society."**

USHIO aims to be a company that can be trusted by not only merely complying with legal requirements but also adhering to social norms and showing general common sense.




USHIO has established systems and standards to enhance the transparency of corporate management and effectively govern the entire Group, along with building a foundation for the thorough implementation of these systems and standards.

USHIO creates relationships built on trust with its various stakeholders by constantly disclosing information in a timely and fair manner.

### Main Organizational Structure and Roles

**Compliance Committee**
(Promotes action guidelines and compliance with various laws and regulations)

**J-SOX Committee**
(Proposes plans for the introduction of an internal control system as well as to realize the establishment of an internal control system by promoting documentation of various business operations along with effective assessment and remediation)

**Personnel System Committee**
(Review and reform of personnel system, human resources development methods and in-house educational training system)

**PL Committee**
(Integrated management of product information related to mitigating product liability (PL) risk and responding to PL claims)

**Security Export Control Committee**
(Manages export operations pursuant to USHIO's corporate regulations on legal compliance)

**Environment Committee**
(Promotes environmental preservation based on the Environmental Policy and Action Guidelines)

**Group Communication Committee**
(Planning and implementation of activities such as sharing and permeation of information within the Group and strengthening external transmission of information)

### Main Systems and Regulations

**USHIO help line system**
(An external point of contact has been set up so that employees of USHIO Group companies in Japan can seek advice and report directly on such matters as legal violations and breaches of corporate ethics in the workplace)

**Risk management regulations**

**Business crisis management regulations**

**Corporate regulations on legal compliance related to the export of USHIO INC. products**

**Regulations related to internal information management and insider trading**

### Main Information Disclosure Methods

**Securities Report**

**Annual Report**

***PRISM* (Report on settlement of accounts)**

***Light Edge* (Technical information magazine)**

**Sustainability Report**

**USHIO GLOBAL HOME website**
(Includes USHIO at a Glance site and contact for inquiries for individual investors)

**Regularly hold briefings for analysts and conduct plant tours**

**Participate in JPCA, SEMICON Japan and other exhibitions**

## USHIO's Activities during Fiscal 2007

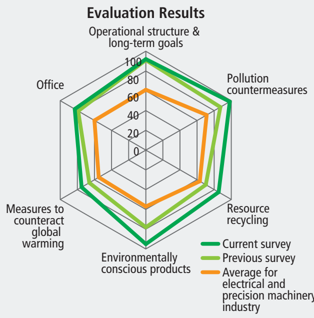
### Expanded the Scope of Compliance Management from USHIO INC. to the Entire Group

Amid social demand for effective internal controls and export controls as a company, during fiscal 2007 USHIO sought to expand the 10 Action Guidelines for Business Activities as a member of society to the entire Group. Specifically, we conducted ongoing training, worked to strengthen rules for risk management and crisis response, as well as implemented measures designed to reinforce the compliance structure.

### System Configuration by the Internal Controls Project Team

USHIO INC. inaugurated the Internal Controls Project Team in April 2007 in view of the application of the Law on Sales of Financial Products from the fiscal year ending March 2009. The team is tasked with the establishment of an internal control system for financial reporting as well as internal corporate procedures to ensure the thorough disclosure of information. These efforts are not simply intended to comply with the law but also to manage risks for the entire Group. As such, we are striving to improve the quality of management and raise corporate value by strengthening our internal control system to identify our weak points, work to improve them and gain new awareness of the importance of business risks.

### Concerted Environmental Activities Draw Greater Recognition




**Eleventh Nikkei Environmental Management Survey Ranking**

USHIO INC. rose from 78th in the previous year to 21st place in fiscal 2007 in the Environmental Management Survey* conducted by Nikkei Inc.

The evaluative ranking of USHIO's activities improved for all six categories: operating structure, long-term goals, pollution countermeasures, resource recycling, environmentally conscious products, global warming measures and the office. We believe this is due to the concerted efforts of Group-wide EMS activities, environmental education, promotion of energy efficiency in the workplace, green procurement and product assessment.

We intend to share our vision for the environment with the entire Group and continue to make a dedicated effort on issues such as global warming.

* Environmental Management Survey: This is a survey that Nikkei Inc. has been conducting annually since 1997 to evaluate corporate environmental measures on a comprehensive basis. How well a corporation has done in reducing greenhouse gas emissions and waste while improving operational efficiency is evaluated, ranked and announced accordingly.

### New Logo for Super Green Products

USHIO strives to increase awareness among engineers and promote the development of super green products that employ innovative environmentally conscious technologies. With the aim of increasing the appeal of these technologies to the public, we created a new logo for super green products as a "self-declared environmental label*."

Super green products fulfill super green product standards (formulated in March 2006) and are top-runner products with outstanding environmental consciousness in terms of energy conservation, long life, 3R design, materials used and application. The logo, based on our environmentally friendly product assessments and lifecycle assessments, will be placed on super green products to be supplied around the world.

The logo was selected based on an employee survey. It embodies USHIO's desire to contribute to the realization of a sustainable society and expresses the willowy growth of young leaves and the shimmering of a dew drop. It was made using a pen-touch method to give it a familiar look as well as the feel of people caring about the environment.

* Self-declared environmental label: "Environmental label" refers to an element that a product or service mutually affects the environment, whereas "self-declared" refers to an environmental affirmation that does not require certification by an independent third party.

**The USHIO Group has published the *Sustainability Report 2008*, 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/**
**Environmental Management Control Department: Tel: 03-3242-1892**
**Fax: 03-3245-0589**

# Financial Section

Contents



# Financial Review

USHIO INC. and Consolidated Subsidiaries

The USHIO Group is composed of the parent company (USHIO INC.), 39 subsidiaries and five 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

The Japanese economy was stable in fiscal 2007, ended March 31, 2008, particularly in the export sector, despite soaring prices for crude oil and raw materials in addition to the impact of the rapidly appreciating yen against the U.S. dollar in the second half of the fiscal year. Driven by strong private-sector capital investment and the stable employment situation, there were signs of an upturn in consumer spending. Overall, the economy expanded, albeit moderately.

Overseas, the economic slowdown became prominent in the United States as financial uncertainty exacerbated by the subprime loan issue led to stagnant housing demand and personal income. In contrast, the European economy was solid due primarily to growth in employment and income while the Asian economy continued to expand, led by China.

Amid such economic conditions, although inventory adjustments for LCD panels ran its course and production of LCD panel manufacturers gradually moved back on track, capital investment for increasing production capacity did not fully recover. The semiconductor industry remained firm, while demand in the data projector market expanded, particularly overseas.

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 Group-wide efforts to improve productivity, reduce manufacturing costs and augment the sales structure to support overseas expansion. As a result of such endeavors, we posted net sales of ¥148,148 million, down 2.2%; operating income of ¥20,050 million, up 1.6%; ordinary income of ¥23,319 million, down 7.3%; and net income of ¥15,486 million, down 6.5%.

## RESULTS BY BUSINESS SEGMENT

***Light Source Application Products***

Sales of the tube-style lamp product group were solid overall. Replacement demand remained strong for UV lamps for liquid crystal and semiconductor photolithography systems, while demand increased for high-intensity discharge lamps for data projectors, particularly overseas.

In the optical systems product group, sales decreased for large projection systems such as digital cinema projectors (DCP), and sales for products related to LCD production decreased in line with lackluster capital investment in the LCD panel industry.

Total sales for light source application products decreased 1.7% to ¥143,987 million, while operating income increased 2.4% to ¥19,739 million.

***Machinery for Industrial Uses and Other Business***

Investment decreased in step with the economic slowdown, thereby leading to weak sales of injection molding machinery and food packaging systems. As a result, total sales decreased 18.2% to ¥4,202 million, and operating income decreased 32.1% to ¥307 million.

## RESULTS BY GEOGRAPHIC SEGMENT

***Japan***

Replacement demand for UV lamps for liquid crystal and semiconductor photolithography systems remained solid. Conversely, capital investment for new equipment in the LCD industry did not fully recover, resulting in a drop in sales for products related to LCD production. As a result, total sales decreased 8.1% to ¥75,369 million.

***North America***

In the Visual Image Equipment Business, the start of phase two of the program to promote the proliferation of DCPs was delayed and sales of visual image related products did not increase. Sales of non-cinema imaging systems, however, were stable. In addition, sales in the solution business for maintenance and operation increased. Total sales decreased 1.2% to ¥54,861 million.

***Europe***

Stable demand for various lamps for general illumination and xenon lamps for cinema projectors resulted in a 4.2% increase in total sales to ¥7,949 million.

***Asia***

In addition to an increase in demand for high-intensity discharge lamps for data projectors, increases in demand for fluorescent lamps for OA equipment as well as UV lamps for semiconductor and liquid crystal photolithography systems resulted in a 10.7% increase in total sales to ¥36,250 million.

## OVERSEAS SALES

USHIO's total overseas sales increased 2.8% to ¥96,449 million. Regarding the composition of overseas sales, North America accounted for ¥39,271 million, Europe ¥14,731 million, Asia ¥41,329 million and other regions ¥1,117 million. Overseas sales made up 65.1% of consolidated net sales, up 3.2 percentage points from the previous fiscal year.

## EARNINGS

Consolidated net sales decreased 2.2% to ¥148,148 million due mainly to decreases in sales of optical devices primarily for the LCD sector and imaging systems such as DCPs.

Operating income increased 1.6% to ¥20,050 million as a result of effects from improved productivity and cost reduction activities.

Ordinary income decreased 7.3% to ¥23,319 million in spite of an increase in operating income due primarily to a loss on foreign exchange recorded as a result of a sharp appreciation of the yen as well as a decrease in unrealized gains on investment securities.

Extraordinary losses rose ¥1,565 million. This increase was attributable mainly to a loss on revaluation of investment securities in the amount of ¥293 million resulting from investment in an LCD-related joint venture; product warranty expenses in the amount of ¥382 million for products sold and developed in previous years; provision for warranty reserve for products sold and developed in previous years in the amount of ¥453 million; and contribution for R&D expenses in previous years in the amount of ¥333 million. In addition, we actively promoted business reorganization, resulting in a loss on liquidation of affiliates in the amount of ¥121 million. After income taxes, net income decreased 6.5% to ¥15,486 million.

## LIQUIDITY AND SOURCES OF FUNDS

***Cash Flows***

Cash and cash equivalents at the end of the year increased ¥2,578 million, or 10.3% over the previous fiscal year to ¥27,700 million. Purchases of property, plant and equipment amounted to ¥8,425 million and an increase in investment securities totaled ¥6,800 million. However, these factors were offset by income before income taxes and minority interests in the amount of ¥21,535 million and an increase in short-term bank loans of ¥5,667 million.

***Cash Flows from Operating Activities***

Net cash provided by operating activities decreased ¥4,833 million to ¥15,237 million. The primary factors for the decrease were a decrease in income before income taxes and minority interests to ¥21,535 million, an increase in depreciation and amortization to ¥5,834 million, an increase in notes and accounts receivable to ¥3,911 million, a decrease in notes and accounts payable to ¥4,193 million and income taxes paid in the amount of ¥9,285 million.

***Cash Flows from Investing Activities***

Net cash used in investing activities increased ¥2,813 million to ¥10,041 million. This increase was attributable mainly to proceeds from redemption and sale of short-term investments in the amount of ¥2,167 million, proceeds from sale of investment securities in the amount of ¥5,255 million, purchases of property, plant and equipment in the amount of ¥8,425 million, increase in investment securities in the amount of ¥6,800 million and acquisition of newly consolidated subsidiaries in the amount of ¥1,765 million.

***Cash Flows from Financing Activities***

Net cash used in financing activities amounted to ¥85 million, an increase of ¥10,540 million, due primarily to an increase in short-term bank loans in the amount of ¥5,667 million, proceeds from long-term bank loans in the amount of ¥2,862 million, repayment of long-term debt in the amount of ¥3,107 million, purchases of treasury stock in the amount of ¥2,143 million and distributions paid in the amount of ¥3,306 million.

## FINANCIAL POSITION

***Current Assets***

Current assets at the end of fiscal 2007 decreased ¥6,306 million from the end of the previous fiscal year to ¥111,914 million. In spite of increases in cash and bank deposits posted by each Group company, notes and accounts receivable decreased due mainly to a decrease in business volume, the effect of the end of the fiscal year falling on a holiday, as well as a decrease in investment securities as a result of redemption and sale.

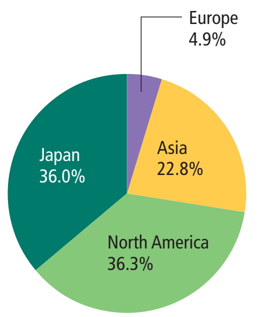
***Fixed Assets***

Fixed assets at the end of fiscal 2007 decreased ¥14,554 million from the previous fiscal year to ¥104,744 million. Property, plant and equipment increased due primarily to an increase in buildings and structures for the Gotemba Division's new factory. Total fixed assets, however, decreased owing mainly to a decrease in unrealized gains on investment securities.

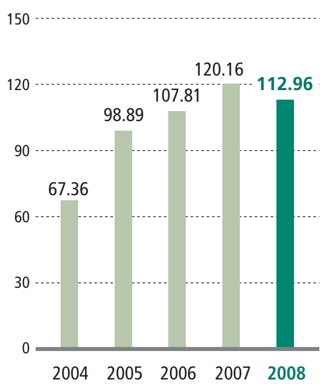
***Current Liabilities/Long-Term Liabilities***

Notes and accounts payable decreased due mainly to decreases in raw material costs as well as the effect of the end of the fiscal year

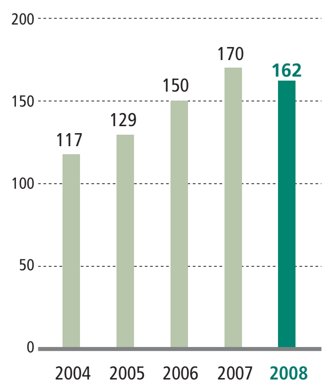
Proportion of Total Sales by Geographical Segments



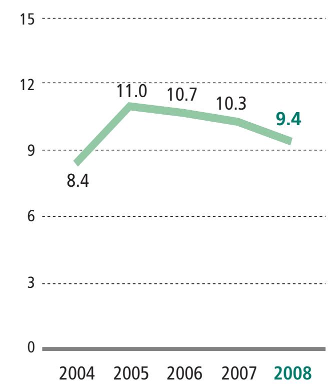

Net Income Per Share
(Yen)



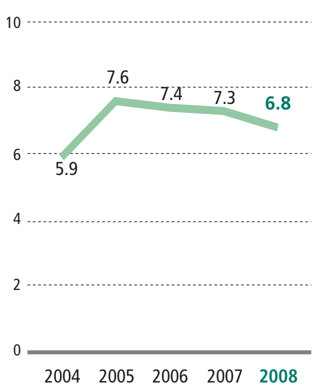

Net Assets
(Billions of yen)



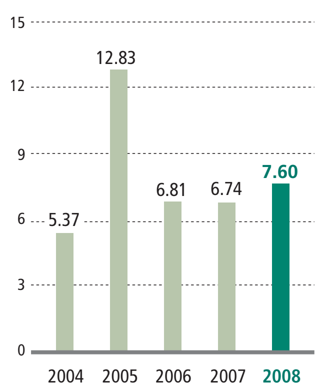

Return on Equity
(%)



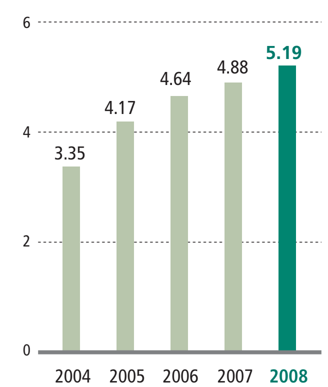

Return on Assets
(%)



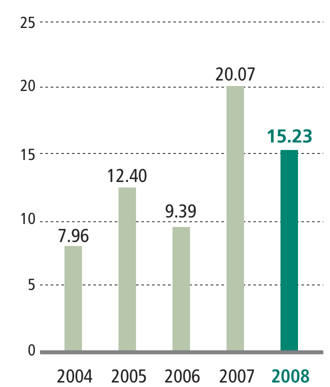

Capital Expenditures
(Billions of yen)




R&D Expenses
(Billions of yen)




Net Cash Provided by Operating Activities (Billions of yen)




falling on a holiday. In addition, deferred tax liabilities decreased due primarily to decreases in income taxes payable and gains on revaluation of investment securities. As a result, total liabilities decreased ¥12,215 million to ¥54,567 million.

***Net Assets***

Total net assets decreased ¥8,646 million to ¥162,092 million. Although retained earnings increased ¥12,181 million, unrealized holding gain on other securities fell ¥13,443 million due to a decrease in unrealized gains on investment securities. In addition, translation adjustments decreased ¥5,437 million due mainly to the higher yen at the end of the fiscal year compared with the previous fiscal year.

## CAPITAL INVESTMENTS

Capital expenditures increased 12.8% to ¥7,608 million. Capital investment chiefly targeted light source application products. These include the digital visual image equipment business geared toward the current IT era; the high-density mounting technology business, in which information and communications devices and electronics products are rapidly becoming more compact, sophisticated and powerful; and the semiconductor photolithography business, in which USHIO is working to develop applications for next-generation memory. Capital investment in the light source application products business increased 11.3% to ¥7,475 million. Capital investment in the machinery for industrial uses and other business rose 314.9% to ¥133 million.

Funds for investments were provided by internal reserves and loans.

## RESEARCH AND DEVELOPMENT

USHIO's total R&D expenses rose 6.3% to ¥5,193 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 4,681 people as of March 31, 2008, down 101 from the previous fiscal year. The parent company, USHIO INC., increased staff by 25 persons for a total of 1,681 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 26, 2008.

***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 light sources for DCPs 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 Procurement of Raw Materials***

The USHIO Group procures raw materials from a variety of external suppliers to ensure stable prices and quantity. As the Group uses such rare metals as tungsten and molybdenum as the primary materials for the manufacture of lamps, short supply and higher prices of raw materials could lead to potential increases in manufacturing costs, which in turn could heavily impact the Group's performance and financial condition.

***4. 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 photolithography 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 extreme ultraviolet (EUV) 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.

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

The USHIO Group conducts manufacturing and marketing activities in such overseas locations as North America, 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.

***6. Risks regarding Intellectual Property Rights***

The USHIO Group belongs to an industry which entails frequent technical innovations. Consequently, it is important to protect, maintain and manage any patents, trademarks and other intellectual property rights for maintaining the Group's share and competitiveness in each market. However, in cases where a third party infringes on the Group's intellectual property rights or vice versa, the Group could be subject to litigation. In addition, not all patents submitted will be registered as intellectual property rights. The USHIO Group's performance and financial condition could be heavily impacted by cases where the protection of the Group's intellectual property rights is compromised.

***7. 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.

***8. Risks in Price Fluctuations for Marketable Securities***

While the USHIO Group holds marketable securities as financial assets whose market value currently exceeds 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.

***9. Risks Associated with Natural Disasters***

The USHIO Group's production sites in Japan are largely concentrated in Hyogo and Shizuoka prefectures while its sales and administrative departments are situated in the Tokyo metropolitan area. In addition, the Group's production sites and sales bases overseas are located in various countries in North America, Asia and Europe. Although Japan is an earthquake-prone country, large-scale disasters cannot be ruled out in other countries. In order to minimize the impact of such disasters, the Group has been diversifying its production sites to more countries. However, the Group's performance and financial condition could be heavily impacted by any possible discontinuation of production or sales activities, albeit temporarily.

***10. 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, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| ASSETS | 2008 | 2007 | 2008 |
| CURRENT ASSETS: | | | |
| Cash and bank deposits (Note 11) | ¥ 31,412 | ¥ 29,195 | $ 313,528 |
| Short-term investments (Note 7) | 2,587 | 6,567 | 25,822 |
| Notes and accounts receivable | 37,074 | 42,900 | 370,038 |
| Less: Allowance for doubtful accounts | (626) | (767) | (6,258) |
| Inventories | 29,951 | 29,469 | 298,944 |
| Deferred tax assets (Note 4) | 3,686 | 3,283 | 36,796 |
| Prepaid expenses and other current assets | 7,830 | 7,572 | 78,154 |
| Total current assets | 111,914 | 118,220 | 1,117,024 |
| PROPERTY, PLANT AND EQUIPMENT, AT COST: | | | |
| Land (Note 3) | 8,849 | 8,805 | 88,326 |
| Buildings and structures (Note 3) | 30,760 | 26,279 | 306,464 |
| Machinery and equipment (Note 3) | 34,458 | 34,672 | 343,945 |
| Construction in progress | 617 | 2,099 | 6,164 |
| | 74,684 | 71,855 | 744,899 |
| Less: Accumulated depreciation | (36,457) | (35,714) | (363,344) |
| Property, plant and equipment, net | 38,227 | 36,142 | 381,555 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Note 7) | 55,934 | 76,113 | 558,277 |
| Investments in and advances to affiliates | 3,587 | 2,366 | 35,808 |
| Deferred tax assets (Note 4) | 207 | 274 | 2,070 |
| Other assets | 6,787 | 4,403 | 67,752 |
| Total investments and other assets | 66,516 | 83,157 | 663,907 |
| Total assets | ¥ 216,659 | ¥ 237,520 | $2,162,486 |

See notes to consolidated financial statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| LIABILITIES AND NET ASSETS | 2008 | 2007 | 2008 |
| CURRENT LIABILITIES: | | | |
| Short-term bank loans (Note 3) | ¥ 8,672 | ¥ 3,775 | $ 86,560 |
| Current portion of long-term debt (Note 3) | 54 | 3,090 | 545 |
| Notes and accounts payable | 15,214 | 21,220 | 151,854 |
| Income taxes payable | 3,055 | 5,676 | 30,497 |
| Deferred tax liabilities (Note 4) | 0 | 4 | 5 |
| Other current liabilities | 11,161 | 11,308 | 111,413 |
| Total current liabilities | 38,159 | 45,076 | 380,874 |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt (Note 3) | 2,962 | – | 29,569 |
| Deferred tax liabilities (Note 4) | 10,146 | 19,496 | 101,270 |
| Retirement benefits (Note 9) | 463 | 547 | 4,624 |
| Other long-term liabilities | 2,835 | 1,661 | 28,302 |
| Total long-term liabilities | 16,407 | 21,706 | 163,765 |
| Contingent liability (Note 13) | | | |
| NET ASSETS: | | | |
| Shareholders' equity: | | | |
| Common stock: | | | |
| Authorized — 300,000,000 shares; | | | |
| Issued — 139,628,721 shares | 19,556 | 19,556 | 195,192 |
| Additional paid-in capital | 28,371 | 28,371 | 283,176 |
| Retained earnings | 105,323 | 93,141 | 1,051,233 |
| Treasury stock, at cost | (5,127) | (2,984) | (51,182) |
| Total shareholders' equity | 148,122 | 138,084 | 1,478,419 |
| VALUATION, TRANSLATION ADJUSTMENTS AND OTHER: | | | |
| Unrealized holding gain on other securities | 17,150 | 30,594 | 171,183 |
| Gain on deferred hedges | – | 42 | – |
| Translation adjustments | (4,313) | 1,124 | (43,054) |
| Total valuation, translation adjustments and other | 12,837 | 31,761 | 128,129 |
| Minority interests | 1,132 | 891 | 11,299 |
| Total net assets | 162,092 | 170,738 | 1,617,847 |
| Total liabilities and net assets | ¥ 216,659 | ¥ 237,520 | $2,162,486 |

## Consolidated Statements of Income

USHIO INC. and Subsidiaries
Years ended March 31, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Net sales | ¥ 148,148 | ¥ 151,495 | $ 1,478,672 |
| Cost of sales | 98,020 | 103,848 | 978,347 |
| Gross profit | 50,127 | 47,647 | 500,325 |
| Selling, general and administrative expenses (Note 5) | 30,076 | 27,919 | 300,199 |
| Operating income | 20,050 | 19,727 | 200,126 |
| Other income (expenses): | | | |
| Interest and dividend income | 2,027 | 1,545 | 20,239 |
| Interest expense | (377) | (413) | (3,766) |
| Other, net | (165) | 4,313 | (1,648) |
| | 1,485 | 5,446 | 14,825 |
| Income before income taxes and minority interests | 21,535 | 25,174 | 214,951 |
| Income taxes (Note 4): | | | |
| Current | 6,533 | 8,409 | 65,207 |
| Deferred | (643) | 20 | (6,421) |
| | 5,889 | 8,430 | 58,786 |
| Income before minority interests | 15,646 | 16,743 | 156,165 |
| Minority interests | (160) | (190) | (1,598) |
| Net income (Note 10) | ¥ 15,486 | ¥ 16,553 | $ 154,567 |

See notes to consolidated financial statements.



## Consolidated Statements of Changes in Net Assets

USHIO INC. and Subsidiaries
Years ended March 31, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| COMMON STOCK | | | |
| Balance at beginning of year (2008 — 139,628,721 shares; 2007 — 139,628,721 shares) | ¥ 19,556 | ¥ 19,556 | $ 195,192 |
| Balance at end of year (2008 — 139,628,721 shares; 2007 — 139,628,721 shares) | ¥ 19,556 | ¥ 19,556 | $ 195,192 |
| ADDITIONAL PAID-IN CAPITAL | | | |
| Balance at beginning of year | ¥ 28,371 | ¥ 28,371 | $ 283,176 |
| Balance at end of year | ¥ 28,371 | ¥ 28,371 | $ 283,176 |
| RETAINED EARNINGS | | | |
| Balance at beginning of year | ¥ 93,141 | ¥ 79,350 | $ 929,646 |
| Add: | | | |
| Net income | 15,486 | 16,553 | 154,567 |
| Deduct: | | | |
| Distributions | (3,304) | (2,762) | (32,980) |
| Balance at end of year | ¥ 105,323 | ¥ 93,141 | $1,051,233 |
| TREASURY STOCK, AT COST | | | |
| Balance at beginning of year | ¥ (2,984) | ¥ (1,895) | $ (29,787) |
| Net change during the year | (2,143) | (1,088) | (21,395) |
| Balance at end of year | ¥ (5,127) | ¥ (2,984) | $ (51,182) |
| UNREALIZED HOLDING GAIN ON OTHER SECURITIES | | | |
| Balance at beginning of year | ¥ 30,594 | ¥ 24,611 | $ 305,368 |
| Net change during the year | (13,443) | 5,982 | (134,185) |
| Balance at end of year | ¥ 17,150 | ¥ 30,594 | $ 171,183 |
| GAIN ON DEFERRED HEDGES | | | |
| Balance at beginning of year | ¥ 42 | ¥ – | $ 428 |
| Net change during the year | (42) | 42 | (428) |
| Balance at end of year | ¥ – | ¥ 42 | $ – |
| TRANSLATION ADJUSTMENTS | | | |
| Balance at beginning of year | ¥ 1,124 | ¥ 539 | $ 11,222 |
| Net change during the year | (5,437) | 585 | (54,276) |
| Balance at end of year | ¥ (4,313) | ¥ 1,124 | $ (43,054) |
| MINORITY INTERESTS | | | |
| Balance at beginning of year | ¥ 891 | ¥ 740 | $ 8,901 |
| Net change during the year | 240 | 151 | 2,398 |
| Balance at end of year | ¥ 1,132 | ¥ 891 | $ 11,299 |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

USHIO INC. and Subsidiaries
Years ended March 31, 2008 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| OPERATING ACTIVITIES | | | |
| Income before income taxes and minority interests | ¥ 21,535 | ¥ 25,174 | $ 214,951 |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | |
| Depreciation and amortization | 5,834 | 5,179 | 58,236 |
| Interest and dividend income | (2,027) | (1,546) | (20,238) |
| Interest expense | 377 | 413 | 3,766 |
| Loss (gain) on investments in business partnerships | 24 | (67) | 241 |
| Equity in gains of affiliates | (550) | (1,020) | (5,495) |
| Gain on sale of investment securities | (2,870) | (2,469) | (28,648) |
| Loss on sale of investment securities | 17 | 222 | 178 |
| Loss on revaluation of investment securities | 293 | – | 2,928 |
| Decrease (increase) in notes and accounts receivable | 3,911 | (2,803) | 39,041 |
| Increase in inventories | (2,148) | (2,615) | (21,444) |
| (Decrease) increase in notes and accounts payable | (4,193) | 3,515 | (41,851) |
| Other | 2,643 | 2,111 | 26,384 |
| Subtotal | 22,848 | 26,093 | 228,049 |
| Interest and dividends received | 2,040 | 1,668 | 20,371 |
| Interest paid | (365) | (358) | (3,651) |
| Income taxes paid | (9,285) | (7,331) | (92,678) |
| Net cash provided by operating activities | 15,237 | 20,071 | 152,091 |
| INVESTING ACTIVITIES | | | |
| Increase in time deposits | (11,611) | (8,689) | (115,899) |
| Proceeds from time deposits | 15,236 | 1,910 | 152,073 |
| Increase in short-term loans receivable | (13,719) | (4,371) | (136,936) |
| Proceeds from collection of short-term loans receivable | 12,153 | 4,119 | 121,300 |
| Purchases of short-term investments | (681) | – | (6,800) |
| Proceeds from redemption and sale of short-term investments | 2,167 | 3,365 | 21,638 |
| Purchases of property, plant and equipment | (8,425) | (6,507) | (84,093) |
| Proceeds from sale of property, plant and equipment | 321 | 349 | 3,208 |
| Increase in intangible fixed assets | (585) | (223) | (5,849) |
| Increase in investment securities | (6,800) | (2,322) | (67,878) |
| Proceeds from sale of investment securities | 5,255 | 5,474 | 52,452 |
| Increase in investments in capital | (385) | – | (3,850) |
| Increase in long-term loans receivable | (1,210) | (363) | (12,087) |
| Proceeds from collection of long-term loans receivable | 0 | 1 | 4 |
| Other | (1,753) | 27 | (17,504) |
| Net cash used in investing activities | (10,041) | (7,227) | (100,221) |
| FINANCING ACTIVITIES | | | |
| Increase (decrease) in short-term bank loans | 5,667 | (6,608) | 56,572 |
| Proceeds from long-term bank loans | 2,862 | – | 28,575 |
| Repayment of long-term debt | (3,107) | (102) | (31,017) |
| Purchases of treasury stock | (2,143) | (1,088) | (21,395) |
| Distributions paid | (3,306) | (2,767) | (33,002) |
| Distributions paid to minority interests | (58) | (59) | (587) |
| Net cash used in financing activities | (85) | (10,625) | (854) |
| Effect of exchange rate changes on cash and cash equivalents | (2,532) | 202 | (25,280) |
| Net increase in cash and cash equivalents | 2,578 | 2,421 | 25,736 |
| Cash and cash equivalents at beginning of the year | 25,122 | 22,701 | 250,749 |
| Cash and cash equivalents at end of the year (Note 11) | ¥ 27,700 | ¥ 25,122 | $ 276,485 |

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

USHIO INC. and Subsidiaries

## 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 in their respective countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (collectively, the "Group") 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 Financial Instruments 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 net assets at the respective dates of acquisition is amortized by the straight-line method over a period of 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 consolidated 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 net assets excluding minority interests, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding minority interests are translated at their historical exchange rates. The differences arising from translation when two exchange rates have been used are presented as translation adjustments and minority interests in the accompanying consolidated balance sheets.

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 or losses resulting from the settlement of these items are credited or charged 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 net assets. 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, and raw materials of the Company and its consolidated 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 being determined by the first-in, first-out method. |
| Raw materials | Stated at cost determined by the moving-average method. | Principally stated at the lower of cost or market, cost being determined by the first-in, first-out method. |

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

In accordance with a revision to the Corporation Tax Law of Japan, effective April 1, 2007, the methods of accounting for depreciation have been changed. Property, plant and equipment acquired on or after April 1, 2007 are depreciated using methods stipulated in the revised Corporation Tax Law. The impact of this change on earnings for the year ended March 31, 2008 was insignificant.

The revision to the Corporation Tax Law also affects the methods of accounting for depreciation of property, plant and equipment that were acquired on or before March 31, 2007 by the Company and its domestic consolidated subsidiaries. Such assets are still depreciated using methods stipulated in the Corporation Tax Law prior to the revision. However, effective April 1, 2007, based on the revised Corporation Tax Law when the net book value of an asset reaches five percent of its acquisition price, the difference between this net book value and the memorandum value of the asset is required to be amortized in equal installments over a five-year period beginning in the fiscal year after that in which the five-percent threshold mentioned above has been reached and this expense is required to be recognized as a part of depreciation. The effect of the adoption of this change on operating income and income before income taxes and minority interests for the year ended March 31, 2008 was not material.

Property, plant and equipment of the overseas consolidated 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 future payments of employees' bonuses. The allowance is provided at the amount which is expected to be paid.

**(l) Retirement and severance benefits**
The Company and certain of its consolidated subsidiaries participate in a contributory defined benefit pension plan, which entitles employees of the Company and these consolidated subsidiaries upon retirement to either a lump-sum payment or pension 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. In addition, additional retirement payments which are not included in the plan may be made when employees retire.

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 year end. 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.

**(m) Warranty reserve**
A warranty reserve is provided for expenses of after-sales service and free repairs for products sold by the Company and its consolidated subsidiaries at an amount estimated to be incurred in the future.

**(n) Allowance for losses on orders**
To provide for future losses on contracted orders, the Company provides an allowance for losses on orders equal to the amount that it anticipates will be lost in fiscal years following the year ended March 31, 2008. Such allowance is provided when, at year end, the Company foresees that it will incur losses on future orders and when it is able reasonably to estimate the amount of such losses.

**(o) 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.

**(p) 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.

## 2. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2008 have been presented in U.S. dollars by translating all yen amounts at ¥100.19 = U.S.$1.00, the exchange rate prevailing on March 31, 2008. 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 1.19% to 6.45% and from 1.19% to 8.75% per annum at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| The Company: | | | |
| Loans from banks, due through 2008 at rates ranging from 1.65% to 1.66% | ¥ 2,840 | ¥ 2,840 | $ 28,346 |
| Consolidated subsidiaries: | | | |
| Loans from banks, due through 2008 at rates ranging from 0.02% to 4.70% | 177 | 250 | 1,768 |
| Total long-term debt | 3,017 | 3,090 | 30,114 |
| Less: Current portion | 54 | 3,090 | 545 |
| | ¥ 2,962 | ¥ – | $ 29,569 |

The assets pledged as collateral for debt at March 31, 2008 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Machinery, equipment and vehicles | ¥ 22 | $ 221 |
| Tools, appliances and furniture | 8 | 85 |
| Land | 206 | 2,064 |
| | ¥ 237 | $ 2,370 |

The related debt for which the above assets were pledged as collateral at March 31, 2008 is summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Short-term bank loans | ¥ 8 | $ 85 |
| Current portion of long-term debt | 44 | 441 |
| Long-term debt | 108 | 1,079 |
| | ¥ 160 | $ 1,605 |

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2009 | ¥ 54 | $ 545 |
| 2010 | 12 | 123 |
| 2011 | 2,842 | 28,366 |
| 2012 | 93 | 932 |
| 2013 | 14 | 148 |

## 4. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.7% for the years ended March 31, 2008 and 2007. Income taxes of the overseas consolidated subsidiaries are based, in general, on the tax rates applicable in their respective countries of incorporation.

The significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | ¥ 175 | ¥ 270 | $ 1,754 |
| Enterprise taxes payable | 175 | 309 | 1,754 |
| Allowance for employees' bonuses | 785 | 886 | 7,840 |
| Warranty reserve | 613 | 330 | 6,122 |
| Retirement benefit expenses | 1,440 | 1,471 | 14,382 |
| Allowance and accrual for retirement benefits for directors and corporate auditors | 551 | 632 | 5,502 |
| Write-downs of inventories | 296 | 414 | 2,955 |
| Net loss carryforwards | 158 | 325 | 1,579 |
| Revaluation loss on equity investments in affiliates | 398 | – | 3,974 |
| Other | 2,147 | 1,514 | 21,431 |
| Total deferred tax assets | 6,742 | 6,155 | 67,293 |
| Deferred tax liabilities: | | | |
| Unrealized holding gain on other securities | (11,831) | (20,982) | (118,086) |
| Depreciation | (131) | (135) | (1,316) |
| Gain on contribution of securities to employees' retirement benefit trust | (766) | (766) | (7,655) |
| Other | (265) | (213) | (2,646) |
| Total deferred tax liabilities | (12,994) | (22,098) | (129,703) |
| Net deferred tax liabilities | ¥ (6,252) | ¥ (15,943) | $ (62,410) |

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes and minority interests for the years ended March 31, 2008 and 2007 is summarized as follows:

| | 2008 | 2007 |
|---|---|---|
| Statutory tax rate | 40.7% | 40.7% |
| Reconciliation: | | |
| Increase in valuation allowance for deferred tax assets | (0.1) | (0.1) |
| Income not recognized for income tax purposes | (0.6) | (0.6) |
| Non-deductible expenses for income tax purposes | 0.3 | 0.2 |
| Tax deductions related to R&D activities | (3.3) | (1.2) |
| Foreign tax credits | (0.1) | (0.3) |
| Different tax rates applied to overseas subsidiaries | (6.7) | (4.7) |
| Equity in net income of affiliated companies | (1.0) | (1.7) |
| Other | (1.9) | 1.2 |
| Effective tax rates | 27.3% | 33.5% |

## 5. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2008 and 2007 were as follows:

| Millions of yen | | Thousands of U.S. dollars |
|---|---|---|
| 2008 | 2007 | 2008 |
| ¥ 5,193 | ¥ 4,884 | $ 51,833 |

## 6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation/amortization and net book value of the leased assets as of March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases.

| 2008 | Machinery and vehicles | Other (tools and equipment) | Intangible fixed assets (software) | Total |
|---|---|---|---|---|
| **Millions of yen** | | | | |
| Acquisition costs | ¥ 64 | ¥ 154 | ¥ 32 | ¥ 251 |
| Accumulated depreciation/amortization | 36 | 52 | 26 | 114 |
| Net book value | ¥ 27 | ¥ 102 | ¥ 6 | ¥ 136 |
| **Thousands of U.S. dollars** | | | | |
| Acquisition costs | $ 643 | $ 1,540 | $ 325 | $ 2,508 |
| Accumulated depreciation/amortization | 364 | 521 | 262 | 1,147 |
| Net book value | $ 279 | $ 1,019 | $ 63 | $ 1,361 |

| 2007 (Millions of yen) | Machinery and vehicles | Other (tools and equipment) | Intangible fixed assets (software) | Total |
|---|---|---|---|---|
| Acquisition costs | ¥ 59 | ¥ 87 | ¥ 30 | ¥ 177 |
| Accumulated depreciation/amortization | 32 | 61 | 19 | 114 |
| Net book value | ¥ 26 | ¥ 25 | ¥ 10 | ¥ 63 |

Lease expenses related to finance leases accounted for as operating leases for the years ended March 31, 2008 and 2007 totaled ¥43 million ($432 thousand) and ¥51 million, respectively. The following pro forma amounts represent interest expense and depreciation/amortization for the years ended March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated statements of income if finance lease accounting had been applied to the finance leases currently accounted for as operating leases.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Interest expense | ¥ 43 | ¥ 51 | $ 432 |
| Depreciation/amortization | 43 | 51 | 432 |

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 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 consolidated subsidiaries, are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Due within one year or less | ¥ 47 | $ 469 |
| Due subsequent to one year | 89 | 892 |
| Total | ¥ 136 | $ 1,361 |

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 amount of interest included was deemed insignificant.

Future minimum lease payments under operating leases, 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 | ¥ 173 | $ 1,732 |
| Due subsequent to one year | 468 | 4,673 |
| Total | ¥ 641 | $ 6,405 |

## 7. Short-Term Investments and Investment Securities

### 1. Trading securities

Trading securities as of March 31, 2008 and 2007 are summarized as follows:

| | As of March 31, 2008 | | | |
|---|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars | |
| | Carrying value | Loss | Carrying value | Loss |
| | ¥ 720 | ¥ (77) | $ 7,193 | $ (777) |

| | As of March 31, 2007 | |
|---|---|---|
| | Millions of yen | |
| | Carrying value | Loss |
| | ¥ 276 | ¥ (39) |

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

There were no marketable held-to-maturity securities as of March 31, 2008.
Marketable held-to-maturity securities as of March 31, 2007 are summarized as follows:

| | As of March 31, 2007 | | |
|---|---|---|---|
| | Millions of yen | | |
| | Carrying value | Estimated fair value | Unrealized gain (loss) |
| Securities whose estimated fair value exceeds their carrying value: | | | |
| (1) Government bonds and municipal bonds | ¥ 50 | ¥ 50 | ¥ 0 |
| Subtotal | 50 | 50 | 0 |
| Securities whose carrying value exceeds their estimated fair value: | | | |
| (1) Government bonds and municipal bonds | 130 | 129 | (1) |
| (2) Corporate bonds | 204 | 201 | (3) |
| Subtotal | 334 | 330 | (4) |
| Total | ¥ 384 | ¥ 380 | ¥ (4) |

### 3. Marketable other securities

Marketable other securities as of March 31, 2008 and 2007 are summarized as follows:

| | As of March 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | ¥ 11,031 | ¥ 42,370 | ¥ 31,339 | $ 110,102 | $ 422,898 | $ 312,796 |
| (2) Bonds: | | | | | | |
| Government bonds and municipal bonds | 420 | 420 | 0 | 4,195 | 4,196 | 1 |
| Corporate bonds | 553 | 581 | 28 | 5,522 | 5,807 | 285 |
| (3) Other | 390 | 551 | 161 | 3,895 | 5,505 | 1,610 |
| Subtotal | 12,394 | 43,923 | 31,529 | 123,714 | 438,407 | 314,693 |
| Securities whose acquisition cost exceeds their carrying value: | | | | | | |
| (1) Stock | 7,183 | 5,182 | (2,000) | 71,696 | 51,729 | (19,967) |
| (2) Bonds: | | | | | | |
| Corporate bonds | 4,377 | 3,989 | (388) | 43,690 | 39,817 | (3,873) |
| (3) Other | 2,226 | 2,077 | (148) | 22,220 | 20,740 | (1,480) |
| Subtotal | 13,786 | 11,249 | (2,536) | 137,606 | 112,286 | (25,320) |
| Total | ¥ 26,181 | ¥ 55,173 | ¥ 28,992 | $ 261,320 | $ 550,693 | $ 289,373 |

| | As of March 31, 2007 | | |
|---|---|---|---|
| | Millions of yen | | |
| | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| (1) Stock | ¥ 10,309 | ¥ 62,045 | ¥ 51,736 |
| (2) Bonds: | | | |
| Government bonds and municipal bonds | 420 | 467 | 46 |
| Corporate bonds | 3,523 | 3,773 | 249 |
| (3) Other | 640 | 1,321 | 681 |
| Subtotal | 14,894 | 67,608 | 52,713 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| (1) Stock | 3,757 | 3,271 | (486) |
| (2) Bonds: | | | |
| Corporate bonds | 3,690 | 3,593 | (96) |
| (3) Other | 1,994 | 1,459 | (535) |
| Subtotal | 9,442 | 8,323 | (1,118) |
| Total | ¥ 24,336 | ¥ 75,932 | ¥ 51,595 |

### 4. Held-to-maturity securities sold

Held-to-maturity securities sold for the year ended March 31, 2008 are summarized as follows:

| | As of March 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Millions of yen | | | Thousands of U.S. dollars | | |
| | Book value | Sales value | Loss on sale | Book value | Sales value | Loss on sale |
| (1) Government bonds and municipal bonds | ¥ 130 | ¥ 128 | ¥ (2) | $ 1,302 | $ 1,281 | $ (21) |
| (2) Corporate bonds | 203 | 199 | (4) | 2,034 | 1,988 | (46) |

Held-to maturity securities sold stated above were made by a consolidated subsidiary for its financing requirements.

### 5. Other securities sold

Other securities sold for the years ended March 31, 2008 and 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Sale of securities | ¥ 7,462 | ¥ 1,438 | $ 74,481 |
| Aggregated gain on sale | 2,870 | 2,469 | 28,648 |
| Aggregated loss on sale | 11 | 222 | 111 |

### 6. Non-marketable securities

Non-marketable securities as of March 31, 2008 and 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Other securities | | | |
| Unlisted stocks | ¥ 1,540 | ¥ 1,207 | $ 15,376 |
| Money management funds | 30 | 3,903 | 305 |
| Investments in business partnerships with limited liability and similar types of funds | 1,053 | 974 | 10,510 |

**7. Redemption schedule**

The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity securities as of March 31, 2008 and 2007 is summarized as follows:

| As of March 31, 2008 | 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 and municipal bonds | ¥ 0 | ¥ 401 | ¥ 1 | $ 0 | $ 4,004 | $ 17 |
| (2) Corporate bonds | 1,694 | 2,904 | – | 16,911 | 28,988 | – |
| (3) Other | – | – | – | – | – | – |
| 2. Other | 100 | – | 1,832 | 1,000 | – | 18,287 |
| Total | ¥ 1,794 | ¥ 3,305 | ¥ 1,833 | $ 17,911 | $ 32,992 | $ 18,304 |

| As of March 31, 2007 | 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 and municipal bonds | ¥ 50 | ¥ 602 | ¥ – |
| (2) Corporate bonds | 2,301 | 3,637 | 236 |
| (3) Other | 0 | 0 | 0 |
| 2. Other | – | – | 1,459 |
| Total | ¥ 2,352 | ¥ 4,239 | ¥ 1,696 |

## 8. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2008 and 2007.

Currency-related transactions:

| As of March 31, 2008 | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Notional amounts | Estimated fair value | Unrealized gain (loss) | Notional amounts | Estimated fair value | Unrealized gain (loss) |
| Bilateral transactions | | | | | | |
| Forward foreign exchange contracts | | | | | | |
| Sell: | | | | | | |
| US$ | ¥ 1,550 | ¥ 1,551 | ¥ (1) | $ 15,471 | $ 15,485 | $ (14) |
| Buy: | | | | | | |
| Euro | 48 | 50 | 1 | 483 | 499 | 16 |
| Yen | 1,039 | 1,225 | 186 | 10,371 | 12,235 | 1,864 |
| Total | ¥ 2,637 | ¥ 2,827 | ¥ 187 | $ 26,325 | $ 28,219 | $ 1,866 |

| As of March 31, 2007 | Millions of yen | | |
|---|---|---|---|
| | Notional amounts | Estimated fair value | Unrealized gain (loss) |
| Bilateral transactions | | | |
| Forward foreign exchange contracts | | | |
| Sell: | | | |
| US$ | ¥ 708 | ¥ 703 | ¥ 4 |
| Euro | 279 | 283 | (3) |
| Buy: | | | |
| Euro | 61 | 64 | 2 |
| Total | ¥ 1,050 | ¥ 1,051 | ¥ 3 |

## 9. Retirement Benefits Plans

The Company and certain of its consolidated subsidiaries have defined benefit pension 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 rates of pay, length of service, and the conditions under which termination 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 accompanying consolidated balance sheets at March 31, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| (1) Retirement benefit obligation | ¥ (19,351) | ¥ (17,119) | $ (193,149) |
| (2) Plan assets at fair value (including the trust fund for retirement benefits) | 14,446 | 16,826 | 144,196 |
| (3) Unfunded net retirement benefit obligation (1)+(2) | (4,904) | (293) | (48,953) |
| (4) Unrecognized actuarial gain or loss | 5,121 | 507 | 51,116 |
| (5) Unrecognized prior service cost | 19 | (336) | 194 |
| (6) Net liability for retirement benefits (3)+(4)+(5) | 236 | (121) | 2,357 |
| (7) Prepaid pension expense | 624 | 359 | 6,232 |
| (8) Accrued retirement benefits (6)-(7) | ¥ (388) | ¥ (481) | $ (3,875) |

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 applied a simplified method for computing their retirement benefit obligation.

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| (1) Service cost (*1 and *2) | ¥ 868 | ¥ 848 | $ 8,673 |
| (2) Interest cost | 423 | 390 | 4,229 |
| (3) Expected return on plan assets | (556) | (480) | (5,553) |
| (4) Amortization of actuarial gain or loss | 116 | 175 | 1,161 |
| (5) Amortization of prior service cost | (20) | (36) | (204) |
| Total retirement benefit expenses (*3) | ¥ 832 | ¥ 898 | $ 8,306 |

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 applied the simplified method have been included in (1) service cost.
*3 In addition to total retirement benefit expenses, the Company paid ¥158 million ($1,579 thousand) and ¥11 million as additional retirement payments for the years ended March 31, 2008 and 2007, respectively.
*4 Of the additional retirement payments mentioned in *3 above, ¥121 million ($1,213 thousand) has been recognized as an extraordinary loss for the year ended March 31, 2008 as a result of the approval of a resolution by the Board of Directors of the Company for the liquidation of Gunma Ushio Electric, Inc. subsequent to the year ended March 31, 2008. In addition, several consolidated subsidiaries have recognized a total of ¥398 million ($3,977 thousand) as retirement expenses for defined contribution pension plans for the year ended March 31, 2008.

The assumptions used in accounting for the above plans were as follows:

| | 2008 | 2007 |
|---|---|---|
| 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. Amounts Per Share

Amounts per share of basic 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 of common stock outstanding at each balance sheet date, respectively.

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Basic net income | ¥ 112.96 | ¥ 120.16 | $ 1.12 |
| Net assets | 1,177.77 | 1,233.65 | 11.75 |

Per share amounts assuming full dilution have not been presented because no common stock equivalents were outstanding at March 31, 2008 and 2007.

## 11. Supplementary Cash Flow Information

The following table presents a reconciliation of cash and bank deposits with cash and cash equivalents at March 31, 2008 and 2007:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Cash and bank deposits | ¥ 31,412 | ¥ 29,195 | $ 313,528 |
| Time deposits with a maturity of more than three months | (3,741) | (7,976) | (37,348) |
| Short-term investments | 2,587 | 6,567 | 25,822 |
| Equity and debt securities with a maturity of more than three months | (2,556) | (2,663) | (25,517) |
| Cash and cash equivalents | ¥ 27,700 | ¥ 25,122 | $ 276,485 |

## 12. Segment Information

The business and geographical segment information and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 are outlined as follows:

### Business segments

| Year ended March 31, 2008<br>Millions of yen | Light source application products | Machinery for industrial uses and other business | Total | Eliminations or unallocated amounts | Consolidated |
|---|---|---|---|---|---|
| I. Sales and operating income | | | | | |
| Sales to external customers | ¥ 143,984 | ¥ 4,164 | ¥ 148,148 | ¥ – | ¥ 148,148 |
| Intersegment sales or transfers | 3 | 37 | 41 | (41) | – |
| Net sales | 143,987 | 4,202 | 148,189 | (41) | 148,148 |
| Operating expenses | 124,247 | 3,894 | 128,141 | (43) | 128,097 |
| Operating income | ¥ 19,739 | ¥ 307 | ¥ 20,047 | ¥ 2 | ¥ 20,050 |
| II. Total assets, depreciation and capital expenditures | | | | | |
| Total assets | ¥ 171,794 | ¥ 12,232 | ¥ 184,027 | ¥ 32,631 | ¥ 216,659 |
| Depreciation | 5,794 | 40 | 5,834 | – | 5,834 |
| Capital expenditures | 7,475 | 133 | 7,608 | – | 7,608 |

| Thousands of U.S. dollars | Light source application products | Machinery for industrial uses and other business | Total | Eliminations or unallocated amounts | Consolidated |
|---|---|---|---|---|---|
| I. Sales and operating income | | | | | |
| Sales to external customers | $1,437,110 | $ 41,562 | $1,478,672 | $ – | $1,478,672 |
| Intersegment sales or transfers | 31 | 379 | 410 | (410) | – |
| Net sales | 1,437,141 | 41,941 | 1,479,082 | (410) | 1,478,672 |
| Operating expenses | 1,240,117 | 38,868 | 1,278,985 | (439) | 1,278,546 |
| Operating income | $ 197,024 | $ 3,073 | $ 200,097 | $ 29 | $ 200,126 |
| II. Total assets, depreciation and capital expenditures | | | | | |
| Total assets | $1,714,689 | $ 122,096 | $1,836,785 | $ 325,701 | $2,162,486 |
| Depreciation | 57,835 | 401 | 58,236 | – | 58,236 |
| Capital expenditures | 74,612 | 1,332 | 75,944 | – | 75,944 |

| Year ended March 31, 2007<br>Millions of yen | Light source application products | Machinery for industrial uses and other business | Total | Eliminations or unallocated amounts | Consolidated |
|---|---|---|---|---|---|
| I. Sales and operating income | | | | | |
| Sales to external customers | ¥ 146,387 | ¥ 5,108 | ¥ 151,495 | ¥ – | ¥ 151,495 |
| Intersegment sales or transfers | 44 | 29 | 73 | (73) | – |
| Net sales | 146,431 | 5,137 | 151,569 | (73) | 151,495 |
| Operating expenses | 127,163 | 4,684 | 131,848 | (80) | 131,768 |
| Operating income | ¥ 19,268 | ¥ 453 | ¥ 19,721 | ¥ 6 | ¥ 19,727 |
| II. Total assets, depreciation and capital expenditures | | | | | |
| Total assets | ¥ 174,405 | ¥ 9,491 | ¥ 183,897 | ¥ 53,623 | ¥ 237,520 |
| Depreciation | 5,148 | 31 | 5,179 | – | 5,179 |
| Capital expenditures | 6,716 | 32 | 6,748 | – | 6,748 |

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, excimer VUV and $O_3$ cleaning systems, and various other exposure systems
Machinery for industrial use and other businesses -
injection molding machinery, food packaging systems, and automatic controls

b) Included in eliminations or unallocated amounts of total assets are unallocated amounts totaling ¥37,994 million ($379,223 thousand) and ¥58,994 million at March 31, 2008 and 2007, 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, respectively.

### Geographical segments

| Year ended March 31, 2008<br>Millions of yen | Japan | North America | Europe | Asia | Total | Eliminations or unallocated amounts | Consolidated |
|---|---|---|---|---|---|---|---|
| I. Sales and operating income | | | | | | | |
| Sales to external customers | ¥ 53,421 | ¥ 53,794 | ¥ 7,180 | ¥ 33,751 | ¥ 148,148 | ¥ – | ¥ 148,148 |
| Intersegment sales or transfers | 21,947 | 1,066 | 769 | 2,499 | 26,283 | (26,283) | – |
| Net sales | 75,369 | 54,861 | 7,949 | 36,250 | 174,431 | (26,283) | 148,148 |
| Operating expenses | 64,638 | 52,148 | 7,410 | 30,287 | 154,484 | (26,386) | 128,097 |
| Operating income | ¥ 10,731 | ¥ 2,713 | ¥ 539 | ¥ 5,963 | ¥ 19,947 | ¥ 103 | ¥ 20,050 |
| II. Total assets | ¥ 134,558 | ¥ 36,340 | ¥ 16,025 | ¥ 23,868 | ¥ 210,792 | ¥ 5,866 | ¥ 216,659 |

| Thousands of U.S. dollars | Japan | North America | Europe | Asia | Total | Eliminations or unallocated amounts | Consolidated |
|---|---|---|---|---|---|---|---|
| I. Sales and operating income | | | | | | | |
| Sales to external customers | $ 533,205 | $ 536,926 | $ 71,667 | $ 336,874 | $1,478,672 | $ – | $1,478,672 |
| Intersegment sales or transfers | 219,063 | 10,649 | 7,679 | 24,943 | 262,334 | (262,334) | – |
| Net sales | 752,268 | 547,575 | 79,346 | 361,817 | 1,741,006 | (262,334) | 1,478,672 |
| Operating expenses | 645,161 | 520,493 | 73,962 | 302,296 | 1,541,912 | (263,366) | 1,278,546 |
| Operating income | $ 107,107 | $ 27,082 | $ 5,384 | $ 59,521 | $ 199,094 | $ 1,032 | $ 200,126 |
| II. Total assets | $1,343,029 | $ 362,717 | $ 159,948 | $ 238,237 | $2,103,931 | $ 58,555 | $2,162,486 |

| Year ended March 31, 2007<br>Millions of yen | Japan | North America | Europe | Asia | Total | Eliminations or unallocated amounts | Consolidated |
|---|---|---|---|---|---|---|---|
| I. Sales and operating income | | | | | | | |
| Sales to external customers | ¥ 60,173 | ¥ 54,790 | ¥ 6,704 | ¥ 29,827 | ¥ 151,495 | ¥ – | ¥ 151,495 |
| Intersegment sales or transfers | 21,848 | 720 | 923 | 2,923 | 26,416 | (26,416) | – |
| Net sales | 82,022 | 55,511 | 7,627 | 32,750 | 177,912 | (26,416) | 151,495 |
| Operating expenses | 70,131 | 52,982 | 7,025 | 27,863 | 158,002 | (26,234) | 131,768 |
| Operating income | ¥ 11,891 | ¥ 2,529 | ¥ 601 | ¥ 4,887 | ¥ 19,910 | ¥ (182) | ¥ 19,727 |
| II. Total assets | ¥ 135,553 | ¥ 41,142 | ¥ 17,733 | ¥ 23,739 | ¥ 218,167 | ¥ 19,352 | ¥ 237,520 |

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, U.K., France
(3) Asia — China, Taiwan, South Korea, Philippines, Singapore

c) Included in eliminations or unallocated amounts of total assets are unallocated amounts totaling ¥37,994 million ($379,223 thousand) and ¥58,994 million at March 31, 2008 and 2007, 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, 2008 | | | | |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| | North America | Europe | Asia | Other areas | Total |
| III. Overseas sales | | | | | |
| Overseas sales | ¥ 39,271 | ¥ 14,731 | ¥ 41,329 | ¥ 1,117 | ¥ 96,449 |
| Consolidated net sales | | | | | ¥ 148,148 |
| Overseas sales as a percentage of consolidated net sales | 26.5% | 9.9% | 27.9% | 0.8% | 65.1% |
| | Thousands of U.S. dollars | | | | |
| | North America | Europe | Asia | Other areas | Total |
| III. Overseas sales | | | | | |
| Overseas sales | $ 391,971 | $ 147,033 | $ 412,510 | $ 11,151 | $ 962,665 |
| Consolidated net sales | | | | | $1,478,672 |

| | Year ended March 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| | North America | Europe | Asia | Other areas | Total |
| III. Overseas sales | | | | | |
| Overseas sales | ¥ 44,135 | ¥ 13,187 | ¥ 35,754 | ¥ 769 | ¥ 93,847 |
| Consolidated net sales | | | | | ¥ 151,495 |
| Overseas sales as a percentage of consolidated net sales | 29.1% | 8.7% | 23.6% | 0.5% | 61.9% |

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, U.K., France
(3) Asia — China, Taiwan, South Korea, Philippines, Singapore
(4) Other areas — Argentina, Brazil
c) Overseas sales consisted of sales of the Company and its consolidated subsidiaries.

## 13. Contingent Liability

The Company guaranteed an affiliate's loans borrowed from its business connections amounting to ¥295 million at March 31, 2007.

## 14. Business Combination

**Purchase accounting-related matter**

*Overview:*

The Company's wholly-owned subsidiary, Christie Digital Systems, Inc. (CDS), acquired 100% of the shares of Vista Controls Systems, Corp. for cash in a transaction dated July 9, 2007.

*Objective of acquisition:*

By incorporating the video processing systems of Vista Controls Systems, Corp. into the Group's cinema projector business, the Company sought to expand and deepen its video solutions business and to increase sales in this segment.

*Conditions attached to the acquisition price stipulated in the share transfer agreement and accounting policy regarding these conditions:*

a) Conditions attached to the acquisition price
The share transfer agreement provides that, from the date of acquisition until June 30, 2009, the Company will pay an additional 19% of the gross profit earned by Vista Controls Systems, Corp. and an additional 19% of the gross profit earned by CDS on sales of Vista Controls Systems, Corp.'s products.

b) Accounting policy
With respect to the increase in goodwill resulting from the aforementioned payments, the Company will deem the payments to have been made at the time of its acquisition of Vista Controls Systems, Corp. and will make appropriate adjustments to its acquisition price, the amount of goodwill, and the amount of goodwill that it amortizes.

## 15. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at the annual general meeting of shareholders held on June 26, 2008:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥24 = U.S.$0.24 per share) | ¥ 3,279 | $ 32,737 |
| | ¥ 3,279 | $ 32,737 |





# 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, 2008 and 2007, and the related consolidated statements of income, changes in net assets, 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, 2008 and 2007, 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, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young ShinNihon

June 26, 2008

## Five-Year Summary of Consolidated Financial Data

USHIO INC. and Subsidiaries
Years ended March 31

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| FOR THE YEAR: | | | | | |
| Net sales | **¥ 148,148** | ¥ 151,495 | ¥ 129,284 | ¥ 119,159 | ¥ 99,081 |
| Net income | **15,486** | 16,553 | 14,895 | 13,634 | 9,346 |
| Capital expenditures | **7,608** | 6,748 | 6,810 | 12,837 | 5,376 |
| Depreciation and amortization | **5,834** | 5,179 | 4,763 | 3,014 | 2,748 |
| R&D expenses | **5,193** | 4,884 | 4,645 | 4,174 | 3,358 |
| AT YEAR-END: | | | | | |
| Total assets | **216,659** | 237,520 | 213,027 | 187,251 | 169,771 |
| Net assets | **162,092** | 170,738 | 150,533 | 129,302 | 117,726 |
| CASH FLOWS: | | | | | |
| Net cash provided by operating activities | **15,237** | 20,071 | 9,397 | 12,408 | 7,969 |
| Net cash used in investing activities | **(10,041)** | (7,227) | (9,762) | (6,473) | (9,490) |
| Net cash used in financing activities | **(85)** | (10,625) | (3,324) | (1,758) | (1,592) |
| PER SHARE OF COMMON STOCK (YEN): | | | | | |
| Net income | **¥ 112.96** | ¥ 120.16 | ¥ 107.81 | ¥ 98.89 | ¥ 67.36 |
| Cash dividends | **24.00** | 24.00 | 20.00 | 20.00 | 20.00 |
| Net assets | **1,177.77** | 1,233.65 | 1,089.67 | 935.80 | 853.40 |
| KEY FINANCIAL RATIOS: | | | | | |
| Return on equity (%) | **9.4** | 10.3 | 10.7 | 11.0 | 8.4 |
| Return on assets (%) | **6.8** | 7.3 | 7.4 | 7.6 | 5.9 |
| Asset turnover (times) | **0.65** | 0.67 | 0.65 | 0.67 | 0.62 |
| Return on sales (%) | **10.5** | 10.9 | 11.5 | 11.4 | 9.4 |

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

## Investor Information

### Corporate Data

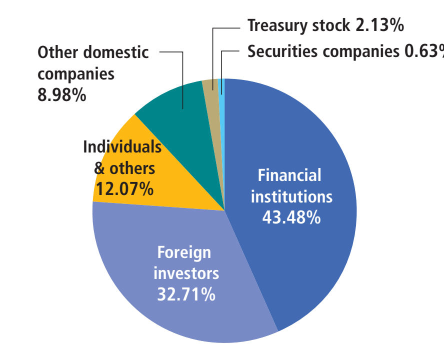
| | |
|---|---|
| Common stock | Issued: 139,628,721 shares |
| Stock exchange listings | Tokyo Stock Exchange and Osaka Securities Exchange, First Section |
| Independent accountants | Ernst & Young ShinNihon |
| Transfer agent | The Chuo-Mitsui Trust & Banking Co., Ltd. |

### Breakdown of Shareholders by Shareholding

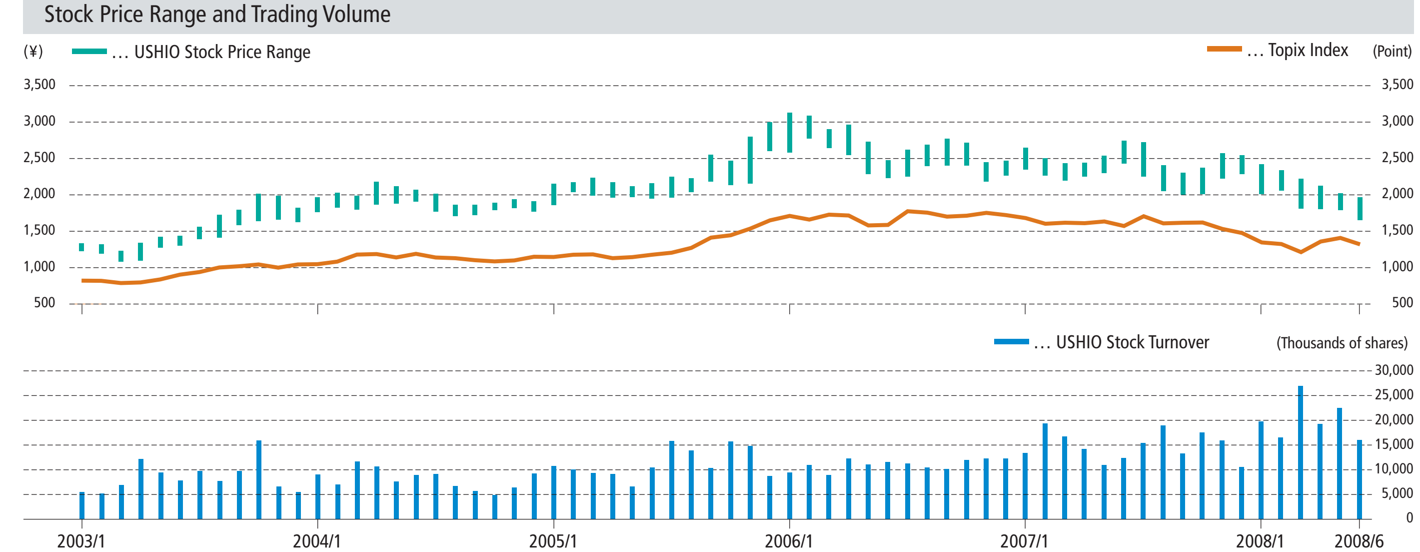
| Date of settlement | March 2006 | | March 2007 | | **March 2008** | |
|---|---|---|---|---|---|---|
| | (Thousands of shares) | (%) | (Thousands of shares) | (%) | (Thousands of shares) | (%) |
| Financial institutions | 57,778 | 41.38 | 59,137 | 42.35 | **60,696** | **43.48** |
| Foreign investors | 51,583 | 36.95 | 47,123 | 33.75 | **45,662** | **32.71** |
| Individuals & others | 16,885 | 12.09 | 18,841 | 13.49 | **16,849** | **12.07** |
| Other domestic companies | 10,820 | 7.75 | 10,925 | 7.83 | **12,525** | **8.98** |
| Treasury stock | 1,482 | 1.06 | 1,950 | 1.40 | **2,963** | **2.13** |
| Securities companies | 1,075 | 0.77 | 1,649 | 1.18 | **876** | **0.63** |

The composition of shareholders is in accordance with shareholders listed in the register of shareholders.

### Composition of Shareholders




### Stock Price Range and Trading Volume



# Corporate Data

| | | |
|---|---|---|
| Company name | USHIO INC. | |
| Address | 2-6-1 Otemachi, Chiyoda-ku, Tokyo 100-8150 | |
| URL | http://www.ushio.co.jp/global | |
| Establishment | March 1964 | |
| Paid-in capital | ¥19,556,326,316 | |
| Board of directors (As of June 26, 2008) | Chairman and USHIO Group Representative | Jiro Ushio |
| | Director and Vice Chairman | Akihiro Tanaka |
| | President and Chief Executive Officer | Shiro Sugata |
| | Directors and Corporate Executive Vice Presidents | Manabu Goto<br>Seiji Oshima<br>Tadashi Taki<br>Shiro Ushio<br>Ryutaro Tada<br>Hiroaki Banno |
| | Corporate Auditors | Tadashi Shibuichi<br>Susumu Nakaichi<br>Osamu Monoe |
| | Statutory Auditors | Shuichi Hattori<br>Koji Aso |

| | | |
|---|---|---|
| Number of employees (As of March 31, 2008) | USHIO INC. | 1,681 |
| | Group Companies (Japan) | 528 |
| | Group Companies (Overseas) | 2,472 |
| | Total | 4,681 |

## Divisions

**Head office**
2-6-1 Otemachi, Chiyoda-ku, Tokyo 100-8150
Tel: +81 3-3242-1811 Fax: +81 3-3245-0589

**Manufacturing and R&D**

Harima Division
1194 Sazuchi, Bessho-cho, Himeji-shi, Hyogo 671-0224
Tel: +81 79-252-4381 Fax: +81 79-253-6262

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

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

## Domestic Group Companies

USHIO LIGHTING, INC.
HYOGO USHIO LIGHTING, INC.
TSUKUBA USHIO ELECTRIC, INC.
XEBEX, INC.
USHIO SPAX, INC.
GIGAPHOTON, INC.
NIHON DENSHI GIJUTSU CO., LTD.
EPITEX INC.

5 other companies

## Overseas Group Companies

**Manufacturing and R&D**

North America
- CHRISTIE DIGITAL SYSTEMS CANADA, INC.
- VISTA CONTROLS SYSTEMS, CORP.

Europe
- BLV Licht- und Vakuumtechnik GmbH
- XTREME technologies GmbH

Asia
- USHIO PHILIPPINES, INC.
- USHIO (SUZHOU) CO., LTD.
- TAIWAN USHIO LIGHTING, INC.

**Sales**

North America
- USHIO AMERICA, INC.
- USHIO CANADA, INC.
- CHRISTIE DIGITAL SYSTEMS U.S.A., INC.

Europe
- USHIO EUROPE B.V.
- USHIO U.K., LTD.
- USHIO DEUTSCHLAND GmbH
- USHIO FRANCE S.A.R.L.

Asia
- USHIO KOREA, INC.
- USHIO TAIWAN, INC.
- USHIO HONG KONG LTD.
- USHIO SINGAPORE PTE LTD.
- USHIO LIGHTING (HONG KONG) CO., LTD.
- USHIO SHANGHAI, INC.

11 other companies