Annual Report 2011
Year ended March 31, 2011

AT THE FRONTIER OF LIGHT

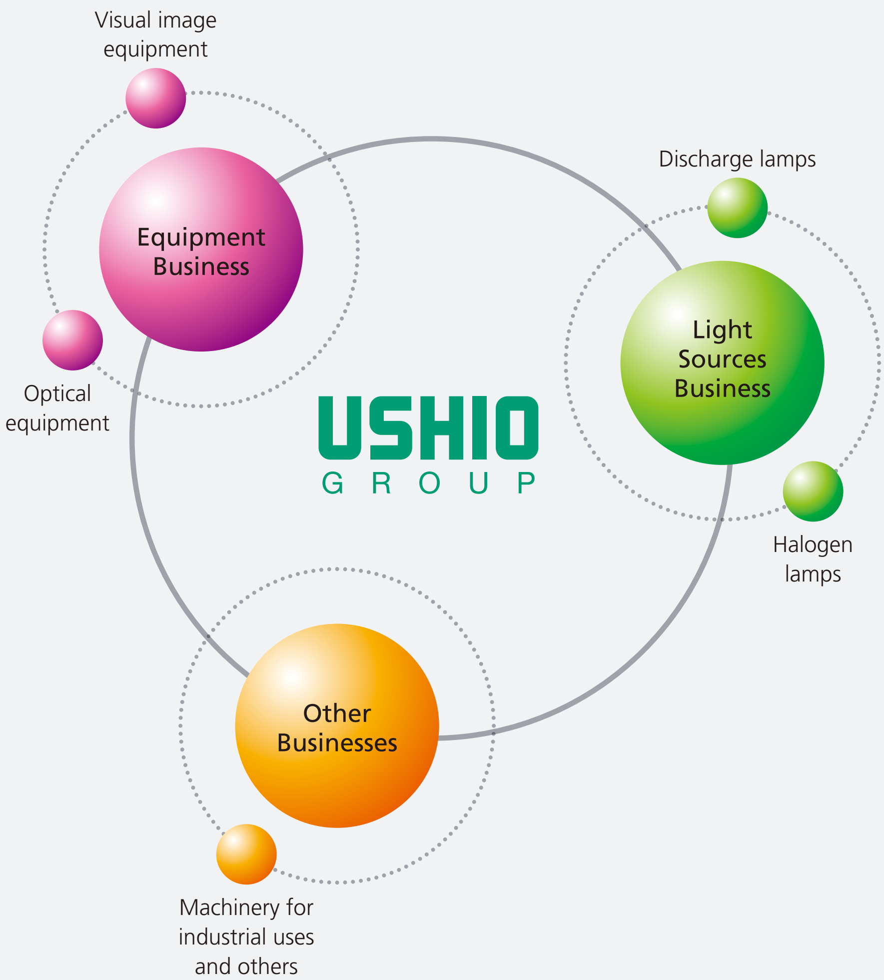
USHIO Lighting—Edge Technologies

WHERE WE STAND

Contents

Light Creator

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, equipment, and systems as well as "light solutions" through developing new light sources and developing and applying proprietary optical technology.



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.

NOW

Performance and Management Targets

Years ended March 31

(Millions of yen)

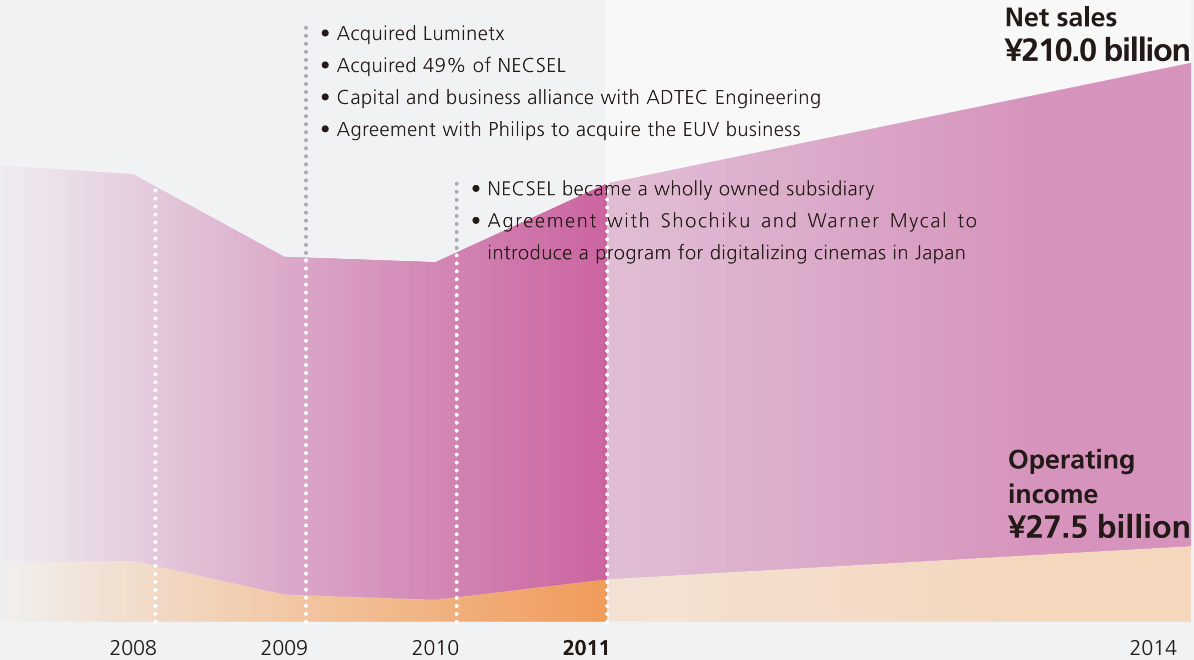
	2009	2010	2011	2014
Net sales	120,846	119,079	**145,125**	
Operating income	8,963	7,262	**14,034**	
Ordinary income	9,991	9,290	**17,362**	
Net income	3,481	7,071	**9,577**	
Free cash flow	8,678	6,284	**6,711**	
Total assets	184,401	202,119	**217,292**	
Net assets	145,774	156,685	**157,867**	
Return on Equity (ROE) (%)	2.3	4.7	**6.2**	

Numerical Targets

Net sales	¥210.0 billion
Operating income	¥ 27.5 billion
ROE	At least 10%

Key Business Strategies

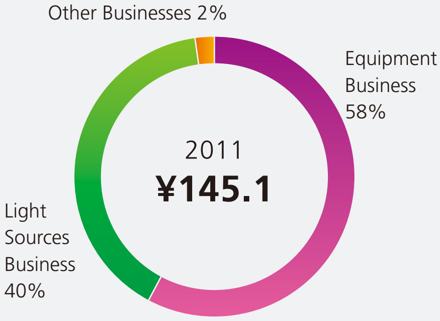
1. Aiming at steady growth of digital cinema business and further development of non-cinema business
2. Reinforcing the development of leading-edge photo lithography and promotion of its business
3. Promotion of solid-state lighting business
4. Developing the product lineup for LCDs, semi and fine PCB markets
5. Focusing on environment-friendly business
6. Promotion of business alliances, joint ventures, and M&A



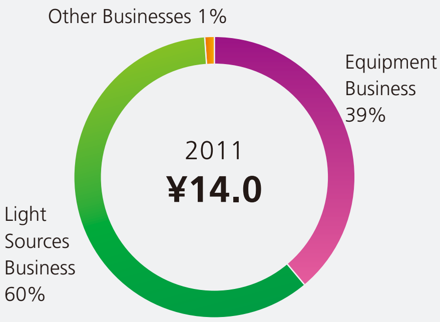
Business Overview

Years ended March 31

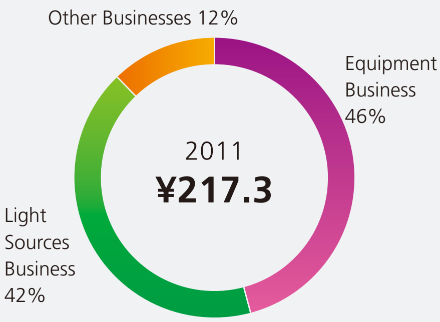
Breakdown of Sales
(Billions of yen)



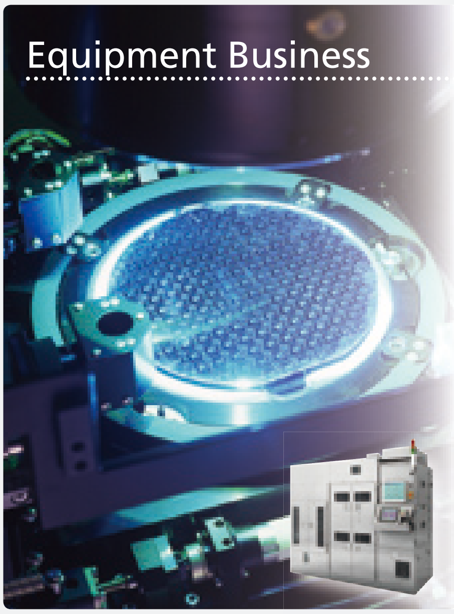
Breakdown of Operating Income
(Billions of yen)



Breakdown of Assets
(Billions of yen)



Segments	Sub-segments and Main Products



Equipment Business

Visual image equipment
- Digital projectors for cinemas
- Digital projectors for non-cinema applications (control rooms, simulators, signage, virtual reality, and others)

Optical equipment
- Optical equipment for manufacturing semiconductors, flat panel displays and electronic components (exposure systems, photo-cleaning units, photocuring systems, and others)
- UV phototherapy devices and other medical equipment
- EUV light sources for next-generation semiconductor lithography

Light Sources Business

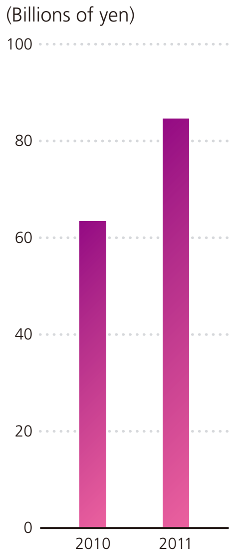
Discharge lamps
- UV lamps for manufacturing semiconductors, flat panel displays, and electronic components
- A range of lamps and industrial LEDs for use in cinema projectors, data projectors, office equipment, illumination, and other optical equipment

Halogen lamps
- For use in office equipment
- For illumination applications (commercial facilities, stage and studio lighting, specialized lighting, and others)
- Halogen heaters

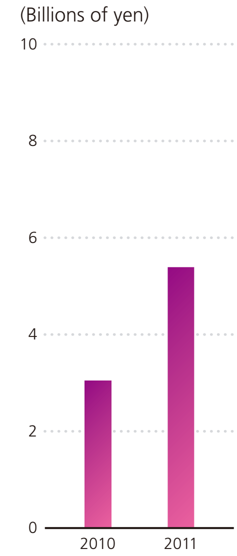
Other Businesses

Machinery for industrial uses and others
- Plastic forming applications, peripheral machinery
- Industrial machinery and systems

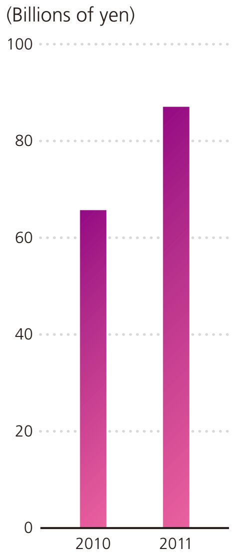
Sales



Segment Income



Segment Assets



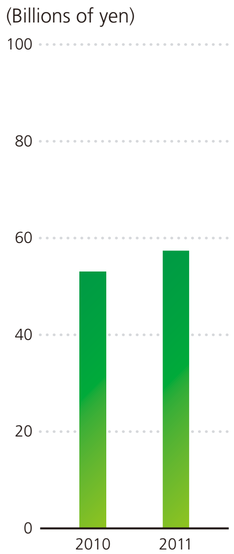
Key Strengths

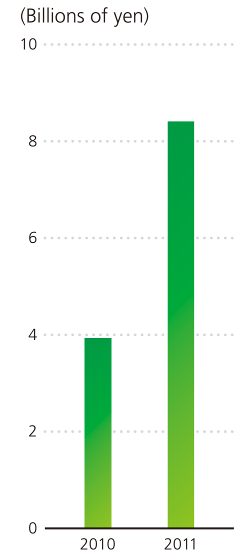
Visual image equipment

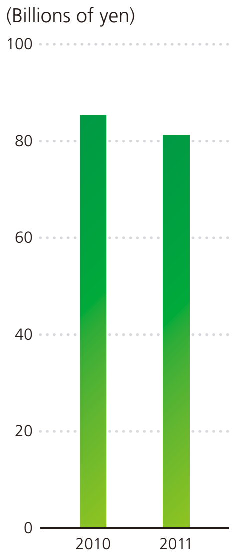
- Global market share for digital cinema projectors **45%**

Optical equipment

- Global market share for UV curing equipment for bonding LCD panels **70%**
- Global market share for step-and-repeat projection lithography tool for flip chip substrate **95%**
- Global market share for roll to roll projection lithography tool for TAB/COF **100%**





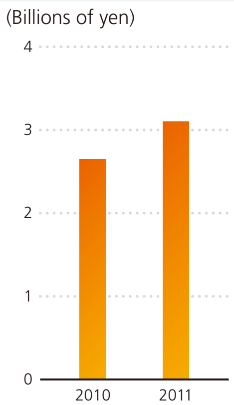


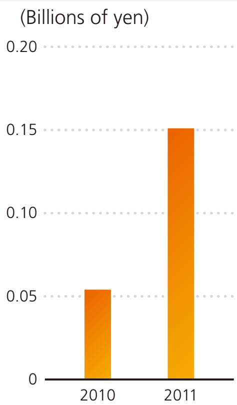
Discharge lamps

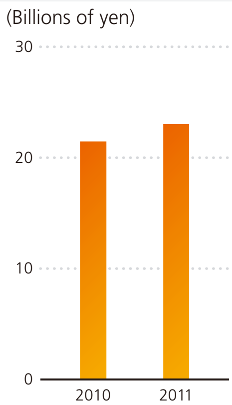
- Global market share for UV lamps for lithography **75%**
- Global market share for surface cleaning equipment for LCD panels **85%**
- Global market share for lamps for cinema projectors **55%**
- Global market share for lamps for document scanners **70%**

Halogen lamps

- Global market share for lamps for fixing toners **65%**







Source: USHIO

Interview with the President

Originally a manufacturer of industrial light sources, USHIO has grown over the years into a global organization that supplies light sources and equipment as well as comprehensive "light solutions." Many of our products rank first in their respective markets.

We will continue to focus on "light" as we work to establish an even stronger competitive position in the coming years.

Performance in fiscal 2010 returned to almost the same as prior to the start of the global financial crisis in the fall of 2008. There are many reasons for this accomplishment: progress in the creation of new products continued despite challenging market conditions; USHIO reorganized operations and performed marketing activities in a manner that closely reflected customers' needs; and relentless cost-cutting measures throughout the group further contributed to the strong growth in sales and earnings.

In this section, President and CEO Shiro Sugata discusses performance in the past fiscal year along with the USHIO Group's initiatives based on our Medium-Term Vision for the three-year period ending in March 2014.

Results of Operations

Q1 What is your view of USHIO's performance in the past fiscal year and your operating environment?

A1 Net sales totaled ¥145.1 billion, operating income was ¥14.0 billion and net income was ¥9.5 billion. I believe this brought us back to roughly the same point as before the global financial crisis. In the fiscal year that ended in March 2008, our sales were ¥148.1 billion, operating income was ¥20.0 billion, and net income was ¥15.4 billion. But this does not mean that our markets have simply returned to what they were. The needs of our customers have changed in many ways during this recovery. Furthermore, our group made significant cuts in our fixed expenses. Overall, the result was growth in sales and earnings compared with the previous fiscal year.

• The new requirements of our customers

One major shift in our customers' needs was triggered by the reaction to the Lehman bankruptcy. Corporate customers reexamined their product lineups and manufacturing processes as the crisis caused demand for some products to disappear. Quality-related demands for our products changed significantly as a result. We met the new needs of customers by supplying the products they require and entering new business fields. In addition, we reorganized our business units by switching to an organization based on markets rather than products. New Business Development Office was also established as part of this reorganization. We now have an operating structure with outstanding flexibility. These actions were instrumental to the current strong performance of several important product categories, particularly equipment for FPD production and exposure systems for LED production.

Strong growth in our Visual image equipment sub-segment was another highlight of the past fiscal year, particularly for digital cinemas because of the worldwide popularity of 3-D movies. The economic recovery after the global financial crisis was one reason for this growth. Another was the switch to digital cinemas that occurred as this recovery took place. Our earnings growth reflects our skill in capitalizing on the resulting opportunities.

Financial Performance

Years ended March 31 (Millions of yen)

	2007	2008	2009	2010	**2011**
Net Sales	151,495	148,148	120,846	119,079	**145,125**
Operating Income	19,727	20,050	8,963	7,262	**14,034**
Net Income	16,553	15,486	3,481	7,071	**9,577**
Return On Equity (ROE) (%)	10.3	9.4	2.3	4.7	**6.2**

Digital Cinema Projector Sales Drive Growth

Q2 The Visual image equipment sub-segment, which includes digital cinema projectors (DCP), increased to more than half of total sales in the past fiscal year. Do you think the changeover from film to digital projectors will continue?

A2 I believe that eventually almost all cinemas will use digital projection technology. Supply-side needs (movie distribution companies and theaters) and demand-side needs (moviegoers) are both driving this digital transition. Film creates many problems. Theaters need to find storage space for the film and a large number of copies must be produced of each title and shipped to theaters around the world. But a digital movie requires only a small hard disk for storage, and distribution can be achieved via communications networks—another big advantage because no equipment is needed. For movie distribution companies and theaters, the drop in distribution expenses is definitely the greatest benefit of digital technology. Another benefit is that it is environmentally friendly because it obviates the need for film and film processing, as well as physical delivery, thereby helping to reduce resource use and CO_2 emissions. On the demand side, many successful 3-D releases in 2010 fueled a boom in the popularity of 3-D movies, which began about three years ago. Naturally, strong attendance at 3-D movies has made production and distribution companies more interested in supplying these movies. I expect to see this cycle continue over the next several years.

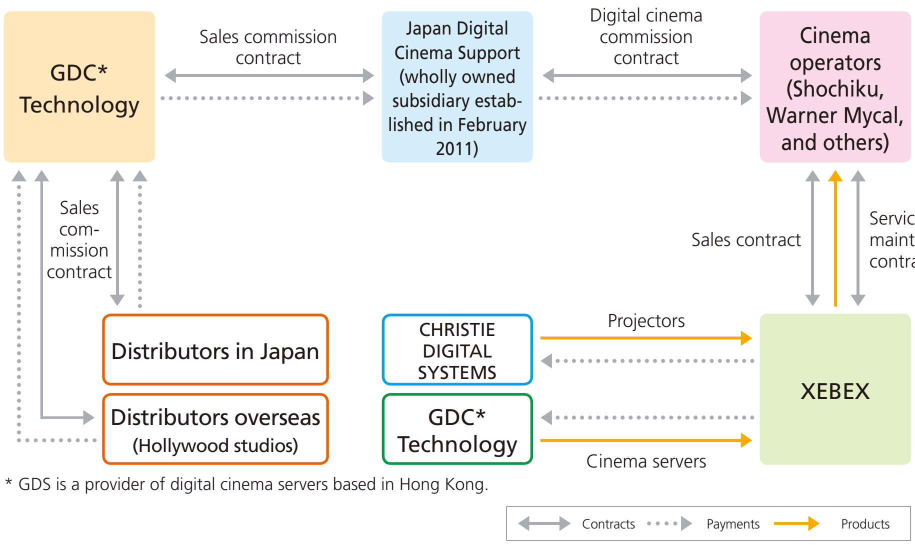
- DCP production starts in China

Use of DCPs is climbing steadily. Within one to two years, the penetration rate will probably be more than 80% in the United States. I expect to see a significant migration to this technology in Japan and Europe, too. At the USHIO Group, CHRISTIE DIGITAL SYSTEMS U.S.A., INC. develops, manufactures and sells these projectors. The company started DCP production at a new factory in China in summer 2010. With factories in Canada and China, this company is capable of meeting almost all upcoming growth in DCP demand.

Once we pass the peak of the DCP shift in developed countries, we can expect to see demand from the construction of new theaters in China, India and other emerging economies. China's cinema market has been growing since 2010 due to the construction of many multi-screen cinemas. In the United States, which began using digital technology about 10 years ago, demand for replacements and upgrades is also likely to emerge.

Demand for replacement lamps is also likely to be high for the immediate future as our base of installed DCPs continues to grow.

Flowchart for Digitalization of Cinemas in Japan



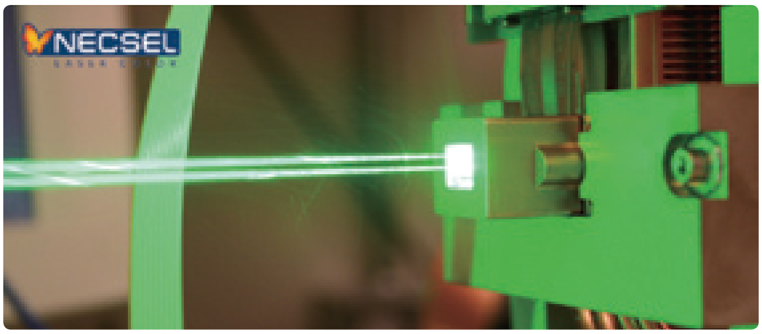
* GDS is a provider of digital cinema servers based in Hong Kong.

- Starting upgrades to digital technology at cinemas throughout Japan

In February 2011 we reached an agreement with SHOCHIKU Co., Ltd. and WARNER MYCAL CORP. on a program to convert all their cinemas in Japan to digital technology, and began installation of digital cinema projectors (DCPs). We are currently in negotiations with other entertainment companies with the aim of further promoting the switch to digital.

- Progress with development of DCP laser

We are currently the world's largest supplier* of DCPs and the xenon lamps these projectors use. But some models will soon be using solid-state light sources instead of xenon lamps. This is why we decided to purchase all shares of NECSEL INTELLECTUAL PROPERTY, INC. in December 2010, making the former equity and business alliance partner a wholly owned subsidiary. R&D is proceeding at NECSEL with the goal of using semiconductor lasers for specialized lighting. DCPs, laser televisions, and data projectors are just a few of the many potential applications for this technology. As an USHIO Group member, NECSEL will accelerate the pace of R&D activities, aiming to introduce a powerful laser for a DCP light source, and a compatible DCP. We will continue to work on solid-state and other new types of light sources to offer our customers in addition to lamps. I want USHIO be the first company to start supplying these new light sources.



- Enlarging sales in markets other than cinema

Demand for projection equipment is growing along with the variety of new applications for it world-wide. These include sports events, control rooms, simulators and many others. At CHRISTIE DIGITAL SYSTEMS U.S.A., INC., the pace of growth is just as robust outside the cinema sector as for the cinema category itself. This is why I believe there are excellent prospects for growth in markets outside of movies too.

*USHIO data

Growth of the Equipment Business

Q3 You started using new business segments in fiscal 2010: the equipment business, the light sources business and other businesses. This change makes it easier to follow USHIO's progress regarding unique equipment categories like exposure systems used in production of LEDs and power semiconductors, and photo alignment-related systems. How have customers responded?

A3 USHIO has always supplied light sources and equipment that uses these light sources. Since we have seen strong growth in equipment sales, we decided to alter our business segments to reflect this. We have now made a clear separation between light sources and equipment, and have started explaining our business in these terms.

On the equipment side, exposure systems used to make LEDs have been posting the strongest growth in sales. Demand has surged since the start of sales in 2010 as we earned a reputation for supplying equipment that significantly improves manufacturing efficiency. Leading manufacturers in many countries and industries have chosen our exposure systems. For photo alignment-related systems, there are several methods for achieving the same functions. We have started supplying systems to match the requirements of each respective process. Flexibility will remain a central theme of the equipment business as we continue to develop new machines for new production processes.

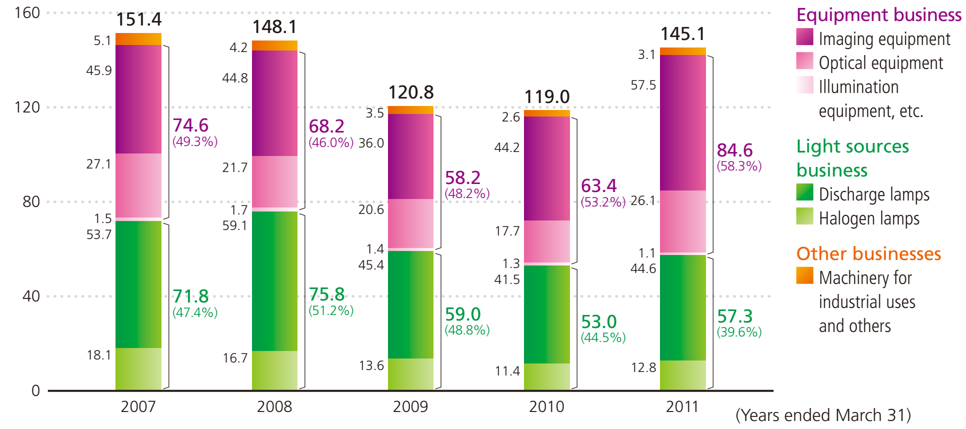
• Light sources for EUV scanners

EUV technology is attracting attention as a light source for steppers. Semiconductor manufacturers use this light in making their most advanced products because of its extremely short wavelength. Forming thinner lines is essential to improving semiconductor performance and memory capacity. With a wavelength of 13.5 nm, EUV is regarded as the ultimate light source for semiconductor technologies, and is expected to play a critical role in future advances in semiconductor manufacturing. We delivered our first EUV exposure system to Imec, a nano-electronics research institute in Belgium, where testing for the start of operations is now under way.* Semiconductor and equipment manufacturers are working together in these tests to develop chips and processes. If the test results are satisfactory the scanner company will start making production-line scanners that incorporate EUV light sources made by USHIO. I expect the first of these scanners to be delivered in the second half of 2012. That means EUV light sources for scanners will probably begin to generate earnings for us two to three years from the first delivery. I believe that this will be the next profit center for USHIO after our DCP business, which is performing very well, and exposure systems and solid-state light sources.

*As of June 2011

Sales by Product

(Billions of yen)



Strategic Acquisitions and Alliances

Q4 There were many acquisitions during the past fiscal year. What are the strategic objectives of these investments?

A4 M&A activity at the USHIO Group has been relatively consistent over the years. But there was a particularly high level of activity during fiscal 2010. We leveraged our financial soundness to take advantage of many opportunities. We purchased the EUV business of Royal Philips Electronics; established a capital and business alliance with ADTEC Engineering Co., Ltd. for the exposure system business; made semiconductor laser manufacturer NECSEL a wholly owned subsidiary; and took many other actions.

Our goal in these activities is to respond to advances in technology and evolving market needs. In particular, we wanted to upgrade our ability to develop solid-state light sources and speed up the development of EUV light sources for next-generation semiconductor lithography. We may even step up acquisitions and alliances. I regard these measures as effective ways of quickly adding new technologies and markets, including in the health care and biotechnology sectors, to our Group's operations.

Recent Acquisitions and Alliances

		Country	Goal
July 12, 2007	CHRISTIE acquired VISTA CONTROL SYSTEMS	U.S.	Combined CHRISTIE's projector technology with VISTA's image processing system technology
Oct. 30, 2007	Agreement with Philips and JENOPTIK Laser to co-develop EUV light source	Germany	Development of DPP EUV light source
Jan. 31, 2008	Investment in EPITEX	Japan	Manufacture and sale of LEDs
May 26, 2008	XTREME became a wholly owned subsidiary	Germany	R&D for EUV light sources
July 13, 2009	Acquired 49% of NECSEL	U.S.	Development of high-output semiconductor lasers
Jan. 19, 2010	Acquired Luminetx	U.S.	Added a biometrics business to the group
Apr. 26, 2010	Agreement with Philips to acquire the EUV business	Germany	Reinforce development of DPP EUV light sources
May 19, 2010	Capital and business alliance with ADTEC Engineering	Japan	Become more competitive in the exposure systems business
Dec. 27, 2010	NECSEL became a wholly owned subsidiary	U.S.	Reinforce development of high-output semiconductor lasers

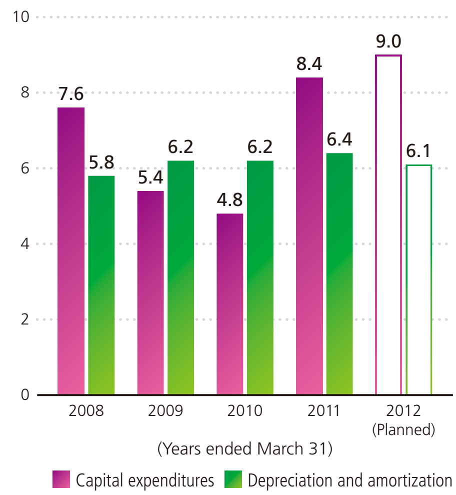


R&D Activities

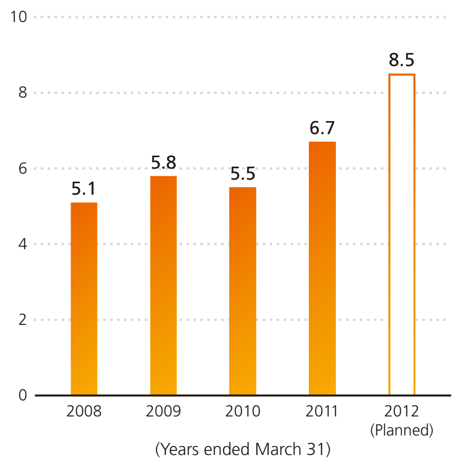
Q5 Supplying new products that always reflect market needs requires a strategic perspective and consistent creation of products with high added value. R&D is vital to accomplishing this. What are the priorities of USHIO's R&D activities?

A5 R&D expenses were ¥5.5 billion in fiscal 2009 and ¥6.7 billion in fiscal 2010. We are continuing to concentrate resources on the development of EUV light sources. However, we recognize that the solid-state light source market is beginning to emerge sooner than the market for EUV light sources. This is why we plan to increase our expenditures for laser diodes, LEDs and other solid-state light sources starting in the current fiscal year. White LEDs for ordinary illumination requirements are attracting much attention now. USHIO's goal is to make devices that deliver illumination along with added value by producing light that enhances the beauty and vitality of a particular space. Another R&D theme is ultraviolet and infrared products for industrial use. Solid-state light sources will almost certainly be used in industrial applications, too, so this will be another focus of our R&D activities. In 2008, we invested in EPITEX, a manufacturer of infrared LEDs, to upgrade our solid-state light source operations by enlarging the LED R&D team. However, compared with households, industrial users will probably take more time to switch over to LEDS. I think companies will continue to use lamps for applications that require high energy output.

Capital Expenditures/Depreciation and Amortization
(Billions of yen)



R&D Expenses
(Billions of yen)





Environmental Protection and Business Activities

Q6 What is your stance regarding environmental programs and business activities?

A6 Naturally, USHIO has taken extensive measures at factories to reduce our impact on the environment. We also have a strong commitment to making environmentally responsible products. Since our inception, we have been constantly seeking ways to produce light more efficiently and make light sources with longer replacement cycles. To achieve these goals, R&D activities focus not only on light sources, but also on power supplies and all other components needed by an illumination device. In addition, we are planning to work on modules used for manufacturing solar cells. Disinfection and water purification are two more fields associated with the environment, where light will become more important. Growth in ways to use light in environmental applications like these will create many opportunities for the USHIO Group.

Effects of the March 2011 Earthquake and Tsunami on Performance

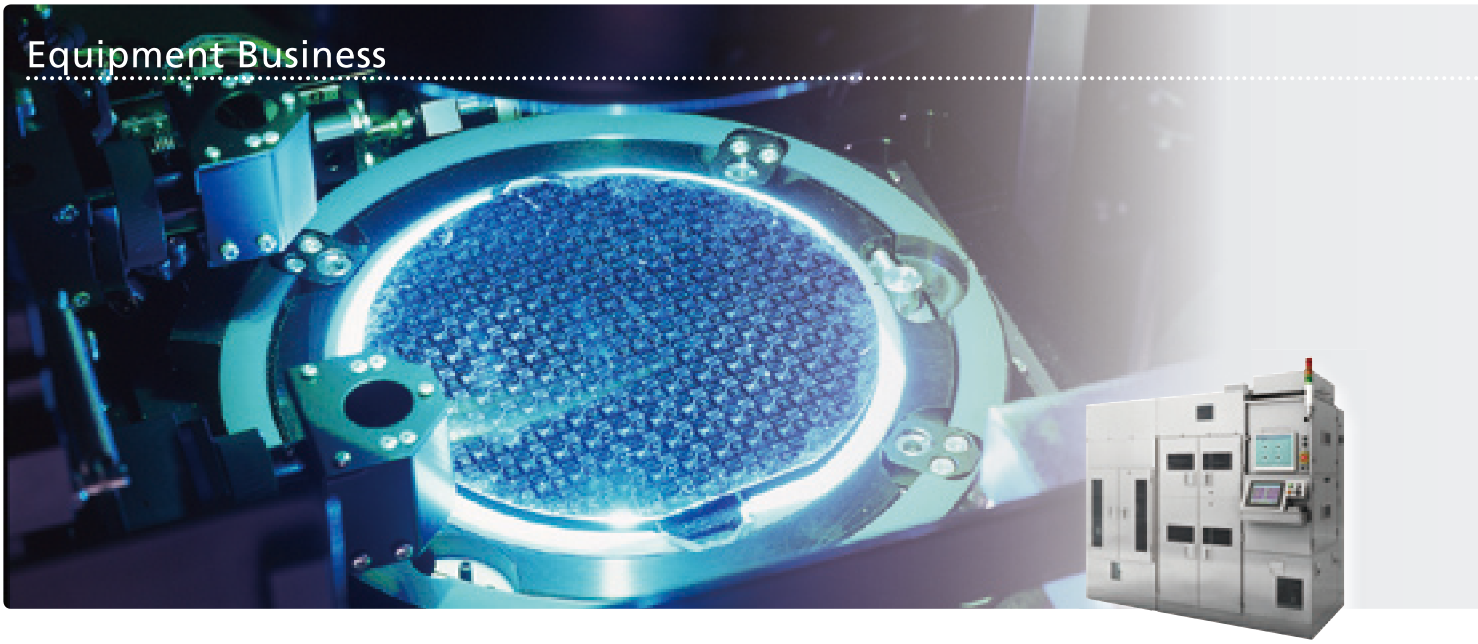
Q7 Please describe the direct and indirect effects of the Great East Japan Earthquake and ensuing tsunami on the USHIO Group.

A7 Fortunately, no employees of the group were injured and damage to our buildings and equipment was minimal. But this disaster revealed that the Tohoku region, which is where the earthquake occurred, accounts for a surprisingly large share of Japan's output of capacitors, ICs, and other key components used in a broad range of products. Even one missing part can prevent us from assembling a product that may use hundreds or even more than one thousand parts. We will continue to closely monitor our supply chain in order to deal with this problem.

After factoring in the anticipated effect of the disaster at this time, we forecast sales of ¥175.0 billion and operating income of ¥16.5 billion in the fiscal year ending in March 2012.

Overview of Operations by Segment

Equipment Business



Results of Operations

The Equipment segment achieved growth in sales and earnings. Sales to external customers increased 33% to ¥84,627 million and accounted for about 60% of total sales. Sales were up 30% in the Visual image equipment sector and 47% in the optical equipment sector. Operating income climbed 77% to ¥5,403 million.

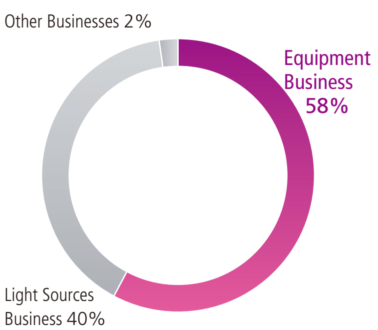
Market Overview

The market for LCD, semiconductor and electronic component manufacturing equipment was negatively affected by a brief drop in production of LCD panels and falling DRAM prices. However, conditions favored investments in production facilities for small and midsize LCD panels, chiefly for use in smartphones and tablet PCs. In China, demand for this manufacturing equipment remained strong even as some companies postponed capital expenditures.

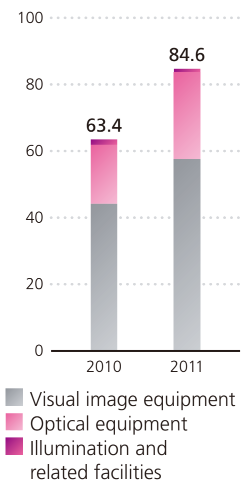
In the imaging equipment market, DCP sales volume surged by almost 170% over the previous fiscal year as more cinema operators worldwide started using digital projector technology. In addition, sales of the recently introduced MicroTiles™ digital signage system have been generally in line with expectations.

Main Indices

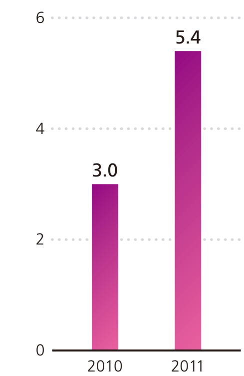
Breakdown of Sales
2011



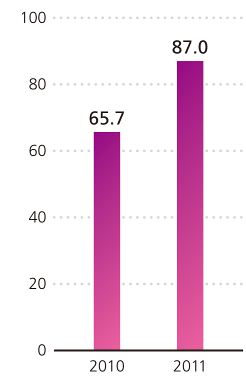
Sales
(Billions of yen)



Segment Income
(Billions of yen)



Segment Assets
(Billions of yen)



Main Products

Visual image equipment

- Digital projectors for cinemas
- Digital projectors for non-cinema applications (control rooms, simulators, signage, virtual reality, and others.)

Optical equipment

- Optical equipment for manufacturing semiconductors, flat panel displays and electronic components (exposure systems, photo-cleaning units, photocuring systems, and others)
- UV phototherapy devices and other medical equipment
- EUV light sources for next-generation semiconductor lithography

Quantitative Targets for the Equipment Segment under the Medium-Term Vision

	2011 (actual)	2012 (planned)	2013 (planned)	2014 (planned)
Visual image equipment	¥57.5 billion	¥72.5 billion	¥73.0 billion	¥74.5 billion
Optical equipment	¥26.1 billion	¥38.5 billion	¥45.5 billion	¥54.5 billion

By geographic segments, sales in North America were up sharply and there were large increases in operating income in Japan and North America. Improving profitability of optical equipment in Japan and visual image equipment in North America was behind the growth in earnings.

Outlook for the Fiscal Year Ending March 31, 2012

The outlook for LCD panels is positive due to the high volume of output and investments for small and midsize panels for smartphones and tablet PCs. However, the possibility of a steep drop in LCD panel prices is creating concerns and some panel manufacturers are cutting back production. In China, demand for equipment for manufacturing LCD panels is expected to remain solid, although some companies may push back delivery times.

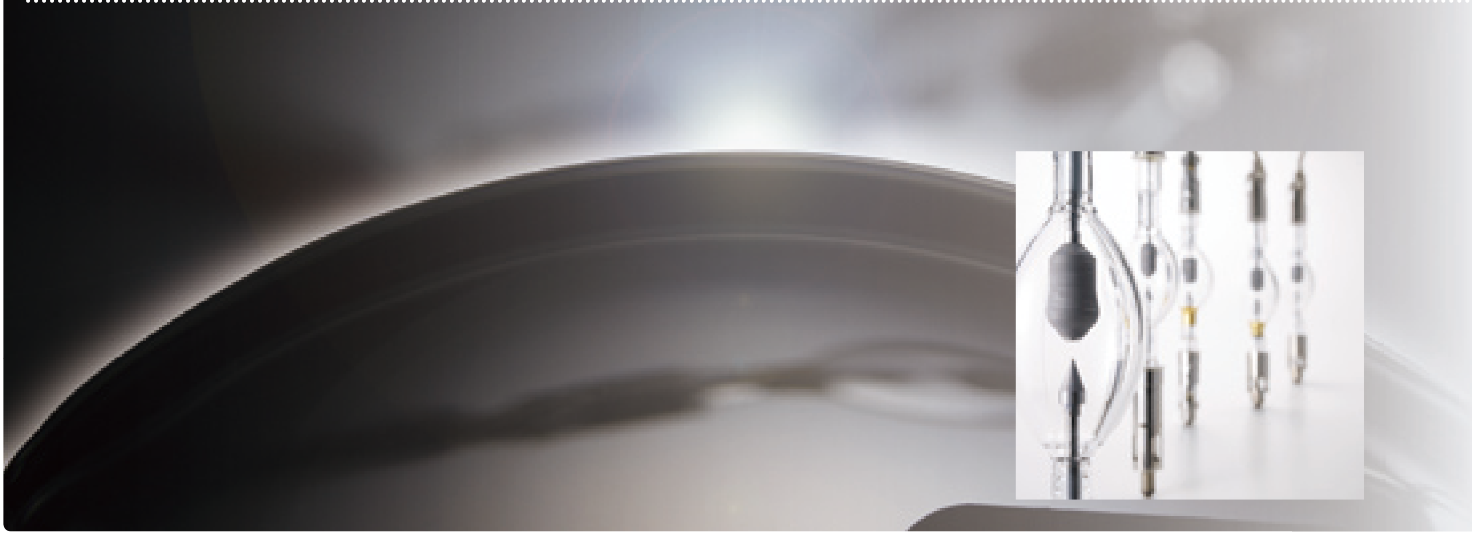
In the visual image equipment industry, growth of about 50% is anticipated in the sales volume of DCPs as demand continues to climb rapidly. The outlook is bright outside the cinema sector as well with sales volume of MicroTiles™ expected to increase by about 50%.

COLUMN

Program for Digitalization of Cinemas in Japan

USHIO has reached an agreement with SHOCHIKU Co., Ltd. and WARNER MYCAL CORP. to introduce a program for the conversion of all theaters operated by these companies to digital technology. To conduct this program, USHIO established a wholly owned subsidiary called JAPAN DIGITAL CINEMA SUPPORT INC. Installation of DCPs through the program is already under way. By the end of 2012, Shochiku and Warner Mycal expect that all their cinemas will use digital technology. Negotiations are under way with other cinema operators in Japan with the aim of switching even more cinemas to digital technology.

Light Sources Business



Results of Operations

Sales and earnings were higher in the Light Sources segment. Sales increased 8% to ¥57,393 million, accounting for approximately 40% of total sales to external customers, and operating income was up 111% to ¥8,411 million.

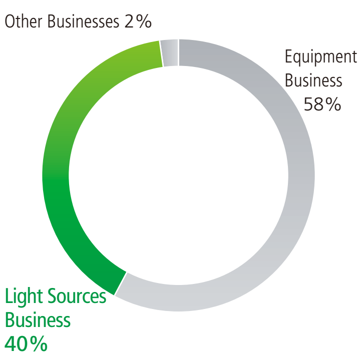
Market Overview

Production equipment for semiconductors, FPDs and electronic components are a major market for light sources. In the past fiscal year, demand was negatively impacted by a temporary reduction in output of LCD panels for TVs and a drop in the price of DRAMs. However, conditions favored investments in production facilities for small and midsize LCD panels, chiefly for use in smartphones and tablet PCs. Furthermore, demand was strong for UV lamps used in equipment for making semiconductors, FPDs, and printed circuit boards. Steadily growing demand in China is another source of strength in the light sources market.

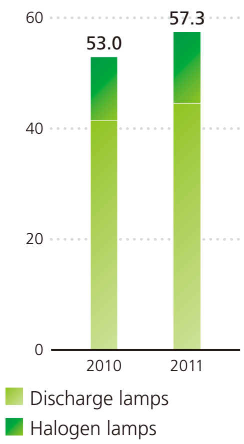
Sales of xenon lamps for DCPs increased almost 50% as theaters worldwide continue to switch to digital projector technology. The market for data projector lamps has started to recover after the downturn sparked by the global financial crisis that followed the Lehman bankruptcy.

Main Indices

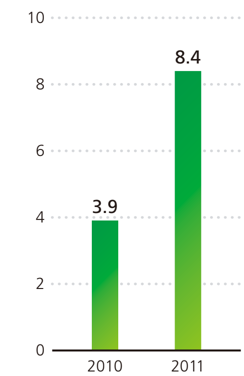
Breakdown of Sales
2011



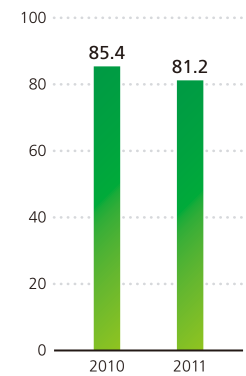
Sales
(Billions of yen)



Segment Income
(Billions of yen)



Segment Assets
(Billions of yen)



Main Products

Discharge lamps

- UV lamps for manufacturing semiconductors, flat panel displays, and electronic components
- A range of lamps and industrial LEDs for use in cinema projectors, data projectors, office equipment, illumination, and other optical equipment

Halogen lamps

- For use in office equipment
- For illumination applications (commercial facilities, stage and studio lighting, specialized lighting, and others)
- Halogen heaters

Quantitative Targets for the Light Sources Segment under the Medium-Term Vision

	2011 (actual)	2012 (planned)	2013 (planned)	2014 (planned)
Discharge lamps	¥44.6 billion	¥47.5 billion	¥53.5 billion	¥63.0 billion
Halogen lamps	¥12.8 billion	¥12.0 billion	¥13.0 billion	¥13.0 billion

However, sales of these lamps were down 15% as sales increased in the past fiscal year's first half but weakened on adjustment in the second half. Sales of halogen lamps for office equipment increased almost 10%, the combination of a first half recovery followed by a drop in second-half sales.

Outlook for the Fiscal Year Ending March 31, 2012

In the LCD sector, there are concerns about falling prices of LCD panels and lower production by some LCD panel manufacturers. But substantial output volume is expected for small and midsize panels for smartphones, tablet PCs and other products. Furthermore, demand for UV lamps is likely to remain high in China. In the semiconductor market, orders for UV lamps are expected to remain solid, primarily for use in equipment for making NAND flash memory chips. On the other hand, lower DRAM prices and other factors are sources of uncertainty about the outlook.

The forecast for growth of about 50% in DCP sales in the fiscal year ending in March 2012 indicates that orders for the xenon lamps used in these projectors will remain high.

In the market for office equipment, demand for lower-priced products is on the increase as emerging countries account for a growing share of this market.

The impact of the March 2011 earthquake and other factors make the outlook for this market uncertain in some respects.

COLUMN

The World's First Full/Half Lighting System—An Environmental Technology for Super High-pressure UV Lamps

Super high-pressure UV lamps are used in many types of exposure systems as a light source for lithography to make semiconductors, LCD panels and printed circuit boards. USHIO has succeeded in developing a full/half lighting system that allows switching a super high-pressure UV lamp between 100% output for normal operation and a 50% standby mode. Adding this capability cuts power consumption, and thus the associated CO_2 emissions, by 40% with no adverse effect on the lamp's performance.

Furthermore, by reducing heat radiated from the lamp, this technology will help cut the total cost of lithography by making it possible to use smaller exposure systems and cooling units.

Corporate Governance and Ethics

There are two central objectives for corporate governance at the USHIO Group. One is ensuring the transparency and efficiency of the Group's management. The other is increasing corporate value to meet the expectations of all of the Group's stakeholders. These objectives rank among the Group's highest priorities.

Corporate Governance Framework

USHIO uses a management structure that includes a Board of Corporate Auditors. Management and administrative responsibilities are divided among three governance units. The first is the Board of Directors, which determines management policies and makes decisions about other matters of the highest importance. The directors also oversee the management of business operations. The second is the representative directors, who are responsible for conducting business operations. The third is the Board of Corporate Auditors, which is responsible for audits.

To assist the Board of Directors in reaching decisions, the USHIO Group has three advisory units that examine and discuss management strategies and medium and long-term management policies with respect to the entire Group. The units are the Executive Council, Group Coordination Council and the Group's executive officers. In addition, the USHIO Group has a business unit structure and an executive officer system for the purposes of strengthening and speeding up the execution of business operations by the representative directors.

Audits by Corporate Auditors

USHIO has a Board of Corporate Auditors with six members that include three outside auditors who are independent of the USHIO Group. The outside corporate auditors are professionals in fields such as finance and auditing. The inclusion of outside corporate auditors makes it possible to perform audits from an objective and neutral perspective.

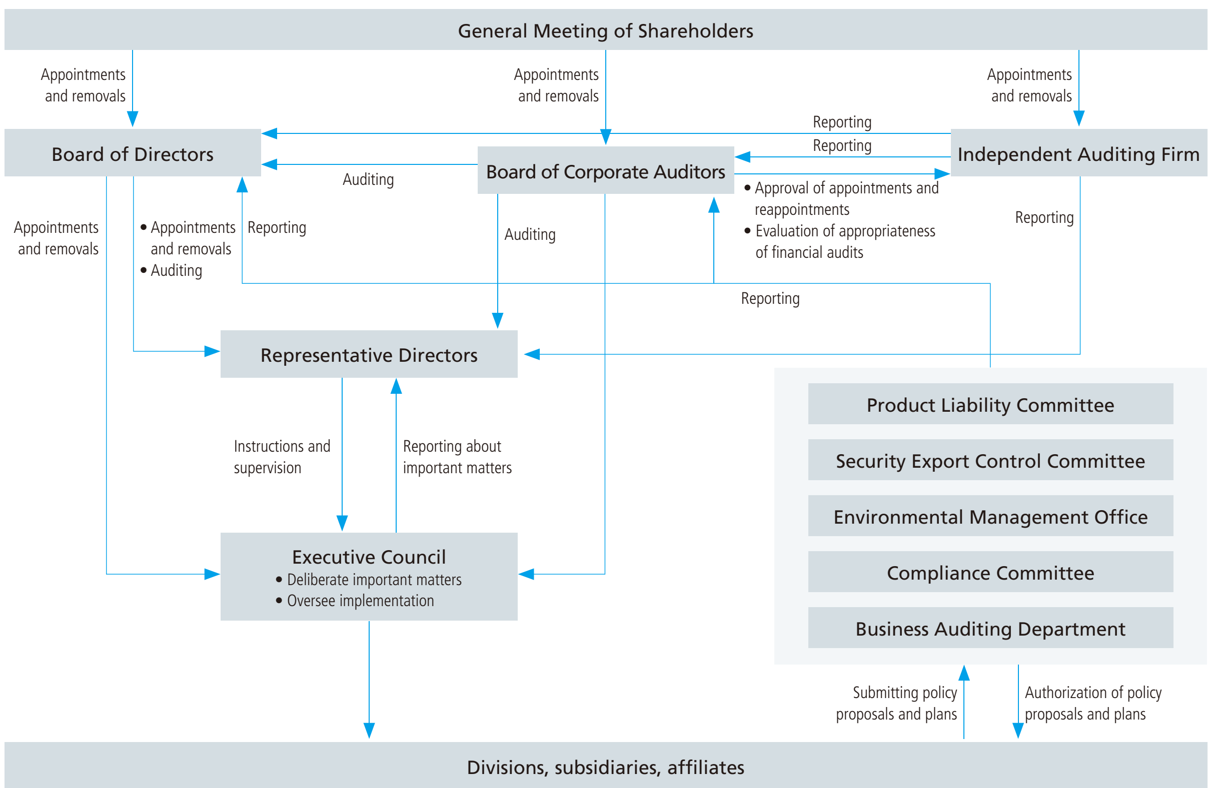
The Board of Directors submits reports concerning legally required items and other matters to the Board of Corporate Auditors. Other matters include items that may have a significant impact on the entire Group, important items concerning monthly business operations, the status of internal audits and other information that should be reported.

The independent auditor submits an annual auditing plan to the Board of Corporate Auditors and explains its specific auditing objectives to the corporate auditors. In addition, the independent auditor provides the corporate auditors with reviews of quarterly and year-end financial reports as well as reviews of the financial audits and summaries of audit results. This forms the basis for periodic meetings of the independent auditor and Board of Corporate Auditors.

Internal Audits

USHIO's Business Auditing Department functions as an internal auditing unit independent of departments engaged in business operations. The Business Auditing Department submits an annual auditing plan to the Board of Corporate Auditors and explains its specific auditing objectives to the corporate auditors. The department also submits reports to the Board of Corporate Auditors about the results of internal audits. As required, members of the Business Auditing Department hold meetings with the corporate auditors and cooperate in other ways as necessary.

USHIO's Internal Control Framework



Compliance

USHIO has established 10 Action Guidelines in order to define standards for conduct that require everyone at the Group to comply with laws, regulations, the Articles of Incorporation and ethical standards. The Compliance Committee is responsible for ensuring that employees observe these guidelines. The Business Auditing Department and Compliance Committee jointly perform audits to monitor the status of compliance and submit audit reports as necessary to the Board of Directors and Board of Corporate Auditors. Furthermore, the directors and corporate auditors can view information involving the performance of the directors at any time. Providing this access allows these individuals to take timely and appropriate actions as required.

To reinforce awareness of the importance of compliance, all Group companies use USHIO's standards for behavior and other guidelines and the Business Auditing Department performs audits of Group companies.

The USHIO Hotline

The USHIO Hotline has been in operation since October 2006. All Group employees can use this hotline for direct communications with individuals outside the Group with regard to workplace violations of laws and regulations, internal rules, ethics and other standards for behavior. Employees can use the hotline for consultation, too. The hotline allows for quickly discovering and eliminating improper behavior and provides access to consultations while protecting individuals who use the hotline from any negative consequences.

Compliance Education

USHIO has training programs to cover the specialized skills needed by new employees who are recent graduates, mid-career professionals, individuals who have been newly appointed to a management position, and others. There are also training programs devoted solely to compliance.

Risk Management

The USHIO Group must deal with risks associated with compliance, the environment, product quality, finances, legal matters, natural and other disasters, information management, export controls and other aspects of business operations. We prepare rules and guidelines, give employees specialized training, distribute manuals and take other actions. Directors and executive officers are given responsibility for responding immediately to any newly emerging risks. When a problem occurs that is likely to result in significant losses, a report must be submitted immediately to the Board of Directors by the director or executive officer with responsibility for the problem.

For market risk associated with securities and other financial instruments, we manage risk by establishing and enforcing market risk management regulations.

Information Security and Protection of Personal Information

USHIO acquires and holds a variety of information in the course of conducting its business operations. We are well aware of the importance of safeguarding information about customers and suppliers, personal information, confidential business information and other important information. We have established rules for the proper handling of this information. There are stringent requirements concerning the protection of confidential information, whether the information is internal or about a customer or business partner. Another priority is compliance with Japan's Personal Information Protection Law. To reinforce everyone's commitment to complying with this law and ensure its effective enforcement, all USHIO departments use a cycle of self-assessments to determine the status of compliance and carry out continuous improvements based on these assessments.

IC cards are one way that the USHIO Group protects information. We use these cards to keep track of when employees enter and leave particular rooms and record their working hours. IC cards restrict access to sensitive areas and keep records of when employees enter these areas. This system helps prevent unauthorized access to important information. Using servers for the centralized oversight of computer software assets and computer virus protection is another measure that protects information. Collectively, these steps upgrade our ability to manage information while reducing the amount of time and resources needed. For confidential information received from customers and business partners, we have regulations covering every step from the receipt and storage of information to its ultimate disposal. We perform periodic checks of the system. Customers and business partners perform on-site confirmations of our information security measures. We study the results of these confirmations to reexamine and reinforce information security measures and how they are used.

Compliance with Export Controls

Compliance with laws and regulations for exports is based on the Internal Rules for Compliance with Export Controls and Security Export Controls Committees are responsible for putting the required measures in place. In addition, USHIO took the following new actions during the past fiscal year.

- Established a fundamental policy and code of behavior for export controls.
- Determined major objectives and targets in order to translate the export control fundamental policy and code of conduct into actions.
- Established three specialized task forces in order to examine specific issues and take the necessary actions.
- Held regularly scheduled meetings of the Export Controls Group Liaison Conference to centralize oversight of export controls for all Group companies.
- Started using a search system for parties requiring special attention and reinforced customer management activities across the entire Group.
- Established the Joint Council of Security Export Controls Committees for sharing information and standardizing export control processes and making them more efficient. The objective is to resolve export control problems and other issues among USHIO employees and business sites.

Sustainability

We have articulated our management philosophy in four key emphases, as summarized below. Those emphases are the basis for all our measures for shaping our behavior as a corporation and as individual employees.

USHIO GROUP
MANAGEMENT PHILOSOPHY

①
Build both a prosperous Company and prosperous employees.

②
Deliver products and services that are competitive in the global market.

③
Contribute to society through superior products and innovative research and development.

④
Expand profits, corporate responsibility, and competitiveness through open and free-thinking business operations.

10 Action Guidelines

To translate our management philosophy into concrete action, we abide by the 10 Action Guidelines listed below. These guidelines shape the goals and behavior of every USHIO employee.

10 Action Guidelines

Chapter 1
We shall aim to be a company that accepts diverse individual qualities and values and where people work together and pursue self-learning and self-improvement.

Chapter 2
We shall strive for the company's sustainable growth through our innovative, proactive and prompt management.

Chapter 3
We shall respect the basic human rights of all individuals and endeavor to create bright, safe and pleasant working environment.

Chapter 4
We shall provide high-quality, safe products and services at appropriate prices and carry out fair and equitable business transactions.

Chapter 5
We shall work to earn the understanding and trust of society.

Chapter 6
We shall comply with laws and regulations and carry out fair business activities in accordance with socially accepted practices.

Chapter 7
We shall fulfill our duties to the best of our abilities in conformity with internal regulations and standards.

Chapter 8
We shall promote environmental protection and the efficient use of resources.

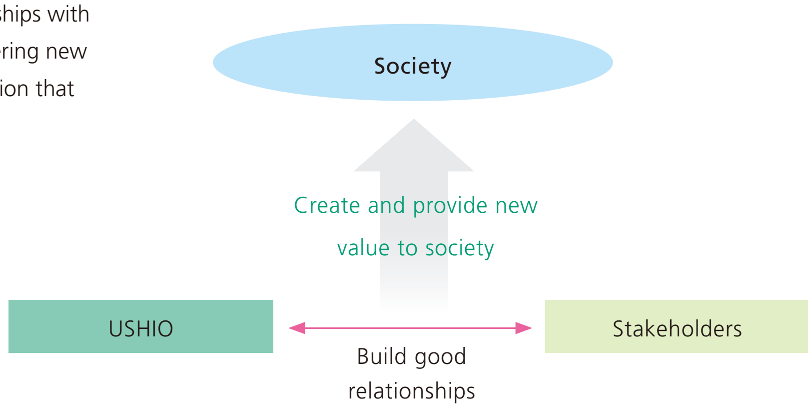
Chapter 9
We shall carry out proactive public relations activities while respecting the value of information and intellectual property rights of third parties.

Chapter 10
We shall contribute to the development of respective regions where we conduct business as a member of the international community.

Approach to Corporate Social Responsibility (CSR)

We consider it natural that a corporate citizen should observe laws and regulations, contribute to society, and take steps to protect the environment. These are the foundations of all corporate activity.

In addition, a corporation should build good relationships with its various stakeholders and advance by creating and offering new value to contribute to society. This is the kind of corporation that USHIO is working to become.



Major Activities

United Nations Global Compact's Ten Principles

USHIO has declared its support for the United Nations Global Compact of principles concerning human rights, labor, the environment and anti-corruption. We have joined the local UN network supporting the compact, Global Compact Japan Network, and have taken an active role in various sectional activities.

WE SUPPORT

United Nations Global Compact's Ten Principles

Human Rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.
Labor	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labor; Principle 5: the effective abolition of child labor; and Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Inclusion in Socially Responsible Investment Indices*

The USHIO Group is dedicated to promoting CSR activities in order to achieve sustainable corporate development. In recognition of our environmental programs, measures to protect human rights, and other activities, the United Kingdom-based FTSE International Limited** has included USHIO in its FTSE4Good Index of socially responsible companies for eight consecutive years starting in 2004.

*Socially responsible investments (SRI)
Socially responsible investments (SRI) are investments in companies with a strong dedication to fulfilling their social obligations. In addition to reflecting a company's financial performance, SRI investment decisions take into account community activities, environmental programs and other forms of corporate social responsibility.

**FTSE
FTSE is an independent company jointly owned by The Financial Times and the London Stock Exchange. FTSE manages the FTSE Global Equity Index Series and the FTSE 100 Index.

Response to the Great East Japan Earthquake

The USHIO Group extends is deepest sympathies to all those affected by the Great East Japan Earthquake of March 11, 2011. We hope for the quickest possible recovery in affected areas.

USHIO responded to the earthquake by immediately establishing a Disaster Response Headquarters and working as a group to gather information and respond as needed. Fortunately, no employees in Japan were injured or suffered any physical losses, and Group companies were quickly able to recover despite slight damage sustained to production facilities. The USHIO Group's first priority was to ascertain the safety of its employees. The Group then began sending relief funds to affected areas via various organizations and working to rebuild supply chains and respond to rolling blackouts caused by power shortages in the wake of the disaster. From April onward, USHIO established an Operation Countermeasures Committee under the president, to make a stronger framework for ongoing cooperation and links in operations companywide.

<USHIO's measures in response to the Great East Japan Earthquake>

- Donated relief funds through the Japanese Red Cross Society and other organizations
- Supported recovery of suppliers in disaster-affected areas and secured relief support items (sent drinking water and relief funds, dispatched delivery trucks, etc.)
- Supported recovery activities for customers in disaster-affected areas and established a product delivery system in line with recovery status.
- Established an Emergency Power-Saving Committee to respond to rolling blackouts due to supply shortages, revised production shifts, reorganized production bases, and implemented measures to reduce fixed power consumption.

For further information about sustainability initiatives at USHIO, please refer to the USHIO Sustainability Report (release planned for September) and our corporate website.

Board of Directors and Corporate Auditors

As of June 29, 2011

Directors

Jiro Ushio
Chairman and USHIO Group Representative

Shiro Sugata
President and Chief Executive Officer

Manabu Goto
Director

Seiji Oshima
Director

Kenji Hamashima
Director

Tadashi Taki
Director

Shiro Ushio
Director

Ryutaro Tada
Director

Hiroaki Banno
Director

Keizo Tokuhiro
Director

Corporate Auditors

Standing Auditors
Susumu Nakaichi
Shigeki Nakayama
Shinichiro Kanzaki

Corporate Auditors
Shuichi Hattori*
Yasusuke Miyazaki*
Kazuo Shiohata*

*Auditors from outside the Company

Financial Section

Contents

11-Year Summary of Consolidated Financial Data

USHIO INC. and Consolidated Subsidiaries
Years ended March 31

	2001	2002	2003	2004
FOR THE YEAR:				
Net sales	¥ 89,137	¥ 81,301	¥ 91,937	¥ 99,081
Overseas sales	37,243	36,763	45,347	48,855
North America	16,921	16,148	19,980	19,514
Europe	6,306	6,894	7,583	7,633
Asia	12,308	11,676	16,495	20,517
Other areas	1,706	2,044	1,289	1,189
Operating Income	15,338	9,775	12,190	15,006
Net income	8,464	1,643	4,651	9,346
Capital expenditures	4,961	4,837	2,693	5,376
Depreciation and amortization	2,603	2,816	2,889	2,748
R&D expenses	3,683	3,557	3,355	3,358
AT YEAR-END:				
Total assets	137,758	149,669	149,390	169,771
Net assets	93,261	106,838	105,582	117,726
CASH FLOWS:				
Net cash provided by operating activities	12,332	7,305	13,394	7,969
Net cash used in investing activities	(5,659)	(7,496)	(6,523)	(9,490)
Net cash used in financing activities	(1,492)	(2,112)	(4,117)	(1,592)
Free cash flows	17,991	(191)	6,871	(1,520)
PER SHARE OF COMMON STOCK (Yen):				
Net income	¥ 60.62	¥ 11.77	¥ 33.14	¥ 67.36
Cash dividends	15.00	13.00	13.00	20.00
Net assets	667.93	765.32	764.94	853.40
KEY FINANCIAL RATIOS:				
Return on equity (%)	3.4	1.6	4.4	8.4
Return on assets (%)	6.5	1.1	3.1	5.9
Asset turnover (times)	0.69	0.57	0.61	0.62
Return on sales (%)	9.5	2.0	5.1	9.4
Operating margin (%)	17.2	12.0	13.3	15.1
Employees (number)	3,394	3,706	3,889	3,971
Net sales per employee	26.3	21.9	23.6	25.0

Notes: 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
Operating margin = Operating income / Net sales × 100
Employees = Total of USHIO INC. and its 44 consolidated subsidiaries.

Millions of yen

2005	2006	2007	2008	2009	2010	**2011**
¥119,159	¥ 129,284	¥ 151,495	¥ 148,148	¥ 120,846	¥ 119,079	**¥ 145,125**
62,176	72,688	93,847	96,449	78,168	83,240	**105,703**
20,634	29,874	44,135	39,271	27,652	27,513	**35,226**
8,420	10,295	13,187	14,731	14,209	15,945	**21,248**
31,859	31,860	35,754	41,329	34,517	37,809	**47,148**
1,260	656	769	1,117	1,789	1,972	**2,079**
20,189	18,501	19,727	20,050	8,963	7,262	**14,034**
13,634	14,895	16,553	15,486	3,481	7,071	**9,577**
12,837	6,810	6,748	7,608	5,415	4,874	**8,416**
3,014	4,763	5,179	5,834	6,280	6,219	**6,476**
4,174	4,645	4,884	5,193	5,877	5,523	**6,787**
187,251	213,027	237,520	216,659	184,401	202,119	**217,292**
129,302	150,533	170,738	162,092	145,774	156,685	**157,867**
12,408	9,397	20,071	15,237	11,873	18,999	**8,390**
(6,473)	(9,762)	(7,227)	(10,041)	(3,194)	(12,714)	**(1,679)**
(1,758)	(3,324)	(10,625)	(85)	(7,588)	(4,760)	**1,081**
5,934	(365)	12,844	5,196	8,678	6,284	**6,711**
¥ 98.89	¥ 107.81	¥ 120.16	¥ 112.96	¥ 25.76	¥ 52.95	**¥ 71.72**
20.00	20.00	24.00	24.00	20.00	20.00	**22.00**
935.80	1,089.67	1,233.65	1,177.77	1,083.63	1,162.26	**1,169.42**
11.0	10.7	10.3	9.4	2.3	4.7	**6.2**
7.6	7.4	7.3	6.8	1.7	3.7	**4.6**
0.67	0.65	0.67	0.65	0.60	0.62	**0.69**
11.4	11.5	10.9	10.5	2.9	5.9	**6.6**
16.9	14.3	13.0	13.5	7.4	6.1	**9.7**
4,755	4,390	4,782	4,681	4,620	4,732	**5,269**
25.1	29.4	31.7	31.6	26.2	25.2	**27.5**

Financial Review

USHIO INC. and Subsidiaries
Years ended March 31

The USHIO Group—comprising the parent company and its 44 consolidated subsidiaries and 4 equity-method affiliates—engages mainly in developing, manufacturing, marketing, and providing ancillary services for light sources, equipment, and machinery for industrial uses. The Group also engages in research and development and provides other services related to its businesses.

Economic Trends and USHIO's Response

In the fiscal year ended March 31, 2011, the Japanese economy was supported by a range of fiscal measures and overseas exports, mainly to Asia. Business conditions began to improve, but concerns lingered over rising oil prices, a strong yen, fluctuation risk in stock markets, progressive deflation, worsening unemployment, and other factors. With the added impact of the Great East Japan Earthquake of March 11, 2011, the future is now clouded with uncertainty. Business conditions in the U.S. are gradually recovering as production and private consumption rise. Here too, however, full recovery is being hampered by a lingering credit squeeze and high unemployment. The overall economy in Europe is recovering, mainly in Germany, but there is a wide variation between European countries and concerns surrounding the financial system persist, along with high levels of unemployment. These threaten to stall the recovering economy. The Asian economy has recovered overall, driven by expanding internal demand in China. The pace of recovery is beginning to slow a little now however.

In this economic climate, a rapid recovery in the LCD panel and semiconductor markets that relate to the USHIO Group was followed by an adjustment in demand for LCD panels and a drop in prices of semiconductors, mainly in DRAM chips. However, there was an increase in demand for new applications, such as smartphones and tablet PCs, which supported the bottom side of both markets. In projector-related markets digital cinema projector shipments increased on the back of expanded worldwide demand driven by the spread of 3-D movies and other factors. Xenon lamps for cinema projectors also sold briskly.

Earnings

Under these conditions, the USHIO Group remained focused on making Group-wide efforts to improve its business results by raising productivity, lowering manufacturing costs, reducing expenses, building and expanding global marketing channels, and promoting the shift of production overseas.

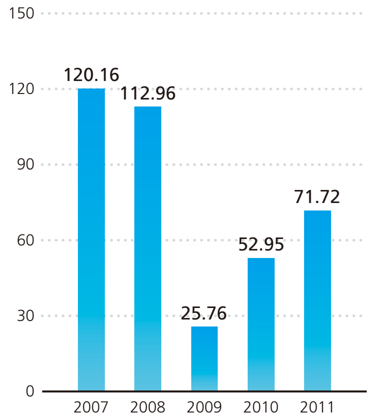
Consolidated net sales rose 21.9% year on year to ¥145,125 million. This was mainly due to increased demand for LCDs and semiconductors on new applications such as smartphones and tablet PCs, and growth in global demand in projector-related markets following the spread of 3-D movies.

Operating income increased 93.2% to ¥14,034 million following efforts to increase productivity and cut costs.

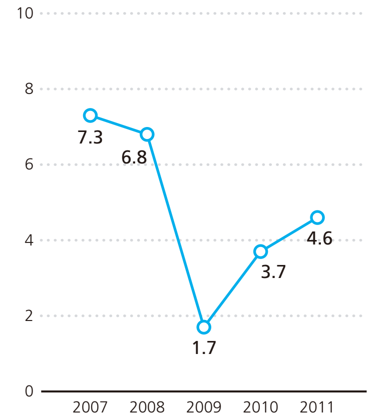
Ordinary income increased 86.9% to ¥17,362 million. The main factors contributing to the increase were recording of gains on investments in equity-method affiliates and gains on sales of investment securities. This was partially offset by an increase in foreign exchange losses, net.

Net income increased 35.4% to ¥9,577 million. The main factors were the significant increase in profits, which outweighed increases in valuation losses on investment securities and income taxes.

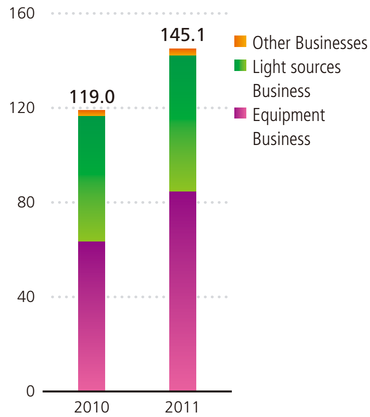
Net Income per Share
(Yen)



Return On Assets (ROA)
(%)



Net Sales
(Billions of yen)



Results by Business Segment

Including internal sales and transfers between segments.

Light Sources Business

Sales in the light sources business were ¥57,498 million, generating operating income of ¥8,411 million. Ultraviolet exposure lamps performed steadily overall despite a temporary adjustment in supply and demand in replacement sales. Xenon lamps for cinema projectors also saw a growth trend as more cinemas switched to digital cinema projectors and 3-D movies spread around the world.

Equipment Business

In the equipment business sales were ¥84,863 million, with segment operating income of ¥5,403 million. In the optical equipment field both new and existing products sold briskly, including LCD panel and semiconductor manufacturing equipment, LED related items, and other electronic component manufacturing equipment. Meanwhile, in visual image equipment, sales of digital cinema projectors increased, and non-cinema products also performed strongly.

Other Businesses

The other business recorded sales of ¥3,182 million and segment operating income of ¥151 million. In industrial machinery products, capital expenditure demand in the injection molding and food packaging markets showed steady growth.

Sources of Funds and Liquidity

Cash flow

Cash and cash equivalents at the fiscal year-end totaled ¥34,954 million, up ¥6,359 million from the previous fiscal year-end. Cash flows are broken down as follows.

Net cash provided by operating activities

Operating activities in the fiscal year ended March 31, 2011 provided net cash of ¥8,390 million (compared with ¥18,999 million in the previous year). The main positive contributions to this result were ¥16,248 million in income before income taxes and minority interests, a ¥6,476 million adjustment for depreciation and amortization and a ¥5,633 million increase in notes and accounts payable. Meanwhile, reducing factors included an increase in inventory assets of ¥14,157 million, and in notes and accounts receivable of ¥4,209 million, and income tax payments of ¥3,717 million.

Net cash used in investing activities

Investing activities used net cash of ¥1,679 million (compared with ¥12,714 million used in the previous fiscal year). The main increase factors were ¥24,430 million in proceeds from time deposits, ¥1,599 million in proceeds from collection of short-term loans receivable, and ¥1,743 million proceeds from redemption and sale of investment securities. The main factors decreasing cash were increase in time deposits of ¥21,901 million, purchases of property, plant and equipment totaling ¥7,231 million, and purchases of investment securities of ¥1,911 million.

Net cash provided by financing activities

Financing activities provided net cash of ¥1,081 million (compared with ¥4,760 million used in the previous fiscal year). The main factors increasing cash were an increase in short-term debt of ¥2,175 million and proceeds from long-term debt of ¥4,548 million. Against this, factors decreasing cash included repayment of long-term debt of ¥2,887 million, and distributions paid totaling ¥2,671 million.

Financial Position

Current assets

At the fiscal year-end, current assets totaled ¥130,730 million, an increase of ¥18,008 million from the previous fiscal year-end. The main factors behind this increase were higher cash and bank deposits at Group companies and increased notes and accounts receivable and inventories accompanying higher business volume towards the fiscal year-end. The main factor reducing current assets was the recovery of short-term loans made to affiliated companies.

Noncurrent assets

At the fiscal year-end, noncurrent assets totaled ¥86,561 million, a decrease of ¥2,836 million from the previous fiscal year-end. The main factors increasing noncurrent assets were an increase in property, plant and equipment through capital expenditure, while the main decreasing factors were a reduction in valuation gain on investment securities in line with a slump in stock prices.

Current liabilities and long-term liabilities

At the fiscal year-end, total liabilities were ¥59,424 million, an increase of ¥13,989 million from the previous fiscal year-end. The main factors behind this increase were higher notes and accounts payable in line with rising business volume towards the fiscal year-end and an increase in borrowings driven by greater demand for working capital. The main factor decreasing total liabilities was repayment of current portion of long-term debt.

Net assets

At the fiscal year-end, net assets totaled ¥157,867 million, an increase of ¥1,182 million from the previous fiscal year-end. The main factors behind this increase were increases in retained earnings, while factors decreasing net assets included a reduction in translation adjustments caused by the yen’s appreciation, a reduction in unrealized gains on other securities held reflecting lower valuation of securities held, and distributions paid.

Capital Expenditures

Capital expenditures increased during the fiscal year and were selectively allocated in every segment. Capital expenditures geared towards investment efficiency were continued. At the same time, the Group also made key investments aimed at strengthening its operational competitiveness in future growth fields.

Focusing mainly on the light sources and equipment businesses, the Group made capital expenditures in the digital visual imaging business, where the Group is advancing high luminance, high resolution technologies and large screen high definition technologies; the solid-state light source business, where the Group is developing highly-competitive LEDs and laser diodes; the high-precision and high-density surface-mounting businesses that are rapidly being developed for reducing size and weight, and raising functionality and performance in information processing products and other electronics; and exposure technology including extreme ultraviolet (EUV) light sources for next-generation manufacturing equipment for semiconductor memory devices, which are reaching higher levels of integration and fineness. USHIO funded its capital expenditures with a combination of internally generated funds and borrowings. Also, loss on disposal of property, plant and equipment totaled ¥163 million for the demolition of buildings, removal of machinery equipment, and scrapping of other plant facilities in the light sources and equipment businesses.

Research and Development

Group-wide R&D expenses totaled ¥6,787 million. Spending was focused primarily in the light sources and equipment businesses.

The main targets of R&D were light sources for industrial applications. That included work on optical applications in a growing range of electronic and electromechanical equipment. Two core emphases were the combining of components in integrated assemblies and the development of equipment and systems based on optical technology.

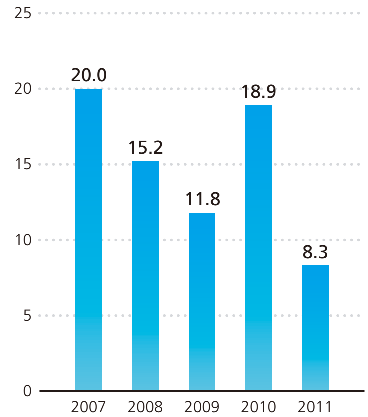
The Company stepped up its efforts to keep abreast of the latest developments in markets and technology and to accompany its product offerings with value-added technical support and maintenance. It continued to promote interaction among the R&D teams in its different product groups with an eye to developing new kinds of light sources and equipment.

Employees

USHIO—the parent company and its consolidated subsidiaries—employed 5,269 people at fiscal year-end, including 1,715 at the parent company. The consolidated total was 537 more, primarily due to expansion in the equipment business, and the parent-company total 22 less than at the previous fiscal year-end.

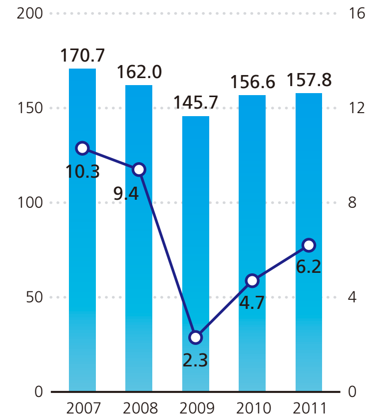
Net Cash Provided by Operating Activities

(Billions of yen)



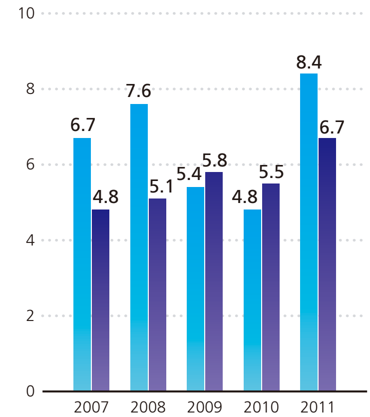
Net Assets and Return on Equity (ROE)

Net assets (Billions of yen)
ROE (%)



Capital Expenditures and R&D Expenses

Capital expenditures (Billions of yen)
R&D expenses (Billions of yen)



Risks

Below is a summary of risks that could affect the Company's business performance, financial position, and cash flow adversely and materially. These risks are judged to be relevant by management as of June 29, 2011. This is only a partial listing, and the Company faces risks other than those cited here that could also affect its business performance, financial position, and cash flow materially.

(1) Market fluctuations in semiconductors and LCDs

The Group's business performance is sensitive to fluctuations in the semiconductor and LCD industries. USHIO's principal products for those industries are replacement exposure lamps and manufacturing equipment. Demand for the Company's replacement exposure lamps is generally steady while customer plants are operating, but demand for the Company's manufacturing equipment is subject to short-, medium- and long-term developments in technological progress in semiconductors and LCDs. Unexpected developments in that technological progress could affect the Company's business performance and financial position materially.

(2) Market fluctuations in light sources for illumination and irradiation

Outside of the semiconductor and LCD panel fields, the Group supplies on-board light sources for data projectors, illumination and radiation light sources and for digital cinema projection systems, and visual image equipment and light sources. Trends in technology and fluctuations in prices and demand in those product sectors could affect the Group's business performance and financial position materially.

(3) Access to raw materials

The Group relies on externally sourced raw materials in its manufacturing operations, and it does business with broad-ranging suppliers to ensure steady supplies of high-quality raw materials at competitive prices. Risk is especially a concern in regard to the rare metals tungsten and molybdenum, which are crucial raw materials for manufacturing lamps. Supply shortages or price increases of those materials could increase the cost of manufacturing and affect the Group's business performance and financial position materially.

(4) Developing exposure technology for semiconductor manufacturing

The Group commands a large market share in discharge lamps used in semiconductor manufacturing equipment to expose increasingly fine microcircuitry patterns. However, semiconductor manufacturing is beginning to shift to other exposure technologies. One new exposure technology is extreme ultraviolet exposure, and USHIO is developing that technology through its subsidiary XTREME technologies GmbH. Developments in the progress of exposure technology for manufacturing semiconductors, including technology developed by XTREME technologies, could affect the Group's business performance and financial position materially.

(5) Cross-border activities and entry into overseas markets

The Group conducts manufacturing and sales activities in regions outside Japan, specifically North America, Europe, and other Asian nations. Entry into these overseas markets is associated with the risk of changes in various rules and regulations, etc., instability in securing human resources, underdeveloped infrastructure and the possible occurrence of social unrest in each country, among other factors. The materialization of this risk could affect the Group's business performance and financial position materially.

(6) Intellectual property

The Group operates in business sectors characterized by frequent technological advances. Protecting, maintaining, and managing patents, trademarks, and other intellectual property are influential factors in competitiveness and market share in those business sectors. Litigation could arise if a third party were to infringe on the Group's intellectual property rights or if the Group were to infringe on a third party's intellectual property rights, and the results of any such litigation are impossible to predict reliably. In addition, the patent authorities could refuse patent applications submitted by the Group after allocating extensive resources to research and development. Any event that resulted in USHIO's losing or failing to gain ownership of important patent protection could affect the Group's business performance and financial position materially.

(7) Currency exchange rates

The Group conducts its commercial operations and its financial operations in yen and in other currencies. Return on those operations is therefore subject to the influence of fluctuations in currency exchange rates. The Group uses forward exchange contracts to moderate currency exchange risk, but it cannot negate that risk completely. Large and unexpected developments in the foreign exchange markets could affect the Group's business performance and financial position materially.

(8) Fluctuations in prices of marketable securities

The Group holds marketable securities as financial assets. Depending on stock market and other conditions, the fair value of these securities could decline. Therefore, the Group is exposed to the risk of fluctuations in the prices of marketable securities, which could affect the Group's business performance and financial position materially.

Consolidated Balance Sheets

USHIO INC. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**2011**	2010	**2011**
Current assets:			
Cash and bank deposits (Notes 3 and 12)	**¥ 38,496**	¥ 37,865	**$ 462,975**
Notes and accounts receivable	**34,300**	31,482	**412,515**
Short-term investments (Note 8)	**8,447**	6,741	**101,593**
Merchandise and finished goods	**23,065**	14,990	**277,392**
Work in process	**6,675**	5,326	**80,278**
Raw materials and supplies	**9,766**	6,322	**117,460**
Deferred tax assets (Note 4)	**4,593**	3,703	**55,238**
Prepaid expenses and other current assets	**5,805**	6,823	**69,825**
Less: Allowance for doubtful accounts	**(419)**	(532)	**(5,047)**
Total current assets	**130,730**	112,722	**1,572,228**
Property, plant and equipment, at cost:			
Buildings and structures	**31,231**	30,803	**375,606**
Machinery, equipment and other (Note 3)	**41,666**	38,854	**501,100**
Land	**8,849**	8,579	**106,428**
Construction in progress	**1,126**	1,500	**13,544**
	82,873	79,737	**996,678**
Less: Accumulated depreciation	**(46,416)**	(43,586)	**(558,225)**
Property, plant and equipment, net	**36,457**	36,151	**438,454**
Investments and other assets:			
Investment securities (Note 8)	**39,495**	42,684	**474,987**
Investments in and advances to affiliates	**5,639**	3,756	**67,827**
Deferred tax assets (Note 4)	**510**	659	**6,143**
Other assets	**4,458**	6,145	**53,615**
Total investments and other assets	**50,103**	53,246	**602,571**
Total assets	**¥217,292**	¥202,119	**$2,613,253**

LIABILITIES AND NET ASSETS	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 2) 2011
Current liabilities:			
Notes and accounts payable	**¥ 18,052**	¥ 12,890	**$ 217,107**
Short-term debt (Note 3)	**6,512**	4,822	**78,320**
Current portion of long-term debt (Note 3)	**849**	2,887	**10,214**
Income taxes payable	**3,564**	1,083	**42,873**
Deferred tax liabilities (Note 4)	**129**	41	**1,553**
Allowance for employees' bonuses	**2,337**	1,832	**28,117**
Warranty reserve	**2,819**	1,644	**33,905**
Other current liabilities	**7,192**	6,832	**86,506**
Total current liabilities	**41,458**	32,035	**498,595**
Long-term liabilities:			
Long-term debt (Note 3)	**4,922**	1,413	**59,195**
Deferred tax liabilities (Note 4)	**8,277**	8,211	**99,547**
Retirement benefits (Note 10)	**1,165**	681	**14,021**
Other long-term liabilities	**3,601**	3,092	**43,310**
Total long-term liabilities	**17,966**	13,398	**216,072**
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized —300,000,000 shares			
Issued —139,628,721 shares	**19,556**	19,556	**235,193**
Additional paid-in capital	**28,371**	28,371	**341,207**
Retained earnings	**116,831**	109,925	**1,405,073**
Treasury stock, at cost	**(9,215)**	(9,209)	**(110,829)**
Total shareholders' equity	**155,544**	148,643	**1,870,644**
Accumulated other comprehensive income:			
Unrealized gains on other securities held	**12,245**	13,668	**147,266**
Translation adjustments	**(11,622)**	(7,096)	**(139,777)**
Total accumulated other comprehensive income	**622**	6,572	**7,490**
Minority interests	**1,700**	1,469	**20,453**
Total net assets (Note 11)	**157,867**	156,685	**1,898,586**
Total liabilities and net assets	**¥217,292**	¥202,119	**$2,613,253**

See notes to consolidated financial statements.

Consolidated Statements of Income

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	**2011**
Net sales	**¥145,125**	¥119,079	**$1,745,348**
Cost of sales	**96,962**	82,666	**1,166,113**
Gross profit	**48,163**	36,413	**579,235**
Selling, general and administrative expenses (Note 5)	**34,129**	29,150	**410,454**
Operating income	**14,034**	7,262	**168,780**
Other income (expenses):			
Interest and dividend income	**1,148**	1,251	**13,815**
Interest expenses	**(217)**	(238)	**(2,611)**
Foreign exchange loss, net	**(430)**	(138)	**(5,181)**
(Losses) gains on trading securities	**(2)**	690	**(31)**
Equity in gains of affiliates	**1,585**	76	**19,063**
Gains on sale of investment securities, net	**1,341**	175	**16,131**
Losses on impairment of investment securities	**(732)**	(261)	**(8,815)**
Other, net	**(476)**	94	**(5,735)**
	2,214	1,650	**26,635**
Income before income taxes and minority interests	**16,248**	8,912	**195,416**
Income taxes (Note 4):			
Current	**6,343**	2,195	**76,290**
Deferred	**(8)**	(715)	**(101)**
	6,335	1,479	**76,189**
Income before minority interests	**9,913**	7,433	**119,226**
Minority interests	**335**	362	**4,040**
Net income (Note 11)	**¥ 9,577**	¥ 7,071	**$ 115,187**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

USHIO INC. and Consolidated Subsidiaries
Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2011	**2011**
Income before minority interests	**¥ 9,913**	**$119,226**
Other comprehensive income		
Unrealized gains on other securities held	**(1,424)**	**(17,129)**
Translation adjustments	**(4,616)**	**(55,519)**
Share of other comprehensive income of affiliates accounted for by the equity method	**3**	**36**
Total other comprehensive income	**(6,037)**	**(72,612)**
Comprehensive income	**¥ 3,875**	**$ 46,614**
Comprehensive income attributable to owners of the parent	**¥ 3,628**	**$ 43,638**
Comprehensive income attributable to minority interests	**247**	**2,977**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	**2011**
Common stock			
Balance at beginning of year			
(2011—139,628,721 shares 2010—139,628,721 shares)	**¥ 19,556**	¥ 19,556	**$ 235,193**
Balance at end of year			
(2011—139,628,721 shares 2010—139,628,721 shares)	**¥ 19,556**	¥ 19,556	**$ 235,193**
Additional paid-in capital			
Balance at beginning of year	**¥ 28,371**	¥ 28,371	**$ 341,207**
Balance at end of year	**¥ 28,371**	¥ 28,371	**$ 341,207**
Retained earnings			
Balance at beginning of year	**¥109,925**	¥105,524	**$1,322,008**
Deduct:			
Distributions	**(2,670)**	(2,671)	**(32,122)**
Add:			
Net income	**9,577**	7,071	**115,187**
Balance at end of year	**¥116,831**	¥109,925	**$1,405,073**
Treasury stock, at cost			
Balance at beginning of year	**¥ (9,209)**	¥ (9,201)	**$ (110,752)**
Net change during the year	**(6)**	(7)	**(77)**
Balance at end of year	**¥ (9,215)**	¥ (9,209)	**$ (110,829)**
Accumulated other comprehensive income:			
Unrealized gains on other securities held			
Balance at beginning of year	**¥ 13,668**	¥ 7,832	**$ 164,380**
Net change during the year	**(1,423)**	5,835	**(17,114)**
Balance at end of year	**¥ 12,245**	¥ 13,668	**$ 147,266**
Translation adjustments			
Balance at beginning of year	**¥ (7,096)**	¥ (7,363)	**$ (85,342)**
Net change during the year	**(4,526)**	267	**(54,435)**
Balance at end of year	**¥ (11,622)**	¥ (7,096)	**$ (139,777)**
Minority interests			
Balance at beginning of year	**¥ 1,469**	¥ 1,054	**$ 17,673**
Net change during the year	**231**	414	**2,779**
Balance at end of year	**¥ 1,700**	¥ 1,469	**$ 20,453**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	**2011**
Operating activities			
Income before income taxes and minority interests	**¥ 16,248**	¥ 8,912	**$ 195,416**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**6,476**	6,219	**77,887**
Interest and dividend income	**(1,148)**	(1,251)	**(13,815)**
Interest expenses	**217**	238	**2,611**
Losses (gains) on sale of trading securities	**2**	(690)	**31**
Losses on investments in partnerships	**129**	–	**1,555**
Equity in gains of affiliates	**(1,585)**	(76)	**(19,063)**
Impairment losses	**154**	–	**1,864**
Gains on sale of investment securities, net	**(1,341)**	(175)	**(16,130)**
Losses on impairment of investment securities	**732**	261	**8,815**
Increase in notes and accounts receivable	**(4,209)**	(3,890)	**(50,628)**
(Increase) decrease in inventories	**(14,157)**	3,324	**(170,265)**
Increase in notes and accounts payable	**5,633**	2,692	**67,756**
Other	**3,986**	2,362	**47,945**
Subtotal	**11,140**	17,927	**133,979**
Interest and dividends received	**1,181**	1,268	**14,209**
Interest paid	**(213)**	(246)	**(2,569)**
Income taxes (paid) refunded	**(3,717)**	50	**(44,711)**
Net cash provided by operating activities	**8,390**	18,999	**100,908**
Investing activities			
Increase in time deposits	**(21,901)**	(23,620)	**(263,392)**
Proceeds from time deposits	**24,430**	14,402	**293,817**
Increase in short-term loans receivable	**(179)**	(1,441)	**(2,162)**
Proceeds from collection of short-term loans receivable	**1,599**	2,378	**19,234**
Purchases of short-term investments	**(1,142)**	(843)	**(13,736)**
Proceeds from redemption and sale of short-term investments	**2,704**	3,150	**32,525**
Purchases of property, plant and equipment	**(7,231)**	(4,874)	**(86,967)**
Proceeds from sale of property, plant and equipment	**103**	81	**1,239**
Purchases of intangible fixed assets	**(213)**	(90)	**(2,566)**
Purchases of investment securities	**(1,911)**	(654)	**(22,986)**
Proceeds from redemption and sale of investment securities	**1,743**	238	**20,970**
Additional purchase of investment in subsidiaries	**(313)**	–	**(3,773)**
Increase in long-term loans receivable	**(24)**	(181)	**(290)**
Proceeds from collection of long-term loans receivable	**819**	69	**9,857**
Payments for business transfer	**(188)**	(1,450)	**(2,273)**
Other	**25**	123	**306**
Net cash used in investing activities	**(1,679)**	(12,714)	**(20,195)**
Financing activities			
Increase (decrease) in short-term debt	**2,175**	(2,434)	**26,159**
Proceeds from long-term debt	**4,548**	463	**54,696**
Repayment of long-term debt	**(2,887)**	(53)	**(34,727)**
Purchases of treasury stock	**(6)**	(7)	**(77)**
Distributions paid	**(2,671)**	(2,675)	**(32,134)**
Distributions paid to minority interests	**(75)**	(52)	**(911)**
Net cash provided by (used in) financing activities	**1,081**	(4,760)	**13,006**
Effect of exchange rate changes on cash and cash equivalents	**(1,527)**	(259)	**(18,374)**
Net increase in cash and cash equivalents	**6,264**	1,265	**75,345**
Cash and cash equivalents at beginning of year	**28,595**	27,329	**343,898**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**94**	–	**1,141**
Cash and cash equivalents at end of year (Note 12)	**¥ 34,954**	¥ 28,595	**$ 420,384**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

1. Summary of Significant Accounting Policies

(a) Basis for 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 using the accounts of foreign consolidated subsidiaries prepared in accordance with accounting principles generally accepted in Japan or either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items.

The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects with regard to the application and disclosure requirements from IFRS, 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 bring them into conformity with 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 (in both yen and 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 it exerts substantial control either through majority ownership of voting stock and/or other means. As of March 31, 2011, the numbers of consolidated subsidiaries and subsidiaries and affiliates accounted for by the equity method were 44 and 4 (42 and 4 in 2010), respectively.

The changes of the scope of consolidation for the year ended March 31, 2011 are as follows:

Due to new establishment, CHRISTIE DIGITAL SYSTEMS (SHENZHEN) CO., LTD. and Japan Digital Cinema Support Inc. were included in the consolidation scope.

NECSEL INTELLECTUAL PROPERTY, INC. was included in the consolidation scope from this year, since it was deemed that the Company had substantial control over the company.

Maeda Holdings, Incorporation was excluded from the consolidation scope since the company was merged with EPITEX INCORPORATION a consolidated subsidiary of the Company.

The changes of the scope of application of the equity method for the year ended March 31, 2011 are follows:

Due to additional acquisition of shares, ADTEC Engineering Co., Ltd. was included in the scope of application of the equity method. On the other hand, NECSEL INTELLECTUAL PROPERTY, INC. was excluded from the scope of application of the equity method since the company was included in the scope of consolidation.

The closing date of subsidiary USHIO (SUZHOU) CO., LTD. and 5 other subsidiaries (4 in 2010) is December 31. Their financial accounts are consolidated using their financial statements as of the parent fiscal year-end, which are prepared solely for consolidation purposes. All significant intercompany balances and transactions have been eliminated in the consolidation.

Additionally, XTREME technologies GmbH, which closes their books on September 30, are consolidated by using their financial statements which are prepared solely for consolidation purpose as of December 31. Material differences in intercompany transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted for through consolidation procedures.

Investments in affiliates (companies over which the Company exercises 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 losses 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. Goodwill or negative goodwill incurred on or before March 31, 2010 is amortized in equal portions over the period deemed to be valuable. Negative goodwill incurred on or after April 1, 2010 is credited to income when incurred.

(c) Foreign currency translation

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 more than two exchange rates have been used are presented as translation adjustments on 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 available-for-sale securities are carried at fair value with any changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. The cost of securities sold is determined by the moving-average method. In cases where available-for-sale securities have declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

(f) Inventories

Merchandise, finished goods, and work in process are stated principally at the lower of cost or market, cost being determined by the average method for the Company and its domestic consolidated subsidiaries and at the lower of cost or market, cost being determined by the first-in, first-out method for overseas consolidated subsidiaries.

Raw materials are principally stated at the lower of cost or market, cost being determined by the moving-average method for the Company and its domestic consolidated subsidiaries and at the lower of cost or market, cost being determined by the first-in, first-out method for overseas consolidated subsidiaries.

(g) Depreciation and amortization (excluding lease assets)

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 or its domestic consolidated subsidiaries are depreciated by the straight-line method.

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

Intangible assets are amortized by the straight-line method.

(h) Leases

All finance lease transactions are to be capitalized, except for the finance lease transactions executed on or before March 31, 2008 that do not involve a transfer of ownership, which are accounted for as operating leases.

The Company has no finance leases capitalized as of March 31, 2011 and 2010.

(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 in the amount which is expected to be paid.

(l) Retirement and severance benefits

The Company and certain 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 their length of service, basic salary at retirement, and 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 in an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at year-end. Actuarial gains or losses are 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 costs are amortized as incurred by the straight-line method over the average remaining years of service of the eligible employees (15 years).

Some of consolidated subsidiaries provide for retirement allowances for directors, corporate auditors and others in the full amount which would have to be paid if all the 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 for after-sales service and free repairs for products sold by the Company and its consolidated subsidiaries in the estimated amount 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 of losses it anticipates after the year-end. Such allowance is provided when losses on orders are probable and reasonably estimated.

(o) Derivative financial instruments

The Company and certain consolidated subsidiaries have entered into currency derivative transactions primarily in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. In accordance with the accounting standard for financial instruments, derivative financial instruments are carried at fair value with any changes in unrealized gains or losses charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as assets or liabilities.

(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 that will be in effect when the differences are expected to reverse.

(q) Change in accounting policy

(1) Asset retirement obligations

Effective the year ended March 31, 2011, the Group adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008). As a result of the adoption of this Standard and Guidance, operating income and income before income taxes and minority interests decreased by ¥14 million ($180 thousand) and ¥115 million ($1,391 thousand), respectively, for the year ended March 31, 2011.

Disclosures are omitted since asset retirement obligations are insignificant in amount.

(2) Equity method of accounting for investment

Effective the year ended March 31, 2011, the Group adopted the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for by the Equity Method" (ASBJ PITF No. 24, issued on March 10, 2008). There is no effect on income before minority interests from this change.

(3) Other new accounting standards

Effective the year ended March 31, 2011, the Group adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008), the "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued on December 26, 2008), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 26, 2008), the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008).

(r) Change in presentation

Comprehensive income

Effective the year ended March 31, 2011, the Group adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010). The amounts of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" for the year ended March 31, 2010 indicate the amounts of "Valuation, translation adjustments, and other" and "Total valuation, translation adjustments, and other," respectively.

Comprehensive income for the year ended March 31, 2010

	Millions of yen
Comprehensive income attributable to owners of the parent	¥13,173
Comprehensive income attributable to minority interests	¥ 467
Total	¥13,641

Other comprehensive income for the year ended March 31, 2010

	Millions of yen
Unrealized gains on other securities held	¥5,835
Translation adjustments	¥ 385
Share of other comprehensive income of affiliates accounted for by the equity method	¥ (13)
Total	¥6,207

2. U.S. Dollar Amounts

For the readers' convenience, the accompanying consolidated financial statements with respect to the year ended March 31, 2011 have been presented in U.S. dollars by translating all yen amounts at ¥83.15=U.S.$1.00, the exchange rate prevailing on March 31, 2011. This translation should not be construed as a representation that the yen amounts 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 Debt and Long-Term Debt

Short-term debt consisted mainly of unsecured and secured loans payable to banks at interest rates ranging from 0.57% to 9.0% and from 1.00% to 4.87% per annum at March 31, 2011 and 2010, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
The Company:			
Loans from banks, due through 2013 at rate 0.84%	**¥2,840**	¥2,840	**$34,155**
Consolidated subsidiaries:			
Loans from banks, due through 2014 at rates ranging from 1.27% to 6.79%	**2,931**	1,461	**35,253**
Total long-term debt	**5,771**	4,301	**69,409**
Less current portion	**849**	2,887	**10,214**
	¥4,922	¥1,413	**$59,195**

The assets pledged as collateral for debt at March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥1,280**	**$15,400**
Machinery, equipment and vehicles	**21**	**257**
	¥1,301	**$15,657**

The related debt for which the above assets were pledged as collateral at March 31, 2011 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term debt	**¥1,182**	**$14,220**
Current portion of long-term debt	**4**	**53**
Long-term debt	**3**	**41**
	¥1,190	**$14,314**

The aggregate annual maturities of long-term debt subsequent to March 31, 2011 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 849	$10,214
2013	0	11
2014	4,503	54,155
2015	418	5,029
2016 and thereafter	—	—
Total	¥5,771	$69,409

4. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation taxes, inhabitants' taxes and enterprise taxes, which resulted in an aggregate statutory tax rate of approximately 40.7% for the years ended March 31, 2011 and 2010. 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, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 264**	¥ 214	**$ 3,178**
Allowance for employees' bonuses	**849**	599	**10,218**
Warranty reserve	**643**	626	**7,740**
Retirement benefit expenses	**1,888**	1,739	**22,715**
Allowance and accrual for retirement benefits for directors and corporate auditors	**549**	567	**6,608**
Write-downs of inventories	**644**	362	**7,748**
Net losses carried forward	**795**	810	**9,562**
Impairment losses on equity investments in affiliates	**358**	398	**4,311**
Other	**2,699**	2,073	**32,468**
Gross deferred tax assets	**8,693**	7,391	**104,548**
Valuation allowance	**(1,202)**	(618)	**(14,460)**
Total deferred tax assets	**7,490**	6,773	**90,088**
Deferred tax liabilities:			
Unrealized gains on other securities held	**(8,413)**	(9,445)	**(101,182)**
Gains on contribution of securities to employees' retirement benefit trust	**(766)**	(766)	**(9,224)**
Depreciation	**(438)**	(297)	**(5,268)**
Retained earnings of subsidiaries and affiliates	**(952)**	—	**(11,460)**
Other	**(222)**	(152)	**(2,673)**
Total deferred tax liabilities	**(10,793)**	(10,663)	**(129,807)**
Net deferred tax liabilities	**¥ (3,302)**	¥ (3,889)	**$ (39,719)**

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, 2011 and 2010 is summarized as follows:

	2011	2010
Statutory tax rate	**40.7%**	40.7%
Reconciliation:		
Increase in valuation allowance for deferred tax assets	**6.6**	0.2
Non-taxable income for income tax purposes	**(1.3)**	(1.9)
Non-deductible expenses for income tax purposes	**0.5**	2.6
Tax deductions related to R&D activities	**(3.0)**	(4.6)
Different tax rates applied to overseas subsidiaries	**(8.0)**	(17.2)
Equity in net income of affiliated companies	**(1.3)**	(0.3)
Retained earnings of subsidiaries and affiliates	**3.2**	–
Other	**1.6**	(2.8)
Effective tax rates	**39.0%**	16.6%

5. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2011 and 2010 were as follows:

Millions of yen		Thousands of U.S. dollars
2011	2010	**2011**
¥6,787	¥5,523	**$81,632**

6. Leases

Finance lease transactions involving no transfer of ownership effective on or before March 31, 2008 are accounted for as operating 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, 2011 and 2010, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases accounted for as operating leases:

	Millions of yen			
	2011			
	Machinery and vehicles	Other (tools and equipment)	Intangible fixed assets (software)	Total
Acquisition costs	**¥30**	**¥95**	**¥–**	**¥125**
Accumulated depreciation/amortization	**26**	**75**	**–**	**102**
Net book value	**¥ 3**	**¥19**	**¥–**	**¥ 22**

	Millions of yen			
	2010			
	Machinery and vehicles	Other (tools and equipment)	Intangible fixed assets (software)	Total
Acquisition costs	¥43	¥128	¥3	¥176
Accumulated depreciation/amortization	35	87	3	125
Net book value	¥ 8	¥ 41	¥0	¥ 50

	Thousands of U.S. dollars			
	2011			
	Machinery and vehicles	Other (tools and equipment)	Intangible fixed assets (software)	Total
Acquisition costs	**$361**	**$1,148**	**$–**	**$1,509**
Accumulated depreciation/amortization	**322**	**911**	**–**	**1,233**
Net book value	**$ 39**	**$ 237**	**$–**	**$ 276**

Lease expenses related to finance leases accounted for as operating leases for the years ended March 31, 2011 and 2010 totaled ¥23 million ($285 thousand) and ¥38 million, respectively. The following *pro forma* amounts represent depreciation/amortization for the years ended March 31, 2011 and 2010, which would have been reflected in the accompanying consolidated statements of income if finance lease accounting had been applied to the finance leases accounted for as operating leases.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Depreciation/amortization	**¥23**	¥38	**$285**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 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	**¥15**	**$192**
Due after one year	**6**	**84**
Total	**¥22**	**$276**

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. The 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	**¥280**	**$3,370**
Due after one year	**500**	**6,022**
Total	**¥780**	**$9,393**

7. Financial Instruments

(1) The Group's policy to manage financial instruments

a. Basic policy on treating financial instruments

The Group invests floating money and funds reserved for future business expansion mainly in highly safe financial assets, according to the Group's cash management plan. Financing instruments are determined based upon the use of funds and financing environment. The Group utilizes derivative transactions only to avoid foreign exchange risk, and does not use them for trading or speculative purposes.

b. The nature and risk of financial instruments

Notes and accounts receivable, which are operating receivables, are exposed to the customer credit risk. Operating receivables denominated in foreign currencies are also exposed to foreign exchange risk, which are hedged by using forward foreign exchange contracts. Short-term investments and investment securities consist mainly of equity securities issued by companies with business relationship and marketable equity or bond securities held for the purpose of short-term investment of floating money and reserved funds. Specified money in trust is also held for the purpose of investment of reserved funds. These investments are exposed to market risk. A part of short-term investments, investment securities, and specified money in trust are denominated in foreign currency, and they are exposed to foreign exchange risk.

Notes and accounts payable are mostly due within one year. Some of them are denominated in foreign currencies and exposed to foreign exchange risk; however, such risk is hedged by forward foreign exchange contracts.

Short-term and long-term debts which are made to obtain working capital are mostly due within three years after the end of the current fiscal year.

c. Risk management structure regarding financial instruments

Credit risk—The Company and consolidated subsidiaries manage the customer credit risk for operating receivables in accordance with the internal regulations for credit exposure management as follows: the creditability of customers is reviewed by monitoring the status of each customer on a daily and continuous basis; the due dates and balances are managed for each customer; and the credit line is periodically examined and reviewed.

The credit risk associated with bond securities is immaterial since the Group invests in bond securities with high credit ratings.

Derivative transactions are entered into only with highly rated financial institutions in order to mitigate counterparty risk.

As of the fiscal year end, the maximum credit risk amount is presented as the consolidated balance sheet amounts of financial assets which are exposed to credit risk.

Market risk—The Company and some consolidated subsidiaries utilize forward foreign exchange contracts to mitigate foreign exchange risk which is associated with operating receivables and payables denominated in foreign currencies and are assumed by currency and by month, in accordance with the internal rules for market risk management.

For securities and investment securities, market prices and the financial position of the issuers are periodically monitored and reported to directors in charge in accordance with the internal rules for market risk management. In addition, the holding status of stocks issued by companies with business relationships is continuously reviewed in consideration of the relationships with those companies.

Derivative transactions are managed in accordance with the internal rules which define the authorization policy and limits of transactions, and reported to directors in charge on a daily basis as well as to the Board of Directors.

Liquidity risk—Liquidity risk of the Company and consolidated subsidiaries is managed by maintaining certain liquidity according to the cash management plan which is prepared and updated by the Finance and Treasury departments based upon reports from each department.

(2) Fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of March 31, 2011 and 2010, as well as their differences. Financial instruments whose fair values cannot be reliably determined are not included.

	Millions of yen		
As of March 31, 2011	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and bank deposits	**¥ 38,496**	**¥ 38,496**	**¥ –**
(2) Notes and accounts receivable	**34,300**		
Allowance for doubtful accounts (*1)	**(419)**		
	33,881	**33,881**	**–**
(3) Short-term investments and investment securities			
Trading securities	**1,036**	**1,036**	**–**
Available-for-sale securities	**44,518**	**44,518**	**–**
(4) Specified money in trust	**1,999**	**1,999**	**–**
Assets, total	**119,932**	**119,932**	**–**
(1) Notes and accounts payable	**18,052**	**18,052**	**–**
(2) Short-term debt	**6,512**	**6,512**	**–**
(3) Current portion of long-term debt	**849**	**851**	**2**
(4) Long-term debt	**4,922**	**4,899**	**(22)**
Liabilities, total	**30,336**	**30,316**	**(19)**
Derivative transactions (*2)			
for which hedge accounting is not applied	**(33)**	**(33)**	**–**
for which hedge accounting is applied	**–**	**–**	**–**

Notes: *1 Notes and accounts receivable are stated net of corresponding general and specific allowance for doubtful accounts.

*2 Derivative transactions are stated net of assets and liabilities. The figures in parenthesis indicate net liabilities.

As of March 31, 2010	Millions of yen Consolidated balance sheet amount	Fair value	Difference
(1) Cash and bank deposits	¥ 37,865	¥ 37,865	¥ –
(2) Notes and accounts receivable	31,482		
Allowance for doubtful accounts (*1)	(515)		
	30,966	30,966	–
(3) Short-term investments and investment securities			
Trading securities	1,362	1,362	–
Available-for-sale securities	45,740	45,740	–
(4) Specified money in trust	2,126	2,126	–
Assets, total	118,060	118,060	–
(1) Notes and accounts payable	12,890	12,890	–
(2) Short-term debt	4,822	4,822	–
(3) Current portion of long-term debt	2,887	2,912	24
(4) Long-term debt	1,413	1,445	32
Liabilities, total	22,014	22,071	57
Derivative transactions (*2)			
for which hedge accounting is not applied	(45)	(45)	–
for which hedge accounting is applied	–	–	–

Notes: *1 Notes and accounts receivable are stated net of corresponding general and specific allowance for doubtful accounts.
*2 Derivative transactions are stated net of assets and liabilities. The figures in parenthesis indicate net liabilities.

As of March 31, 2011	Thousands of U.S. dollars Consolidated balance sheet amount	Fair value	Difference
(1) Cash and bank deposits	**$ 462,975**	**$ 462,975**	**$ –**
(2) Notes and accounts receivable	**412,515**		
Allowance for doubtful accounts (*1)	**(5,046)**		
	407,469	**407,469**	**–**
(3) Short-term investments and investment securities			
Trading securities	**12,465**	**12,465**	**–**
Available-for-sale securities	**535,405**	**535,405**	**–**
(4) Specified money in trust	**24,046**	**24,046**	**–**
Assets, total	**1,442,360**	**1,442,360**	**–**
(1) Notes and accounts payable	**217,107**	**217,107**	**–**
(2) Short-term debt	**78,320**	**78,320**	**–**
(3) Current portion of long-term debt	**10,214**	**10,245**	**31**
(4) Long-term debt	**59,195**	**58,924**	**(271)**
Liabilities, total	**364,836**	**364,596**	**(240)**
Derivative transactions (*2)			
for which hedge accounting is not applied	**(406)**	**(406)**	**–**
for which hedge accounting is applied	**–**	**–**	**–**

Notes: *1 Notes and accounts receivable are stated net of corresponding general and specific allowance for doubtful accounts.
*2 Derivative transactions are stated net of assets and liabilities. The figures in parenthesis indicate net liabilities.

The method of fair value measurement is described as follows:

Assets

(1) Cash and bank deposits and (2) Notes and accounts receivable
The fair value of these accounts approximates their book value because they are settled in a short period of time. Thus, the book value is presented as their fair value.

(3) Short-term investments and investment securities
The fair value of equity securities is based on market prices at the stock exchange, and that of bond securities is obtained from financial institutions.

(4) Specified money in trust
The fair value is based upon the price obtained from financial institutions.

Liabilities

(1) Notes and accounts payable and (2) Short-term debt
The fair value of these accounts approximates their book value because they are settled in a short period of time. Thus, the book value is presented as their fair value.

(3) Current portion of long-term debt and (4) Long-term debt
The fair value of long term debt is measured by discounting the combined total of principle and interest at an assumed rate for similar new borrowings.

Derivative transactions

The fair value is measured based upon the prices obtained from financial institutions.

As of March 31, 2011 and 2010, the consolidated balance sheet includes the following financial instruments whose fair values cannot be reliably determined:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Unlisted stocks and investments in business partnerships with limited liability	**¥2,387**	¥2,323	**$28,709**

(3) Redemption schedule

The redemption schedule for securities with maturity dates classified as available-for-sale securities and held-to-maturity securities as of March 31, 2011 and 2010 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2011	Due within one year	Due after one year and up to five years	Due after five years and up to ten years	Due within one year	Due after one year and up to five years	Due after five years and up to ten years
Bonds:						
Corporate bonds	**¥888**	**¥1,415**	**¥–**	**$10,687**	**$17,028**	**$–**
Total	**¥888**	**¥1,415**	**¥–**	**$10,687**	**$17,028**	**$–**

	Millions of yen		
As of March 31, 2010	Due within one year	Due after one year and up to five years	Due after five years and up to ten years
Bonds:			
(1) Government and municipal bonds	¥ 372	¥ –	¥–
(2) Corporate bonds	1,061	1,138	–
Total	¥1,433	¥1,138	¥–

All monetary receivables are due within one year. The redemption schedule for long-term debt is stated in Note 3.

8. Short-Term Investments and Investment Securities

(1) Trading securities

Trading securities as of March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
As of March 31, 2011	Carrying value	Gain (Loss)	Carrying value	Gain (Loss)
	¥1,036	**¥(46)**	**$12,465**	**$(562)**

	Millions of yen	
As of March 31, 2010	Carrying value	Gain (Loss)
	¥1,362	¥533

(2) Marketable available-for-sale securities

Marketable available-for-sale securities as of March 31, 2011 and 2010 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2011	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
(1) Stock	**¥30,988**	**¥ 9,241**	**¥21,746**	**$372,684**	**$111,145**	**$261,539**
(2) Bonds:						
Corporate bonds	**1,083**	**995**	**87**	**13,034**	**11,977**	**1,057**
(3) Other	**173**	**140**	**33**	**2,084**	**1,686**	**398**
Subtotal	**32,245**	**10,377**	**21,867**	**387,802**	**124,808**	**262,994**
Securities whose acquisition cost exceeds their carrying value:						
(1) Stock	**4,221**	**5,279**	**(1,058)**	**50,764**	**63,496**	**(12,732)**
(2) Bonds:						
Corporate bonds	**1,205**	**1,257**	**(52)**	**14,496**	**15,128**	**(632)**
(3) Other	**6,846**	**6,890**	**(43)**	**82,343**	**82,864**	**(521)**
Subtotal	**12,273**	**13,427**	**(1,154)**	**147,603**	**161,488**	**(13,885)**
Total	**¥44,518**	**¥23,805**	**¥20,713**	**$535,405**	**$286,297**	**$249,109**

	Millions of yen		
As of March 31, 2010	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
(1) Stock	¥37,068	¥13,164	¥23,903
(2) Bonds:			
Corporate bonds	603	578	24
(3) Other	163	128	34
Subtotal	37,834	13,871	23,963
Securities whose acquisition cost exceeds their carrying value:			
(1) Stock	1,688	2,143	(455)
(2) Bonds:			
Government bonds and municipal bonds	378	419	(41)
Corporate bonds	1,625	1,793	(167)
(3) Other	4,213	4,286	(72)
Subtotal	7,905	8,642	(737)
Total	¥45,740	¥22,513	¥23,226

Note 1: Available-for-sale securities sold

Available-for-sale securities sold during the years ended March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Sale of securities	**¥1,567**	¥15	**$18,852**
Aggregate gains on sale	**1,261**	9	**15,169**
Aggregate losses on sale	**–**	–	**–**

Sale of securities above includes the sales value of cash and cash equivalents shown in the consolidated statements of cash flows.

Note 2: Impairment losses recognized on securities

The Group recognized impairment loss of ¥403 million ($4,851 thousand) on stocks classified as marketable available-for-sale securities for the fiscal year ended March 31, 2011, while no impairment loss was recognized for the fiscal year ended March 31, 2010. Impairment is recognized when the market value at fiscal year-end falls to less than half of the carrying amounts at the end of the fiscal year. Except in cases in which the market value is recoverable, losses are also recorded when the decline in value is between 30% and 50% of the carrying amounts considering the fluctuation in the market price and fair value.

9. Derivative Transactions

The notional amounts and the estimated fair value of the derivative positions outstanding at March 31, 2011 and 2010 are summarized below.

Currency-related transactions:

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2011	Notional amounts	Maturing after one year	Estimated fair value	Unrealized gain (loss)	Notional amounts	Maturing after one year	Estimated fair value	Unrealized gain (loss)
Bilateral transactions:								
Forward foreign exchange contracts:								
Sell:								
USD	**¥3,933**	**¥ –**	**¥ (0)**	**¥ (0)**	**$ 47,308**	**$ –**	**$ (10)**	**$ (10)**
Euro	**537**	**–**	**(23)**	**(23)**	**6,465**	**–**	**(277)**	**(277)**
Buy:								
USD	**1,048**	**755**	**14**	**14**	**12,611**	**9,088**	**173**	**173**
Euro	**601**	**–**	**43**	**43**	**7,230**		**522**	**522**
JPY	**2,328**	**–**	**(67)**	**(67)**	**28,005**		**(814)**	**(814)**
Total	**¥8,449**	**¥755**	**¥(33)**	**¥(33)**	**$101,618**	**$9,088**	**$(406)**	**$(406)**

	Millions of yen			
As of March 31, 2010	Notional amounts	Maturing after one year	Estimated fair value	Unrealized gain (loss)
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
USD	¥1,286	¥–	¥ 9	¥ 9
Buy:				
USD	133	–	5	5
JPY	2,048	–	(60)	(60)
Total	¥3,468	¥–	¥(45)	¥(45)

10. Retirement Benefit 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 with reference to their basic rates of pay and length of service and the conditions under which the termination occurs. The Company has established an employees' retirement benefit trust.

The following table presents the funded and accrued status of the plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2011 and 2010 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
(1) Retirement benefit obligations	**¥(23,356)**	¥(21,979)	**$(280,894)**
(2) Plan assets at fair value (including the trust fund for retirement benefits)	**15,284**	15,200	**183,817**
(3) Unfunded net retirement benefit obligations (1) + (2)	**(8,071)**	(6,778)	**(97,077)**
(4) Unrecognized actuarial gains or losses	**6,962**	6,158	**83,731**
(5) Unrecognized prior service costs	**56**	41	**676**
(6) Net liability for retirement benefits (3) + (4) + (5)	**(1,053)**	(577)	**(12,670)**
(7) Prepaid pension expenses	**–**	54	**–**
(8) Accrued retirement benefits (6) – (7)	**(1,053)**	(632)	**(12,670)**
(9) Retirement benefit for directors, corporate auditors, and others	**(112)**	(49)	**(1,351)**
(10) Total (8) + (9)	**¥ (1,165)**	¥ (681)	**$ (14,021)**

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 obligations.

The components of the retirement benefit expenses for the years ended March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
(1) Service costs (*1 and *2)	**¥1,065**	¥1,058	**$12,813**
(2) Interest costs	**542**	513	**6,528**
(3) Expected return on plan assets	**(558)**	(494)	**(6,712)**
(4) Amortization of actuarial gains or losses	**574**	616	**6,914**
(5) Amortization of prior service costs	**(14)**	(13)	**(173)**
Total retirement benefit expenses (*3)	**¥1,610**	¥1,679	**$19,369**

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 costs.
*3 Besides the amount stated, several consolidated subsidiaries have recognized a total of ¥370 million ($4,461 thousand) and ¥303 million as retirement expenses for defined contribution pension plans for the years ended March 31, 2011 and 2010, respectively.

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

	2011	2010
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 costs	15 years (straight-line method)	
Amortization period of actuarial gains or losses	15 years (straight-line method)	

11. Amounts Per Share

The amounts per share of basic net income and net assets, 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
	2011	2010	**2011**
Basic net income	**¥ 71.72**	¥ 52.95	**$ 0.86**
Net assets	**1,169.42**	1,162.26	**14.06**

Per-share amounts assuming full dilution have not been presented because no common stock equivalents were outstanding at March 31, 2011 or 2010.

12. Supplementary Cash Flow Information

The following table presents a reconciliation of cash and bank deposits with cash and cash equivalents at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Cash and bank deposits	**¥ 38,496**	¥ 37,865	**$ 462,975**
Time deposits with a maturity of more than three months	**(10,040)**	(13,084)	**(120,757)**
Money management funds and others included in short-term investments	**6,499**	3,814	**78,167**
Cash and cash equivalents	**¥ 34,954**	¥ 28,595	**$ 420,384**

13. Segment Information

Effective from the year ended March 31, 2011, the Company has adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Guidance No. 20, March 21, 2008).

Segment information for the year ended March 31, 2010 has been restated in accordance with such accounting standards for comparative purposes.

(1) Summary of reportable segments

The Company defines a reportable segment as a component of the Company for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to assess its business performance and make decisions about resources to be allocated to the segment.

The Company has division system based on product type and similarity in sales market, etc., and each business unit develops and implements comprehensive domestic and overseas strategies for its development, manufacturing, sales and service, and engages in its business activities globally.

Thus, reportable segments of the Company are divided into two categories based on product type and sales market.

"Light sources business" conducts manufacturing and sales of halogen lamps and HID (High Intensity Discharge) lamps, etc.

"Equipment business" conducts manufacturing and sales of visual image equipment and optical equipment, etc.

(2) The basis of measurement of net sales, income or loss, assets, liabilities, and other items by the reportable segment is generally consistent with the significant accounting policies of the Company. Segment income presents operating income of the segment. Inter-segment sales and transfers are recognized based on the market price.

(3) Reconciliations of net sales, segment income or loss, assets, liabilities, and other items by the reportable segment to corresponding items in the consolidated financial statements

Millions of yen

	Reportable segment						
Year ended March 31, 2011	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total	Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales							
Sales to external customers	**¥57,393**	**¥84,627**	**¥142,020**	**¥ 3,105**	**¥145,125**	**¥ –**	**¥145,125**
Intersegment sales or transfers	**104**	**236**	**341**	**77**	**419**	**(419)**	**–**
Total	**¥57,498**	**¥84,863**	**¥142,361**	**¥ 3,182**	**¥145,544**	**¥ (419)**	**¥145,125**
Segment income	**¥ 8,411**	**¥ 5,403**	**¥ 13,814**	**¥ 151**	**¥ 13,965**	**¥ 68**	**¥ 14,034**
Segment assets	**¥81,237**	**¥87,064**	**¥168,302**	**¥23,042**	**¥191,345**	**¥25,946**	**¥217,292**
Other items:							
Depreciation	**¥ 2,769**	**¥ 3,543**	**¥ 6,313**	**¥ 163**	**¥ 6,476**	**¥ –**	**¥ 6,476**
Amortization of goodwill	**2**	**270**	**273**	**–**	**273**	**–**	**273**
Investment in affiliates under equity method	**–**	**5,639**	**5,639**	**–**	**5,639**	**–**	**5,639**
Increase in property, plant and equipment and intangible assets	**3,279**	**5,041**	**8,321**	**95**	**8,416**	**–**	**8,416**

Notes: 1. "Other businesses" represents business segments including industrial machinery and others, which are not classified in either reportable segment.

2. Eliminations or unallocated amounts of segment income, amounting to ¥68 million, include elimination of inter-segment transactions totaling ¥134 million. Eliminations or unallocated amounts of segment assets, amounting to ¥25,946 million, include elimination of inter-segment receivables and payables totaling ¥(11,083) million and unallocated corporate assets totaling ¥36,993 million which consisted primarily of surplus funds (cash and short-term investments) and long-term investments (investment securities), etc.

3. Segment income is adjusted to operating income on the consolidated statements of income.

	Millions of yen						
	Reportable segment						
Year ended March 31, 2010	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total	Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales							
Sales to external customers	¥53,024	¥63,407	¥116,431	¥ 2,647	¥119,079	¥ –	¥119,079
Intersegment sales or transfers	101	77	178	82	261	(261)	–
Total	¥53,125	¥63,484	¥116,610	¥ 2,730	¥119,341	¥ (261)	¥119,079
Segment income	¥ 3,989	¥ 3,044	¥ 7,033	¥ 54	¥ 7,088	¥ 174	¥ 7,262
Segment assets	¥85,416	¥65,703	¥151,120	¥21,466	¥172,587	¥29,532	¥202,119
Other items:							
Depreciation	¥ 3,265	¥ 2,765	¥ 6,031	¥ 187	¥ 6,219	¥ –	¥ 6,219
Amortization of goodwill	2	223	226	–	226	–	226
Investment in affiliates under equity method	–	3,756	3,756	–	3,756	–	3,756
Increase in property, plant and equipment and intangible assets	1,644	3,132	4,776	97	4,874	–	4,874

Notes: 1. "Other businesses" represents business segments, including industrial machinery and others, which are not classified in either reportable segment.
2. Eliminations or unallocated amounts of segment income, amounting to ¥174 million, include elimination of inter-segment transactions totaling ¥145 million. Eliminations or unallocated amounts of segment assets, amounting to ¥29,532 million, include elimination of inter-segment receivables and payables totaling ¥(6,608) million and unallocated corporate assets totaling ¥36,163 million which consisted primarily of surplus funds (cash and short-term investments) and long-term investments (investment securities), etc.
3. Segment income is adjusted to operating income on the consolidated statements of income.

	Thousands of U.S. dollars						
	Reportable segment						
Year ended March 31, 2011	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total	Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
Net sales							
Sales to external customers	**$690,238**	**$1,017,763**	**$1,708,001**	**$ 37,346**	**$1,745,348**	**$ –**	**$1,745,348**
Intersegment sales or transfers	**1,262**	**2,847**	**4,109**	**930**	**5,040**	**(5,040)**	**–**
Total	**$691,500**	**$1,020,610**	**$1,712,110**	**$ 38,277**	**$1,750,387**	**$ (5,040)**	**$1,745,348**
Segment income	**$101,159**	**$ 64,986**	**$ 166,145**	**$ 1,816**	**$ 167,961**	**$819**	**$ 168,780**
Segment assets	**$977,005**	**$1,047,076**	**$2,024,081**	**$277,123**	**$2,301,204**	**$312,049**	**$2,613,253**
Other items:							
Depreciation	**$ 33,304**	**$ 42,621**	**$ 75,925**	**$ 1,962**	**$ 77,887**	**$ –**	**$ 77,887**
Amortization of goodwill	**28**	**3,256**	**3,284**	**–**	**3,284**	**–**	**3,284**
Investment in affiliates under equity method	**–**	**67,827**	**67,827**	**–**	**67,827**	**–**	**67,827**
Increase in property, plant and equipment and intangible assets	**39,443**	**60,634**	**100,077**	**1,148**	**101,224**	**–**	**101,224**

Notes: 1. "Other businesses" represents business segments including industrial machinery and others, which are not classified in either reportable segment.
2. Eliminations or unallocated amounts of segment income, amounting to $819 thousand, include elimination of inter-segment transactions totaling $1,616 thousand. Eliminations or unallocated amounts of segment assets, amounting to $312,049 thousand, include elimination of inter-segment receivables and payables totaling $(133,294) thousand and unallocated corporate assets totaling $444,903 thousand which consisted primarily of surplus funds (cash and short-term investments) and long-term investments (investment securities), etc.
3. Segment income is adjusted to operating income on the consolidated statements of income.

(4) Other segment information

Year ended March 31, 2011	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: Total	Other	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements
	Millions of yen						
Impairment loss	**¥57**	**¥ 57**	**¥115**	**¥39**	**¥154**	**¥–**	**¥154**
Goodwill:							
Amortized for the year	**2**	**270**	**273**	**–**	**273**	**–**	**273**
Balance	**¥ 1**	**¥862**	**¥863**	**¥ –**	**¥863**	**¥–**	**¥863**

Year ended March 31, 2011	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: Total	Other	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements
	Thousands of U.S. dollars						
Impairment loss	**$697**	**$ 687**	**$ 1,384**	**$480**	**$ 1,864**	**$–**	**$ 1,864**
Goodwill:							
Amortized for the year	**28**	**3,256**	**3,284**	**–**	**3,284**	**–**	**3,284**
Balance	**$ 15**	**$10,374**	**$10,389**	**$ –**	**$10,389**	**$–**	**$10,389**

(5) Related information

Analyses of revenues and certain non current assets by geographical area

Year ended March 31, 2011	Japan	North America: U.S.A	North America: Other	Europe	Asia: China	Asia: Other	Other areas	Total
	Millions of yen / Thousands of U.S. dollars							
Sales	**¥ 39,422**	**¥ 29,910**	**¥ 5,315**	**¥ 21,248**	**¥ 20,484**	**¥ 26,664**	**¥ 2,079**	**¥ 145,125**
	$474,113	**$359,721**	**$63,932**	**$255,545**	**$246,356**	**$320,675**	**$25,005**	**$1,745,348**

Year ended March 31, 2011	Japan	North America: U.S.A	North America: Other	Europe	Asia	Other areas	Total
	Millions of yen / Thousands of U.S. dollars						
Property, plant and equipment	**¥ 23,015**	**¥ 3,702**	**¥ 3,462**	**¥ 2,926**	**¥ 3,350**	**–**	**¥ 36,457**
	$276,798	**$44,525**	**$41,647**	**$35,193**	**$40,290**	**–**	**$438,454**

Information by products and services is omitted since the same information is already disclosed in the reportable segments.

Information about transactions with major customers is omitted since there is no customer with a sales amount of 10% or more of the Company's net sales.

The business and geographical segment information and overseas sales of the Company and its consolidated subsidiaries for the year ended March 31, 2010, in accordance with the previous accounting standard, are summarized as follows:

Business segments

Year ended March 31, 2010	Light source application products	Machinery for industrial use and other businesses	Total	Eliminations or unallocated amounts	Consolidated
	Millions of yen				
I. Sales and operating income					
Sales to external customers	¥116,431	¥ 2,647	¥119,079	¥ –	¥119,079
Intersegment sales or transfers	–	82	82	(82)	–
Net sales	116,431	2,730	119,162	(82)	119,079
Operating expenses	109,225	2,676	111,901	(84)	111,817
Operating income	¥ 7,206	¥ 54	¥ 7,260	¥ 1	¥ 7,262
II. Total assets, depreciation and capital expenditures					
Total assets	¥162,128	¥13,994	¥176,123	¥25,996	¥202,119
Depreciation	6,185	34	6,219	–	6,219
Capital expenditures	4,871	3	4,874	–	4,874

Notes: a) Basis of segmentation

(1) Business segments are divided into categories based on the uses of individual products 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 O3 cleaning systems, and various other exposure systems

Machinery for industrial use and other businesses—

Injection molding machinery, food-packaging systems, and automatic controls

b) Eliminations or unallocated amounts of corporate assets include unallocated amounts totaling ¥35,845 million at March 31, 2010, which consisted primarily of surplus funds (cash and short-term investments) and long-term investments (investment securities, etc.).

c) Depreciation and capital expenditures include amortization and additions to long-term prepaid expenses, respectively.

Geographical segments

Year ended March 31, 2010	Japan	North America	Europe	Asia	Total	Eliminations or unallocated amounts	Consolidated
	Millions of yen						
I. Sales and operating income							
Sales to external customers	¥ 38,020	¥48,723	¥ 5,638	¥26,697	¥119,079	¥ –	¥119,079
Intersegment sales or transfers	17,187	2,947	876	5,674	26,686	(26,686)	–
Net sales	55,208	51,670	6,514	32,371	145,766	(26,686)	119,079
Operating expenses	54,072	50,177	6,460	27,828	138,540	(26,722)	111,817
Operating income	¥ 1,135	¥ 1,493	¥ 54	¥ 4,543	¥ 7,226	¥ 36	¥ 7,262
II. Total assets	¥120,573	¥38,901	¥17,495	¥27,049	¥204,019	¥ (1,899)	¥202,119

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) Eliminations or unallocated amounts of corporate assets include unallocated amounts totaling ¥35,845 million at March 31, 2010, 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, 2010	North America	Europe	Asia	Other areas	Total
	Millions of yen				
III. Overseas sales					
Overseas sales	¥27,513	¥15,945	¥37,809	¥1,972	¥ 83,240
Consolidated net sales					¥119,079
Overseas sales as a percentage of consolidated net sales	23.1%	13.4%	31.8%	1.7%	69.9%

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, India
(4) Other areas —Argentina, Brazil, Mexico

c) Overseas sales consisted of sales of the Company and its consolidated subsidiaries to nations or regions other than Japan.

14. Business Combination

No business combination is made for the year ended March 31, 2011. The following summarizes the business combination completed for the year ended March 31, 2010.

Purchase accounting-related matters

Acquisition of VISTA CONTROL SYSTEMS, Corp.

(1) Overview:

The Company's wholly owned subsidiary, CHRISTIE DIGITAL SYSTEMS, INC. (CDS), acquired 100% of the shares of VISTA CONTROL SYSTEMS, Corp. in a cash transaction dated July 9, 2007. As of March 31, 2009, the acquisition cost had not been completely allocated to expenses, assets, and liabilities because the acquisition price was partially subject to conditions and the payment was made in installments. However, such allocation was completed during the fiscal year ended March 31, 2010.

(2) Objective of acquisition:

By incorporating the video processing systems of VISTA CONTROL 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.

(3) Conditions attached to the acquisition price and the adjustment to acquisition costs:

The share transfer agreement provides that, from the date of acquisition until June 30, 2009, the Company shall pay an additional 19% of the gross profit earned by VISTA CONTROL SYSTEMS, Corp. and an additional 19% of the gross profit earned by CDS on sales of VISTA CONTROL SYSTEMS' products. These additional payments were completed during the fiscal year ended March 31, 2010. The Company has recognized the amounts paid in each fiscal year, ¥425 million in total, as part of the acquisition cost and recognized additional goodwill for the same amount.

The additional goodwill is amortized from the time of its acquisition, as if the additional payments were made at the time of acquisition.

(4) Goodwill:

The goodwill, in the total amount of ¥434 million, was recognized and is amortized over five years using the straight-line method.

Business acquisition from Luminetx Corporation

(1) Overview, objective of acquisition and goodwill:

On December 31, 2009, CHRISTIE MEDICAL HOLDINGS, INC., the Company's consolidated subsidiary, acquired a medical and biometrics business from Luminetx Corporation. The acquisition was made to enhance technological development and competitiveness in the medical business.

The Company accounted for this business combination by the purchase method. The acquisition cost was ¥1,381 million and the goodwill arising from this acquisition, amounting to ¥316 million, is amortized over five years using the straight-line method. The Company's consolidated financial statements include profit and losses arising from this acquired business for the period from January 1, 2010 to March 31, 2010.

(2) The assets acquired and liabilities assumed at the acquisition date:

	Millions of yen
Current assets	¥ 216
Non current assets	1,380
Total assets	1,596
Current liabilities	76
Non current liabilities	138
Total liabilities	214

(3) Amounts and description allocated to intangible assets other than goodwill and their weighted average amortization periods:

	Millions of yen	Weighted average amortization period
Technology	¥ 718	11 years
Trademark	198	25 years
Other	115	10 years
	¥1,031	

(4) The estimated impacts for the year ended March 31, 2010 if this business combination had been completed as of April 1, 2009:

	Millions of yen
Net sales	¥ 303
Operating loss	(491)
Loss before income taxes and minority interests	(501)
Net loss	(430)
Net loss per share	(3.22)

15. Related Party Information

For the year ended March 31, 2011, the Company's significant affiliate was GIGAPHOTON INC. The summary of consolidated financial figures of GIGAPHOTON INC. is as follows:

	Millions of yen	Thousands of U.S. dollars
Total current assets	**¥15,897**	**$191,190**
Total non current assets	**2,950**	**35,487**
Total current liabilities	**9,722**	**116,925**
Total non current liabilities	**153**	**1,845**
Total net assets	**8,972**	**107,906**
Net sales	**20,447**	**245,911**
Income before income taxes and minority interests	**3,410**	**41,019**
Net income for the year ended March 31, 2011	**2,044**	**24,594**

16. Subsequent Events

Share transfer

Based on a resolution in the meeting of the Board of Directors held on April 25, 2011, the Company dissolved a joint-venture agreement with Komatsu Ltd. ("Komatsu") and transferred all of its shares of GIGAPHOTON INC. ("GIGAPHOTON"), an affiliate accounted for by the equity method, to Komatsu.

(1) Background of the share transfer

GIGAPHOTON was founded in August 2000 as a joint venture of the Company and Komatsu (with 50% equity contributions from each) and has evolved as a manufacturer and distributor of excimer laser light sources, a light source used for lithography tools in semiconductor manufacturing.

Currently, in the most advanced realm of light sources used for lithography tools in semiconductor manufacturing, the extreme ultraviolet ("EUV") light source is considered to be the frontrunner. To develop an EUV light source, the Company and XTREME technologies GmbH (a 100% subsidiary of the Company; "XTREME") have been developing the Discharge-Produced Plasma (DPP) method, while Komatsu and GIGAPHOTON have been developing the Laser-Produced Plasma (LPP) method.

However, as practical application of the EUV light source for lithography tools in semiconductor manufacturing is becoming more likely, XTREME and GIGAPHOTON are increasingly likely to compete with each other. To address this problem and encourage the sound development of the two companies, the Company has decided to transfer all of its shares in GIGAPHOTON to Komatsu.

(2) Profile of the counterparty of the joint venture agreement and the share transfer: Komatsu Ltd.

(3) Date of termination of this agreement: May 18, 2011

(4) Date of transfer of shares: May 18, 2011

(5) Profile of the affiliate the shares of which will be transferred
- (a) Name: GIGAPHOTON INC.
- (b) Scope of business: Businesses related to excimer lasers used for lithography tools in semiconductor manufacturing and EUV light sources
- (c) Transaction with the Company: Sale of excimer laser light source and royalty payments

(6) Outline of agreement

Joint-venture agreement concerning research, development, manufacturing, and distribution of excimer lasers used for lithography tools and related services.

(7) Number of shares sold, proceeds, estimated gain, and the Company's ownership of GIGAPHOTON after sale

(a) Number of shares sold:	50,000 shares
(b) Proceeds from sale:	¥7,500 million ($90,198 thousand)
(c) Estimated gain on sale:	¥3,000 million ($36,079 thousand)
(d) The Company's ownership after sale:	0 shares (0%)

(8) Significant effects of contract cancellation on operating activities

There are no significant effects to be disclosed.

Cash dividends

The following distribution of the Company's retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2011, was approved at the Annual General Meeting of Shareholders held on June 29, 2011:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥22 = US$0.26 per share)	**¥2,937**	**$35,333**

Report of Independent Auditors

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors
USHIO INC.

We have audited the accompanying consolidated balance sheets of USHIO INC. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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, 2011 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 LLC

June 29, 2011

Investor Information

As of March 31, 2011

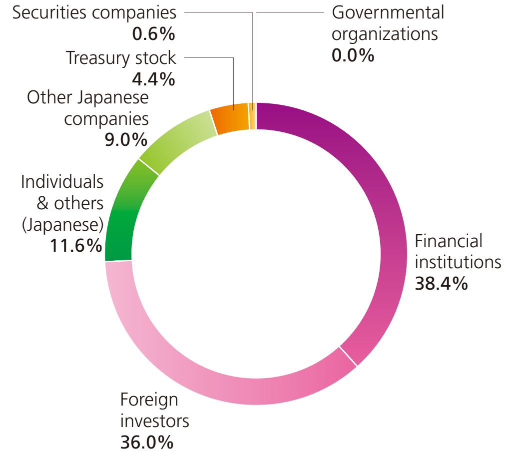
Total Number of Shares Issued	139,628,721
Number of Shareholders	14,034

Major Shareholders (holding 2 million shares or more)

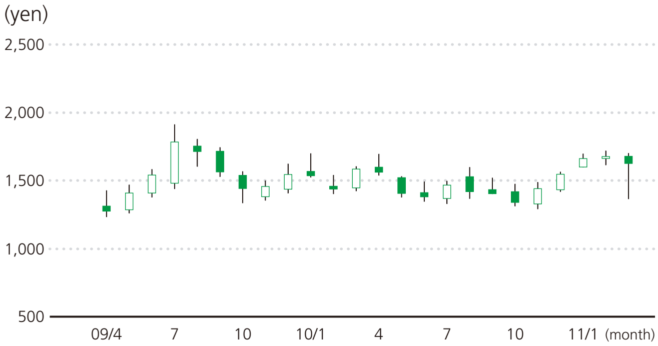
Name	Number of shares (1,000 shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd (Trust Account)	9,144	6.54
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,663	4.77
Japan Trustee Services Bank, Ltd. (Trust Account)	6,265	4.48
NT RE GOVT OF SPORE INVT CORP P. LTD	5,779	4.13
RBC DEXIA INVESTOR SERVICES TRUST, LONDON-LENDING ACCOUNT	4,580	3.28
Asahi Mutual Life Insurance Company	4,477	3.20
STATE STREET BANK CLIENT OMNIBUS OM04	4,140	2.96
Aioi Nissay Dowa Insurance Co., Ltd.	3,964	2.83
Resona Bank, Limited	3,616	2.58
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	3,579	2.56
Jiro Ushio	3,201	2.29
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Co., Ltd. retrust portion/Resona Bank, Limited. Retirement Allowance Trust Account)	3,049	2.18
STATE STREET BANK AND TRUST COMPANY	2,862	2.04
THE USHIO FOUNDATION	2,400	1.71
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	2,230	1.59

*In addition to the above, the Company owns 6,086 thousand shares of treasury stock.
*Each of the investment banks listed in the upper portion of the major shareholders table manages securities held by primarily Japanese institutional investors and is also the nominee for these investors. Trust accounts denote accounts that receive trusts such as pension trusts, investment trusts, and designated moneys in trust from the institutional investors concerned.

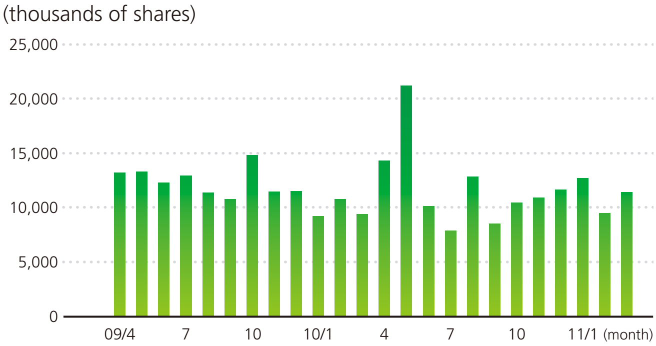
Composition of Shareholders



Stock Price Movement



Stock Turnover



Corporate Data

Established	March 1964
Paid-in capital	¥19,556,326,316

Employees (as of March 31, 2011):	5,269
Parent company	1,715
Subsidiaries	
• Japan	513
• Overseas	3,041

Principal Business Units (as of March 31, 2011)

Parent company

USHIO INC.

Head Office	Chiyoda, Tokyo
Harima Division	Himeji, Hyogo Prefecture
Gotemba Division	Gotemba, Shizuoka Prefecture
Yokohama Division	Yokohama, Kanagawa Prefecture
Tokyo Sales Headquarters	Chiyoda, Tokyo
Osaka Branch	Osaka, Osaka Prefecture

Japanese subsidiaries

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

6 other companies

Overseas subsidiaries

North America	USHIO AMERICA, INC.
	USHIO CANADA, INC.
	CHRISTIE DIGITAL SYSTEMS U.S.A., INC.
	CHRISTIE DIGITAL SYSTEMS CANADA, INC.
	CHRISTIE MEDICAL HOLDINGS, INC.
	NECSEL INTELLECTUAL PROPERTY, INC.
	VISTA CONTROL SYSTEMS, Corp.
Europe	USHIO EUROPE B.V.
	USHIO FRANCE S.A.R.L.
	USHIO DEUTSCHLAND GmbH
	USHIO U.K., LTD.
	BLV Licht-und Vakuumtechnik GmbH
	Dipl.-Ing. Reinhold Eggers GmbH
	NATRIUM Sp. z o.o.
	XTREME technologies GmbH
Asia	USHIO HONG KONG LTD.
	USHIO TAIWAN, INC.
	USHIO PHILIPPINES, INC.
	USHIO (SUZHOU) CO., LTD.
	USHIO SINGAPORE PTE LTD.
	USHIO KOREA, INC.
	USHIO SHANGHAI, INC.
	USHIO SHENZHEN, INC.
	TAIWAN USHIO LIGHTING, INC.

11 other companies

Environmental Consciousness of this Publication

This publication is printed on paper approved by the Forest Stewardship Council at a green printing certified plant using waterless printing, which is highly effective in reducing volatile organic compounds (VOC). In addition, the computer-to-plate (CTP) method of printing is used to eliminate the intermediary materials required for the plate-making process.

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