

The background features several overlapping, curved, semi-transparent shapes in various shades of blue, ranging from a deep navy to a light sky blue. These shapes are set against a plain white background, creating a sense of depth and movement. The curves are smooth and organic, resembling waves or flowing fabric.

USHIO

CONTENTS

Editorial Policy

Since its founding, the USHIO Group has consistently developed lighting products satisfying needs on the cutting edge of various industrial fields. Many of those products were the first in the world in their respective fields or now command a top share in the global market.

To introduce the USHIO Group's initiatives for further growth, this report mainly features our management philosophy, Medium-term Management Plan, and stance on corporate governance as topics we would like to convey in particular to our stakeholders.

Disclaimer

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.

The copyright to this annual report is held by USHIO INC. Unauthorized reproduction or conversion is strictly prohibited.

Introduction

Introduction

Our Mission

○ Management Philosophy of the USHIO Group

The Management Philosophy that underpins all activities of USHIO Group employees retains the spirit of the "Basic Policy" that was formulated when the Company was first founded, while also recognizing the social issues that have emerged with the changing times. Our Management Philosophy therefore calls us to "fulfill our corporate social responsibility."

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.

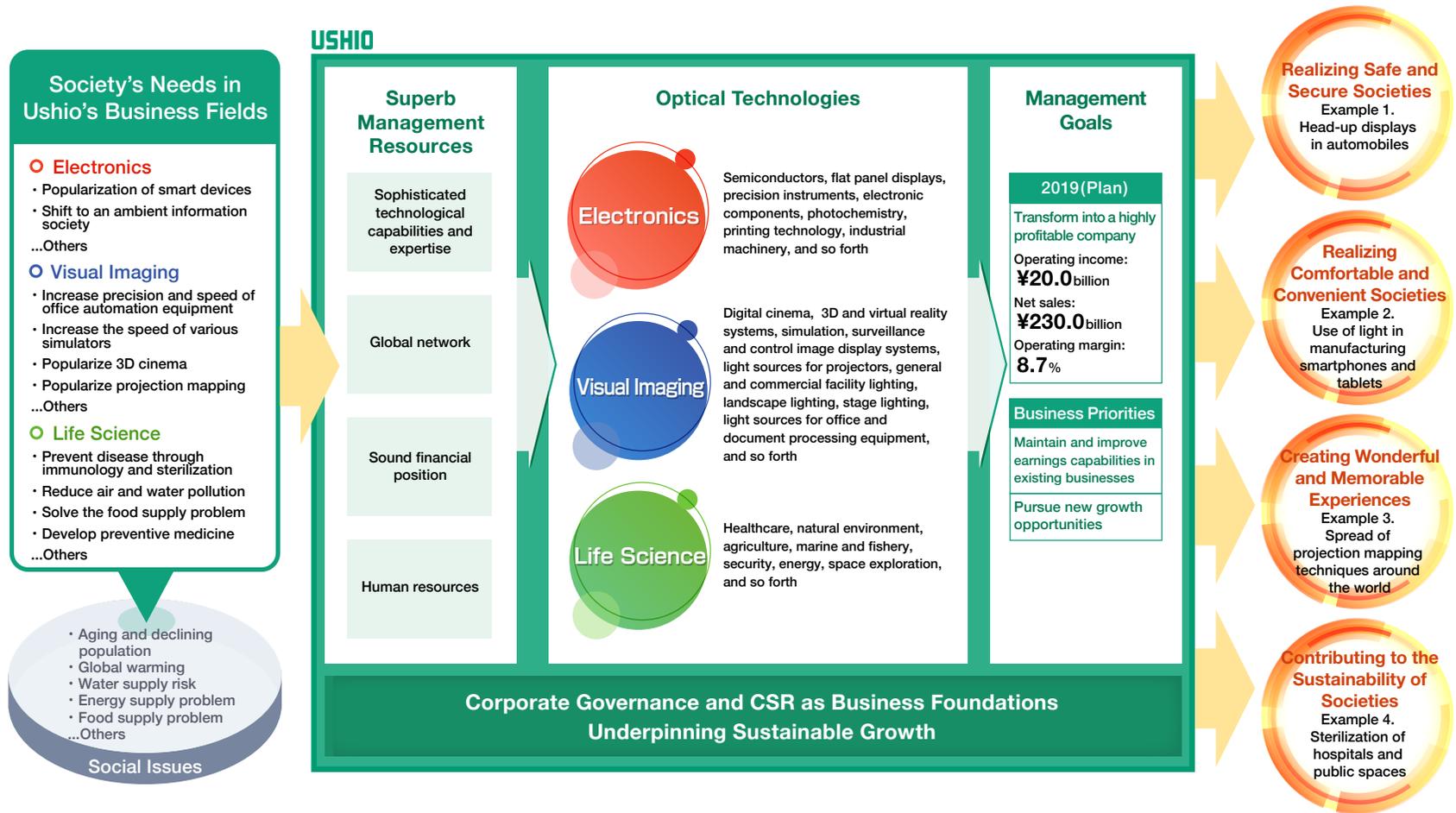
○ Our 10 Action Guidelines

These Action Guidelines describe how to realize the vision of the USHIO Group, and each and every employee abides by the Guidelines on a daily basis.

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.
2. We shall strive for the company's sustainable growth through our innovative, proactive and prompt management.
3. We shall respect all the internationally recognized basic human rights relating to our business activities, and endeavor to create bright, safe and pleasant working environments.
4. We shall provide high-quality, safe products and services at appropriate prices and carry out fair and equitable business transactions.
5. We shall work to earn the understanding and trust of society.
6. We shall comply with laws and regulations and carry out fair business activities in accordance with socially accepted practices.
7. We shall fulfill our duties to the best of our abilities in conformity with internal regulations and standards.
8. We shall promote environmental protection and the efficient use of resources.
9. We shall carry out proactive public relations activities while respecting the value of information and intellectual property rights of third parties.
10. We shall contribute to the development of respective regions where we conduct business as a member of the international community.

Introduction

Business Model



Introduction

Business Model

○ Realizing Safe and Secure Societies

Example 1. Head-up displays in automobiles

A head-up display projects various information onto the windshield of a car while constantly interfacing with electric toll collection (ETC) systems and cloud networks. This technology is expected to reduce driver inattentiveness by enabling them to obtain information without shifting their gaze. To realize safe and secure societies, USHIO is also engaged in the development of head-up displays.

Example 1



○ Realizing Comfortable and Convenient Societies

Example 2. Use of light in manufacturing smartphones and tablets

Many types of light are used in manufacturing the smartphones and tablets that have enriched and made our lives more convenient. By harnessing the characteristics of light, USHIO plays several roles in the process, eliminating minute dust particles from the manufacturing process, bonding components together, and bringing out the clarity and definition of liquid crystal displays.

Example 2



○ Creating Wonderful and Memorable Experiences

Example 3. Spread of projection mapping techniques around the world

Projection mapping is a technique that uses numerous digital projectors equipped with high-intensity lamps to project images onto buildings and other large objects and spaces. USHIO's light sources used in this way have continued to enthrall audiences at large-scale events in Japan and around the world.

Example 3



○ Contributing to the Sustainability of Societies

Example 4. Sterilization of hospitals and public spaces

Sterilization with light, instead of chemicals, is drawing attention as a highly safe method for maintaining hygiene. This promising technique holds potential for use in settings such as hospital operating theaters, swimming pool water and office lobbies. Expectations are growing for the use of light in protecting people's health.

Example 4



Interview with the President

Interview with the President

We aim to transform Ushio into a company that possesses new strengths to succeed in the world by providing a variety of "light solutions."

Kenji Hamashima

President and Chief Executive Officer



Q1

How was Ushio's performance in the fiscal year ended March 31, 2016?

In the fiscal year ended March 31, 2016, net sales were up 12.4% to ¥179.1 billion, operating income increased 26.8% to ¥13.1 billion, and ordinary income rose 6.7% to ¥14.6 billion. Net income attributable to owners of parent declined 1.5% to ¥11.1 billion, mainly due to the posting of an extraordinary loss from the expenses of moving the Head Office.

In the equipment business, in the imaging equipment sub-segment of the business we sold a new product in the Chinese cinema market and introduced a new product for amusement parks and various events, in addition to receiving the benefit of exchange rate fluctuations of the low yen against the high dollar. The optical equipment sub-segment saw higher shipments of lithography equipment and photo alignment equipment mainly due to increased demand for electronic components for high-end smartphones and also for small- to medium-sized LCD panels. As a result, sales and earnings were higher, and we moved into profitability from the deficit of the previous fiscal year.

In the light sources business, in addition to the impact of the foreign currency exchange rate, sales and earnings increased mainly due to increased sales of xenon lamps for digital cinema projectors, and of solid state light sources.

Q2

Looking back at the previous Medium-term Management Plan, please explain your rolling plan.

In the Medium-term Management Plan announced in May 2015, we laid out three key measures: "expand business earnings," "enhance capital efficiency," and "bolster shareholder return." The plan set targets for the end of the fiscal year ending March 31, 2018 of net sales of ¥220.0 billion, operating income of ¥18.0 billion (with an operating income rate of 8.2%), and an ROE of at least 8%. In the fiscal year ended March 31, 2016, we mainly succeeded in achieving our targets for the first fiscal year of the plan by speeding up decision-making through delegation of authority, improving R&D investment efficiency, making M&A investments, monitoring investment cases, expanding a total-solution type imaging equipment business, and strengthening Group synergies.

Against this backdrop, Ushio announces a Medium-term Management Plan every year as a rolling plan. The plan sets targets for the fiscal year ending March 31, 2019 of net sales of ¥230.0 billion, operating income of ¥20.0 billion, and an operating income rate of 8.7%.

In the Medium-term Management Plan announced in May 2016, we set the top-priority management targets of "increase operating income" and "improve profitability," to achieve our aim of "transforming into a highly profitable company." In existing businesses, we will promote the strengthening of structural reforms and cost competitiveness. At the same time, we will actively expand into new areas that take advantage of the strengths of existing products, and implement the full-fledged development of solution-type businesses. As a result, we will pursue new growth opportunities, with the aim of improving Ushio's sustainable profitability.

Q3

Please tell us about the strengthening of your management foundation.

In addition to implementing measures to expand the business, Ushio will take initiatives to gain the trust of all stakeholders. To this end, Ushio will endeavor to enhance its internal control system by strengthening corporate governance and compliance structures, as well as ensuring stable business continuity by developing risk management systems including business continuity plans.

In June 2016, Ushio transitioned to a Company with Audit and Supervisory Committee to strengthen the supervisory function of the Board of Directors and promote faster decision-making for some of the important business operations by delegating this decision-making to the directors and executive officers responsible for the relevant business operations. In addition, we are reviewing the workstyles of employees accompanying our office relocation. As a result, by increasing both the efficiency of business operations and also the synergy between groups, Ushio is rapidly creating a framework to grow further in the future. To survive in the global market, we will aggressively push forward a variety of business reforms.

Strategy

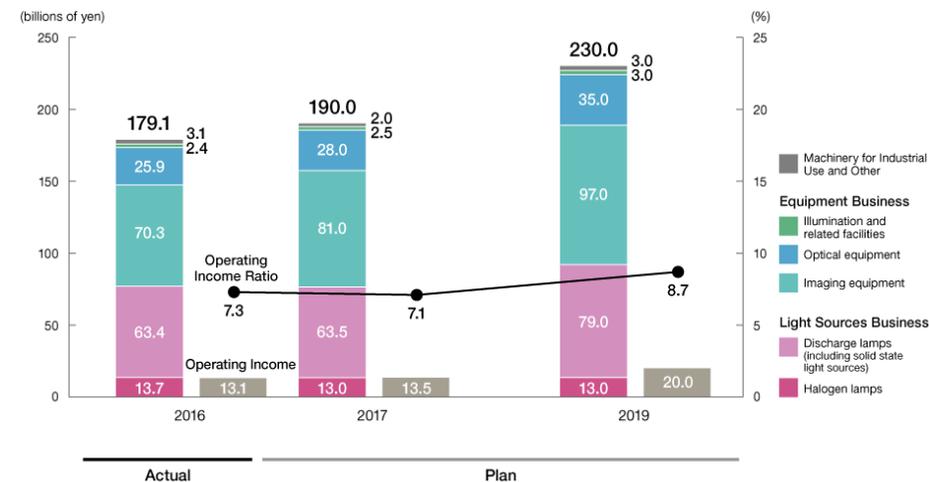


Medium-term Management Plan

Objectives for the Year Ending March 31, 2019

NET SALES		OPERATING INCOME	
2016 (Actual)	2019 (Plan)	2016 (Actual)	2019 (Plan)
¥179.1 billion	¥230.0 billion	¥13.1 billion	¥20.0 billion
+¥50.9 billion, growth rate 28%		+¥6.9 billion, growth rate 53%	
OPERATING INCOME RATIO		ROE	
2016 (Actual)	2019 (Plan)	2016 (Actual)	
7.3%	8.7% +1.4 percentage points	5.2%	Above 8%

Sales (by sub-segments) and Operating Income



Segments	Sub-Segments	March 2019 (Plan) (Billions of Yen)	For the Next 3 Years		CAGR
			Amount of Increase (Billions of Yen)	Growth Rates	
Equipment Business	Imaging equipment	97.0	+26.7	38%	11%
	Optical equipment	35.0	+9.1	35%	11%
	Illumination and related facilities	3.0	+0.6	25%	8%
	Sub-total	135.0	+36.3	37%	11%
Light Sources Business	Discharge lamps (including solid state light sources)	79.0	+15.6	25%	8%
	Halogen lamps	13.0	-0.7	-5%	-2%
	Sub-total	92.0	+14.8	19%	6%
Others	Machinery for industrial use and other business	3.0	-0.1	-3%	-1%
Total		230.0	+50.9	28%	9%

Strategy

Key Strategies under the Current Medium-term Management Plan

Maintain and Improve Earning Capability in Existing Businesses

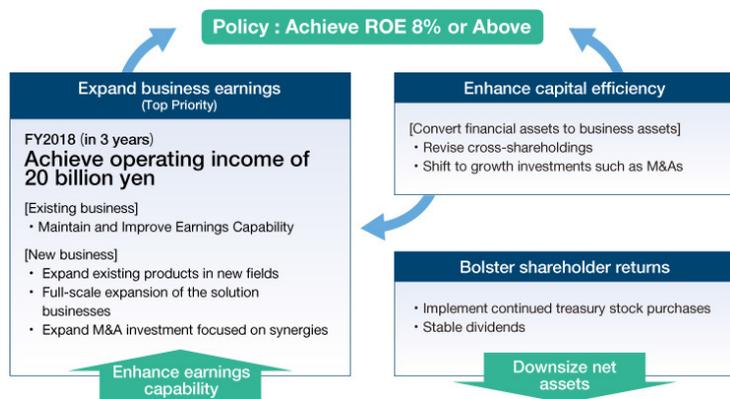
- Move to second stage of structural reform in the optical equipment business
- Increase cost competitiveness in Light Sources and Equipment businesses

Pursue New Growth Opportunities

- Expand existing products in new fields
- Full-scale expansion of the solutions businesses
 - Establish solution-type business model in the imaging field
 - Expand solution-type business into other business fields
- Expand M&A investment focused on synergies

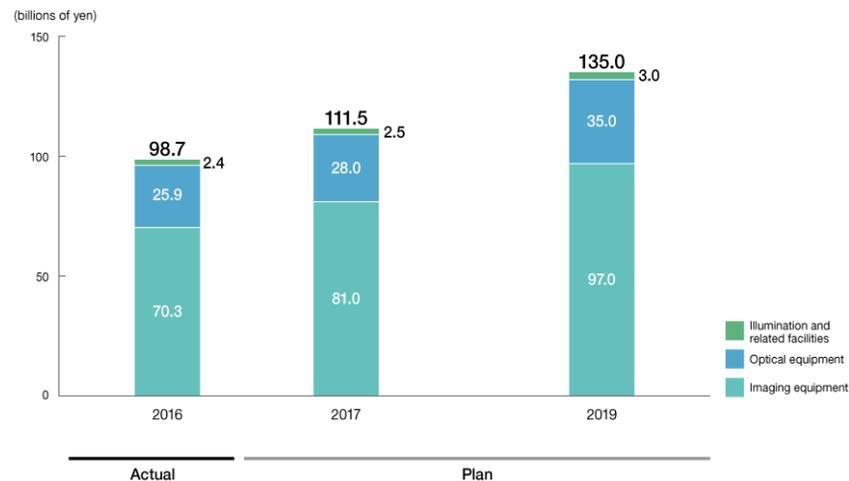
Increasing USHIO's Corporate Value

We will expand business earnings and aim to swiftly attain an ROE of 8% at the same time by enhancing our capital efficiency and bolstering shareholder returns.



Equipment Business

Medium-term Management Plan for Equipment Business



	(billions of yen)		
	2016 (actual)	2017 (plan)	2019 (plan)
Imaging equipment	70.3	81.0	97.0
Optical equipment	25.9	28.0	35.0
Illumination and related facilities	2.4	2.5	3.0

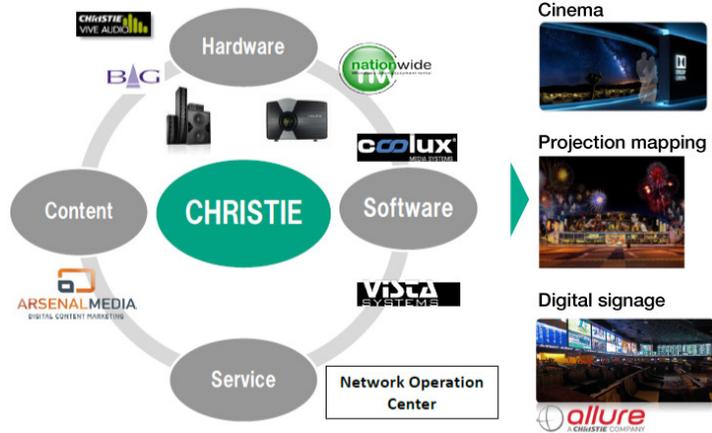
Strategy

Business Environment and Measures

Imaging equipment

Field	Business Environment & Strategy	Measures
Cinema	+ Continued expansion of demand in developing countries and demand for premium cinema screens	Expand the total solution business
	+ Increase provision of high-end cinema (Laser projector + Audio system, etc.)	
General imaging	+ Expand the digital signage business - a growth field	<ul style="list-style-type: none"> • Establish solution provision-type business model • Establish stable revenue model

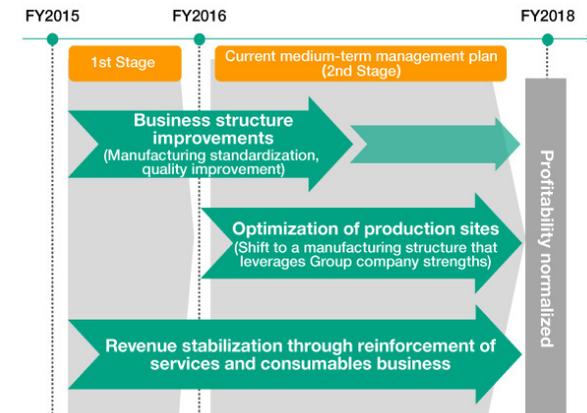
Expand Total Solutions for Imaging



Optical equipment

Field	Business Environment & Strategy	Measures
UV equipment	+ Innovate semiconductor packaging technology	Structural reform aimed at normalizing profitability
	+ Invest in automotive and infrastructure, expand data center	
	+ Investment opportunities through introduction of OLED	
Cure equipment	- Slowdown in smartphone growth	<ul style="list-style-type: none"> • Revise Group strategy
	+ Continued LCD investment in China	
	+ Continued needs for higher resolution in small-/medium-sized LCDs	
	- Decline in demand as OLED replaces LCD	

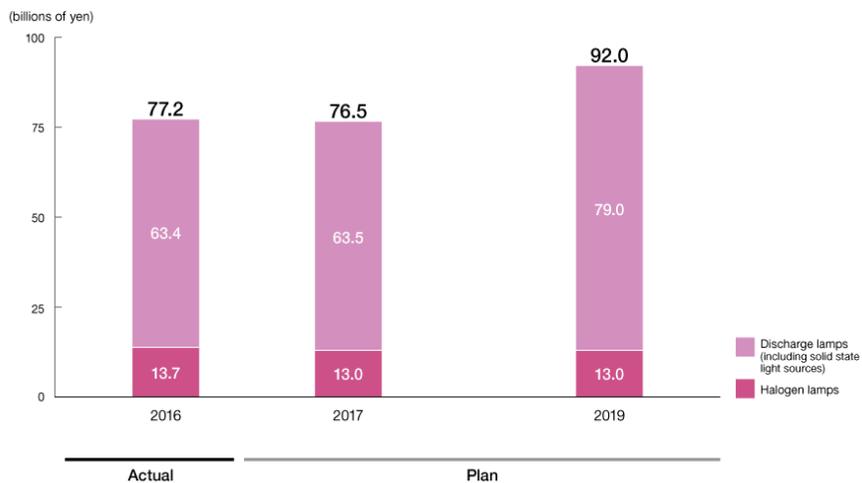
Structural Reform in the Optical Equipment Business



Strategy

Light Sources Business

Medium-term Management Plan for Light Sources Business



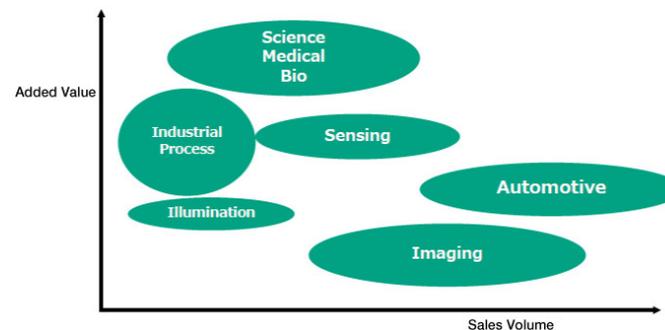
	2016 (actual)	2017 (plan)	2019 (plan)
Discharge lamps (including solid state light sources)	63.4	63.5	79.0
Halogen lamps	13.7	13.0	13.0

Business Environment and Measures

Field	Business Environment & Strategy	Measures
UV lamps	+ Promote differentiation (high efficiency, long-life)	Maintain profitability and grow sustainably <ul style="list-style-type: none"> Existing business: Maintain share and improve manufacturing costs New business: Aggressively enter into growth markets
	- Mature market	
Lamps for cinema	+ Increased demand in developing countries	
	- Tougher price competition	
Lamps for data projectors	+ Increase share by strengthening low-end position	
	- Low market growth	
New business field	+ Participate in growth fields such as environment, hygiene, automotive	
Solid state light sources	+ Strengthen lineup to expand into new fields	

Business Domains in the Solid State Light Source Business

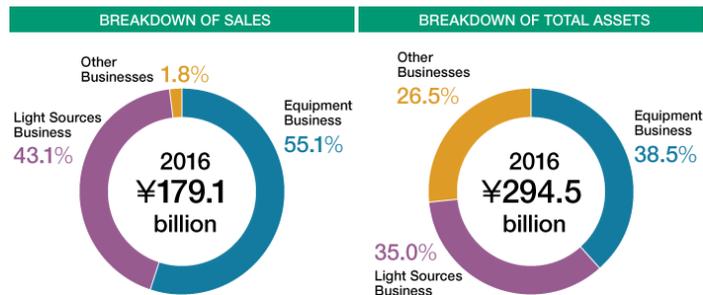
We will establish our own unique position in the solid state light source market by specializing in six business domains centering on the Industrial Process domain.



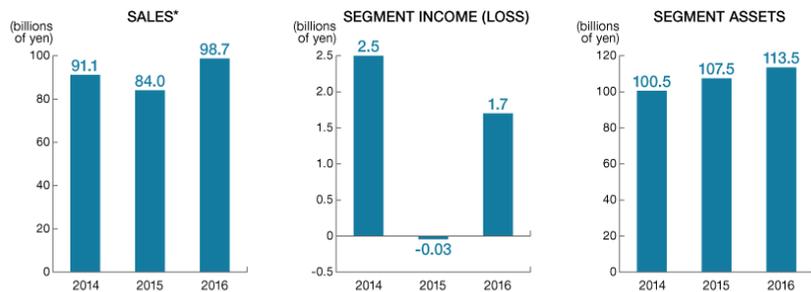
Business Overview



At a Glance



Equipment Business



*Sales indicates sales to unaffiliated customers

○ Imaging equipment

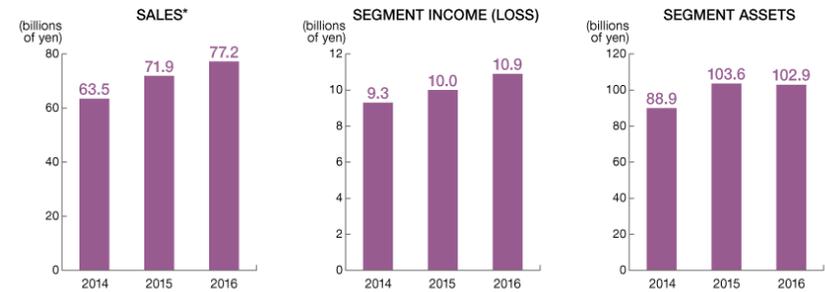
- Digital cinema projectors
- Digital projectors for general imaging, control rooms, simulators, digital signage and virtual reality systems

○ Optical equipment

- Optical equipment for manufacturing semiconductors, flat panel displays and electronic components (lithography equipment, photo-cleaning units, optical alignment equipment, and others)
- UV phototherapy devices and other medical devices
- EUV light sources equipment for semiconductor inspection and development applications

Business Overview

Light Sources Business



*Sales indicates sales to unaffiliated customers

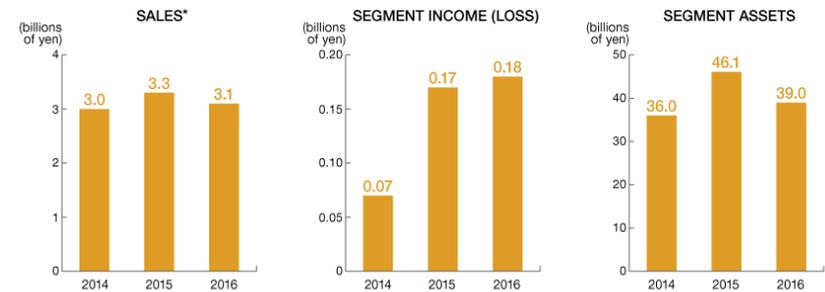
○ Discharge lamps, LED and LD

- UV lamps for manufacturing semiconductors, flat panel displays and electronic components
- Light sources for use in cinema projectors, data projectors, office automation equipment, illumination, and industry

○ Halogen lamps

- For office automation equipment
- For illumination applications (commercial facilities, stage and studio lighting, specialized lighting and others)
- Industrial halogen heaters

Machinery for Industrial Use and Other



*Sales indicates sales to unaffiliated customers

- Plastic forming applications, peripheral machinery
- Machinery and systems for industrial use
- Others

Business Overview

Equipment Business

Basic Strategies

Field	Main Products	Basic Strategies	
		Target	Measures
Imaging equipment	<ul style="list-style-type: none"> Digital cinema projectors Digital projectors for general imaging, control rooms, simulators, digital signage and virtual reality systems 	Expand the total solution business	<ul style="list-style-type: none"> Establish solution provision-type business model Establish stable revenue model
Optical equipment	<ul style="list-style-type: none"> Optical equipment for manufacturing semiconductors, flat panel displays and electronic components (lithography equipment, photo-cleaning units, optical alignment equipment, and others) UV phototherapy devices and other medical devices EUV light source equipment for semiconductor inspection and development applications 	Structural reform for constant profit	<ul style="list-style-type: none"> Revise Group strategy

Financial Results

In the imaging equipment field, sales were slightly lower for general imaging but grew for cinema-related business as laser projector uptake advanced and digital cinema projector (DCP) shipments rose due to the continued expansion of digital cinema screens in developing countries, centered on China.

In the optical equipment field, sales grew for projection lithography equipment for electronic devices. Sales also rose for optical alignment equipment for high-definition LCD panels for mobile applications, fueled by sustained demand for higher-definition small- and medium-sized LCD panels.

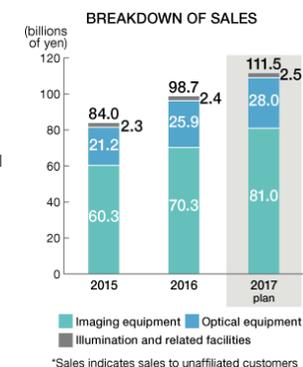
As a result, equipment business sales were ¥98,828 million, an increase of 17.4% year on year. Segment income was ¥1,726 million.

Initiatives Ahead

In imaging equipment, we anticipate broadly flat DCP sales volume. Further, we expect to increase sales of laser projectors due to the spread of Dolby Cinema™. Moreover, we forecast growth for the total solutions business from cinema and general imaging.

In optical equipment, we believe the sales volume of projection lithography equipment will be on par with the current fiscal year. However, we expect optical alignment equipment shipments to grow, driven by continued demand for higher-definition small- and medium-sized LCD panels.

Sales	2015	2016	2017 (plan)
Imaging equipment	¥60.3 billion	¥70.3 billion	¥81.0 billion
Optical equipment	¥21.2 billion	¥25.9 billion	¥28.0 billion
Illumination and related facilities	¥2.3 billion	¥2.4 billion	¥2.5 billion



Business Overview

Light Sources Business

Basic Strategies

Field	Main Products	Basic Strategies	
		Target	Measures
Discharge lamps, LED and LD	<ul style="list-style-type: none"> UV lamps for manufacturing semiconductors, flat panel displays and electronic components Light sources for use in cinema projectors, data projectors, office automation equipment, illumination, and industry 	Maintain profitability and grow sustainably	<ul style="list-style-type: none"> Existing domains: Maintain share and improve manufacturing costs New domains: Aggressively enter growth markets
Halogen lamps	<ul style="list-style-type: none"> For office automation equipment For illumination applications (commercial facilities, stage and studio lighting, specialized lighting and others) Industrial halogen heaters 		

Financial Results

Among discharge lamps, sales declined for UV lamps for lithography, owing to price competition as well as greater uptake of long-life type products in the semiconductor and LCD panel fields. In contrast, sales of xenon lamps for cinema projectors grew on a rise in the total number of DCPs installed, mainly in China and other developing countries. In solid state light sources, sales increased due to the expansion of the semiconductor laser business through M&A and the LED business.

Sales of halogen lamps for office automation applications declined, hampered by economic weakness in developing countries.

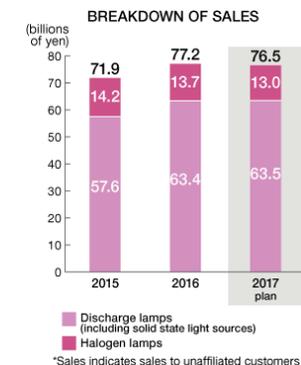
As a result, sales in the light sources business increased by 7.6% year on year to ¥78,574 million. Segment profit was up by 9.0% year on year to ¥10,976 million.

Initiatives Ahead

In discharge lamps, sales will likely grow for solid state light sources but be flat or slightly lower for UV lamps for lithography, owing partially to price competition in xenon lamps for cinema applications.

We forecast halogen lamp sales will decline, owing to the impact on office automation applications of the economic slowdown in developing countries.

Sales	2015	2016	2017 (plan)
Discharge lamps (including solid state light sources)	¥57.6 billion	¥63.4 billion	¥63.5 billion
Halogen lamps	¥14.2 billion	¥13.7 billion	¥13.0 billion



ESG Information



ESG Information

Corporate Governance

Central Objectives

The USHIO Group recognizes that realizing the vision set forth in its Management Philosophy and promoting sustainable growth of the Company and increasing corporate value over the medium to long term will bring satisfaction to all stakeholders. In order to achieve this goal, the Company strives to ensure the transparency and efficiency of corporate management and to reinforce corporate governance for realizing speedy and resolute decision making.

Corporate Governance Framework

At the Annual General Meeting of Shareholders on June 29, 2016, USHIO transitioned from a company with an audit & supervisory board structure to a Company with Audit and Supervisory Committee. The aim was to further strengthen the supervision function of the Board of Directors as part of a drive to reinforce corporate governance in order to ensure transparent and efficient corporate management and speedy and resolute decision-making.

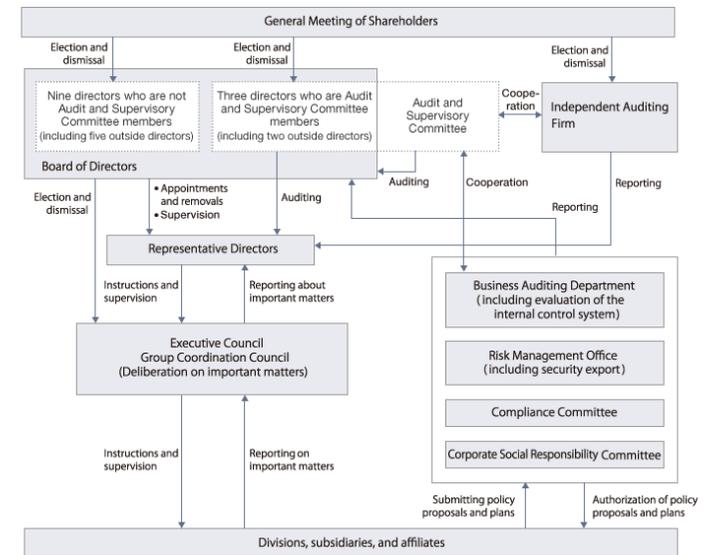
This transition will foster speedy decision making by delegating decisions for certain important business matters from the Board of Directors to executive directors. It will also strengthen the supervision function of the Board of Directors by ensuring that most of its members are outside directors. The new setup will also reinforce audit and supervision functions by establishing an Audit and Supervisory Committee with the authority to assess the legality and validity of board members in performing their duties.

The Board of Directors comprises 12 directors. Nine are not Audit and Supervisory Committee members (including five outside directors) and three are Audit and Supervisory Committee members (including two outside directors). The Board of Directors oversees decision-making and business execution for top priority issues, including basic management policy.

Delegating decisions on certain important business execution to overseeing directors has accelerated decision-making. At the same time, the executive officer system has led to more accurate and speedier business execution. USHIO established the Executive Council and Group Coordination Council to discuss and report on priorities in business execution.

The Audit and Supervisory Committee which comprises three directors (including two outside directors) audits and oversees directors' performance of duties in line with its own audit and supervising standards. USHIO appointed a full-time Audit and Supervisory Committee member to enhance the efficacy of audits by collecting information from directors (excluding those who are also Audit and Supervisory Committee members) and employees and coordinating smoothly with the Internal Audit Department and independent Auditing Firm.

USHIO's Internal Control Framework



Stance on Corporate Governance Code

USHIO is reinforcing its corporate governance in line with the Corporate Governance Code of the Tokyo Stock Exchange. While it has yet to comply with the Supplementary Principle covering the analysis, evaluation, and disclosure of the Effectiveness of the Board of Directors, the Company recognizes the need to assess this area.

See the Corporate Governance Report for more details.

<http://www.ushio.co.jp/en/ir/library/governance/>

ESG Information

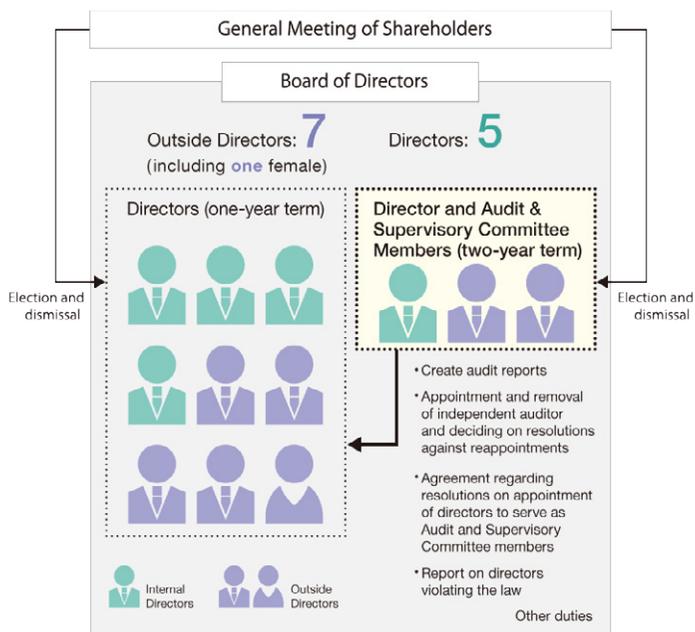
○ Transition to a Company with Audit and Supervisory Committee Structure

USHIO added three independent outside directors and three independent outside Audit and Supervisory Board members, and put in place a Remuneration Advisory Committee which consists of a chairperson and members with outside director comprising the majority in keeping with efforts to reinforce corporate governance.

USHIO has transitioned to a Company with Audit and Supervisory Committee structure to strengthen the supervision function of the Board of Directors and foster speedy decision-making by delegating judgments on certain important business matters to executive directors and executive officers.

After the transition, the Company has an Audit and Supervisory Committee comprising at least three directors of whom a majority are outside directors.

USHIO appointed a full-time Audit and Supervisory Committee member to enhance the efficacy of audits by collecting information from directors (excluding those who are also Audit and Supervisory Committee members) and employees and coordinating smoothly with the Internal Audit Department and independent Auditing Firm.



○ Message from Director and Audit & Supervisory Committee Member

In line with its transition to a Company with Audit and Supervisory Committee structure, USHIO has chosen the majority of its directors externally and reinforced supervision functions by obtaining valuable advice and guidance relating to corporate management from the outside directors. The Company has accelerated decision-making on business execution by delegating authority to executive officers. It also focused more on execution ability in selecting the directors.



Nobuyuki Kobayashi
Director and
Audit & Supervisory Committee Member

Broadly assuming that the Audit and Supervisory Committee focuses on compliance and safeguarding corporate value, one new audit point to be focused on is assessing the validity of business execution. The Audit and Supervisory Committee considers it important to help enhance corporate value through corporate governance, and looks to help improve management transparency and efficiency, foster speedy business execution, and ensure thorough risk management and compliance.

USHIO celebrated its 50th anniversary in 2014. The Company will pursue further growth by continuing its discussion on how best to commercialize high-value-added businesses and products.

○ Stance on Directors Remuneration and Decision Making Approach

The remuneration system comprises monetary compensation and stock-based compensation consisting of a basic amount based on position and an amount determined based on operating performance and performance evaluation. Resolutions by the Board of Directors regarding remuneration are reached based on deliberation conducted in advance by the Remuneration Advisory Committee, which consists of a chairperson and a majority of outside director members. This composition is from the perspective of ensuring fairness and appropriateness regarding the remuneration system and standards and the assessment of contribution to the Company's operating performance.

Total Remuneration and Other Payments by Director Category, Total Amounts by Types of Remuneration, and Other Payments and Number of Eligible Directors

Director categories	Total remuneration and other payments (millions of yen)	Total amounts types of remuneration and other payments (millions of yen)					Number of eligible directors
		Basic compensation	Stock options	Bonuses	Stock-based compensation for directors	Retirement benefits	
Directors (excluding outside directors)	366	292	—	—	73	—	9
Audit and Supervisory Committee members (excluding outside members)	25	25	—	—	—	—	3
Outside directors	36	36	—	—	—	—	7

Note: Stock-based compensation for directors is based on expenses recorded in the consolidated financial results for the fiscal year ended March 31, 2016, under Japanese GAAP.

ESG Information

Internal Auditing and the Audit and Supervisory Committee Audits

The Internal Audit Department performs on-site audits to check the appropriateness of operational controls and procedures. The department submits an annual audit plan to the Audit and Supervisory Committee and explains its specific auditing policies. It also reports as necessary to the committee on the results of internal audits.

The Independent Auditor submits annual plans to the Audit and Supervisory Committee and explains its specific auditing policies. It also presents reports summarizing reviews and audit results for quarterly reviews and accounting audits for quarterly and year-end results.

The Audit and Supervisory Committee, Internal Audit Department and independent auditor exchange information and opinions and cooperate with each other.

Compliance

USHIO has established "10 Action Guidelines" in order to define standards for behavior that require everyone at the Group to comply with laws, regulations, the Articles of Incorporation, and management philosophy. 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 Audit and Supervisory Committee. Furthermore, information involving the performance of directors' duties is recorded, stored, and managed, in documentary and electronic formats. This enables the directors and Audit and Supervisory Committee members to view the information at any time and take timely and appropriate action 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 the Group companies.

Risk Management

In its risk management regulations, USHIO has specified departments responsible for respective risk categories, including compliance, the environment, product quality, finance, legal matters, natural and other disasters, information management, and export controls. Each responsible department is to establish rules and guidelines, conduct training, and produce and distribute manuals and so forth. When a new risk emerges, a director or an executive officer is to be promptly appointed to take responsibility for handling it. Furthermore, if a risk materializes and is expected to incur significant damage, the responsible director or executive officer is to report it promptly to the Board of Directors.

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, and 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 related to 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 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, which 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, which upgrades 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 and 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.

ESG Information

Newly-appointed Outside Directors

Outside Director, Sakie T. Fukushima



For over 30 years, I have worked at solving problems for foreign-affiliated and Japanese companies at a consultant services company that advises on the management strategy and human resources strategy of foreign-owned companies. At the same time, I have served as an internal director of a foreign-affiliated company at its global headquarters for 12 years and as an outside director at nine Japanese companies from 2001, and I have helped with the development of corporate governance at Japanese companies. I came to believe that the essence of good management is to have an unshakable corporate philosophy along with human resources that act as an "iron fist in a velvet glove" to cope flexibly with change while maintaining this philosophy.

In the niche market of optical technologies, USHIO maintains a large global market share. Furthermore, I believe that USHIO is providing solutions to the problems of society and other companies through applied optical technologies.

In the future, while learning about the businesses of USHIO, I would like to fully understand its corporate strategy and, to the best of my ability, contribute as much as possible in areas related to governance and human resources strategies.

○ Biography

Jun. 1980	Joined Braxton International
Sep. 1987	Joined Bain & Company, Inc.
Aug. 1991	Joined Korn/Ferry International-Japan
May 1995	Director, Korn/Ferry International
Sep. 2000	Regional Managing Director, Korn/Ferry International-Japan
Jul. 2001	President and Representative Director, Korn/Ferry International-Japan
May 2009	Chairman & Representative Director, Korn/Ferry International-Japan
Mar. 2010	Outside Director, Bridgestone Corporation (incumbent)
Jul. 2010	President & Representative Director, G&S Global Advisors Inc. (incumbent)
Jun. 2011	Outside Director, Ajinomoto Co., Inc. (incumbent)
May 2012	Outside Director, J. Front Retailing Co., Ltd. (incumbent)

Outside Director, Audit and Supervisory Committee Member, Nobuyoshi Yamaguchi



I have worked for financial institutions or in related operations for 38 years, and currently serve as an outside director at two other companies. In that time, I have been in charge of market sectors, and overseas, inspection, trust, and real estate businesses. At the same time, I was able to make contact with a large number of clients. In the course of these activities, I came to realize that for the sustained growth of a company, a vibrant organization that possesses effective governance and diversity is needed above all else.

USHIO has been providing solutions while creating many products that possess top shares of the global market in a variety of fields that incorporate light. USHIO will naturally seek to enhance its superiority at each stage of "creating light," "using light," and "manipulating light," but we will also work to provide new solutions in the world of light through the cooperation of all departments. We hope that the result will be the understanding that the existence of Ushio is indispensable for society.

Looking ahead, expectations for USHIO are greater than ever before, but at the same time it seems that the pace of change in the market is accelerating. Although it seems that USHIO has almost reached a satisfactory level of

achievement for each of its basic strategies, in the future I hope to contribute to USHIO's next stage of advancement by sharing the direction we should proceed as indicated by management and the business execution departments, together with my own thoughts.

I want to take full advantage of my experience to contribute to USHIO's capability of responding to the new challenges and changes facing it, along with its movement toward the next level of achievement.

○ Biography

Apr. 1977	Joined The Kyowa Bank, Ltd. (currently Resona Bank, Ltd.)
Jun. 2003	Executive Officer, Resona Bank, Ltd.
Jun. 2010	Director and Senior Managing Executive Officer, Resona Bank, Ltd.
Apr. 2013	Representative Director, Resona Card Co., Ltd.
Jun. 2014	Outside Director, NAKABAYASHI CO., LTD. (incumbent)
Apr. 2015	Senior Director, TOKYO KANTEI Co., Ltd.
Dec. 2015	Outside Director, S·K·I. CORPORATION (incumbent)

ESG Information

Directors

Directors (As of June 29, 2016)



Jiro Ushio
Chairman and USHIO Group Representative



Kenji Hamashima
President and Chief Executive Officer



Sakie T. Fukushima
Outside Director



Nobuyuki Kobayashi
Director (Audit & Supervisory Committee Member (Full-time))



Shiro Ushio
Director Chairman, USHIO LIGHTING, INC.



Hiroaki Banno
Director General Manager, SSLS Headquarters



Masanori Yoneda
Outside Director (Audit & Supervisory Committee Member)



Nobuyoshi Yamaguchi
Outside Director (Audit & Supervisory Committee Member)



Tadashi Nakamae
Outside Director



Yoshinari Hara
Outside Director

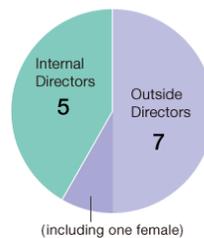


Yasufumi Kanemaru
Outside Director

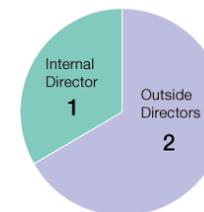


Shuichi Hattori
Outside Director

Board of Directors



Director and Audit & Supervisory Committee Members



ESG Information

CSR Information

Approach to Corporate Social Responsibility (CSR)

We consider that a corporate citizen should observe compliance, 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.

Activity Highlights

CSR Action Plan

USHIO has created a CSR Action Plan (Policy) and taken steps to reinforce its CSR initiatives. Through dialogue with stakeholders, we have identified relationships between various social issues and our core businesses. To emphasize carrying out initiatives in line with our business strategy, we have set out basic principles in our Action Plan, which we incorporate into the strategies of each division and department.

In formulating the CSR Action Plan, the CSR Committee and other related organizations investigated CSR factors of the USHIO's business activities from various angles, while giving consideration to the 7 core subjects of ISO 26000 and many other sources of guidance and guidelines. As a result, the Group's issues were classified under the five pillars of governance, people, quality, society, and environment. These items are then broken down further into action policies. Currently the CSR Action Plan shows USHIO's CSR framework while forming the underlying philosophy for business planning at each business division and Group company. The Action Plan is modified each year to reflect the results of the listening survey.

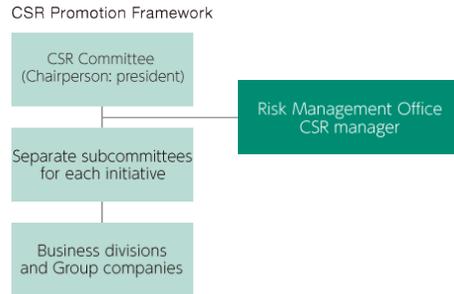
USHIO's CSR Action Plan for the fiscal year ending March 31, 2017

Five Issues	CSR Action Plan
<p>GOVERNANCE (Ensure transparency in sequences of business activities, information disclosure, compliance with laws and regulations and international rules, prevention of corruption, risk management, and others)</p>	<ul style="list-style-type: none"> Strengthen information security Promote business continuity management Strengthen measures to prevent corruption Provide information to shareholders on CSR activities Strengthen Group CSR activities (share information, common targets, grasp needs, etc.) Enhance disclosure of non-financial information Initiatives to maintain transparency on tax issues
<p>PEOPLE (Eradicate discrimination, respect diversity, respect the rights of all people related to operations to survive and live, eliminate harassment, ensure worker health and safety, prevention of child labor, forced labor, and slave labor, avoid complicity in human rights infringements)</p>	<ul style="list-style-type: none"> Eradicate discrimination, respect diversity to promote use for human resources in the company Maintain a comfortable work environment (eliminate harassment, ensure appropriate worker health and safety) Implement human resource development to contribute to maintaining and improving business activities over the long term Promote work-life balance Conduct human rights education Strengthen monitoring of worker health and safety
<p>QUALITY (Realize attractive quality overall, not only in products, but also in concepts and service provision, including observance of market rules and guidelines)</p>	<ul style="list-style-type: none"> Pure customer satisfaction improvement, with the greatest emphasis on the customers' perspective Quality target and plan development ISO 9001 certification for quality management systems: transition to 2015 version and make improvements (faster speed, slimmer organization) Matters related to strengthening the supply chain (Promote green procurement and CSR procurement, promote activities with an awareness of the basic policy on conflict minerals, practice due diligence on human rights) Strengthen global quality assurance system Product safety assessment Enhance supplier CSR monitoring
<p>SOCIETY (Maintain relationships with local communities, involvement with international society, contribution to education, culture, etc., social contributions through business such as products and services)</p>	<ul style="list-style-type: none"> Foster social awareness by encouraging active participation in social contribution activities, community exchanges, volunteer and pro bono activities Promote business in emerging countries Promote participation in volunteer activities
<p>ENVIRONMENT (Disclose information on greenhouse gas and other emissions affected by corporate activities, impacts on climate change and ecosystems, consideration for resource limitations, management of dangerous waste and hazardous chemicals, etc.)</p>	<ul style="list-style-type: none"> Targets and initiatives based on Phase Five of the Environmental Action Plan ISO 14001 certification for environmental management systems: transition to 2015 version Provide safe, secure and environmentally friendly solutions through product development Reduce CO₂ emissions in business activities: reduce CO₂ by 3% from fiscal 2015 levels on a sales unit basis Advance CSR procurement as a group Strengthen chemical substance management Evaluate Group progress on Environmental Action Plan

ESG Information

CSR Promotion Framework

USHIO has established a CSR Committee, which is chaired by the president. The committee decides on policies for the whole Company relating to CSR initiatives. The CSR Committee establishes subcommittees as needed to oversee practical implementation of the policies it has decided, and discusses specific initiatives and ways to promote them.



At the 26th CSR Committee held in May 2016, the members reached an agreement on a new CSR medium-term plan following a discussion about the next initiatives to take after the previous CSR medium-term plan ended on March 31, 2016, deciding to redouble efforts on matters that take precedence (materiality) and to broaden the scope of Group efforts (boundaries).

USHIO intends to enhance corporate value from a long-term perspective through measures to strengthen its presence in fields where it aims to advance as a corporation while enhancing social contributions, and to come together as a group determined to improve corporate value.

United Nations Global Compact's Ten Principles

USHIO has declared its support for the United Nations Global Compact of principles concerning human rights, labor standards, the environment and anti-corruption. We have joined the local UN network supporting the compact, Global Compact Network Japan, and are working to promote all facets of CSR among the many other participating companies and NGOs. To this end, we are continuing to play an active role in sectional activities for sharing information on necessary specific measures, and enhancing the activities of each company.



10 Principles of the United National Global Compact

	United Nations Global Compact's Ten Principles and Our Initiatives	USHIO's Related Initiatives
Human Rights	<p>Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and</p> <p>Principle 2 make sure that they are not complicit in human rights abuses.</p>	The third section of USHIO's 10 Action Guidelines sets out clear requirements for respecting basic human rights for all people, and prohibits unfair discrimination, among other measures.
	<p>Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;</p> <p>Principle 4 the elimination of all forms of forced and compulsory labor;</p> <p>Principle 5 the effective abolition of child labor; and</p> <p>Principle 6 the elimination of discrimination in respect of employment and occupation.</p>	The USHIO Group respects the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. Under the third section of USHIO's 10 Action Guidelines, the Company strives to promote good labor-management relations, abolish discrimination in the workplace, and create working environments that are cheerful, safe, and comfortable.
Environment	<p>Principle 7 Businesses should support a precautionary approach to environmental challenges;</p> <p>Principle 8 undertake initiatives to promote greater environmental responsibility; and</p> <p>Principle 9 encourage the development and diffusion of environmentally friendly technologies.</p>	Section 8 of USHIO's 10 Action Guidelines clearly states the Company's position on actively working to protect the environment. We also formulated our 2020 Environmental Vision and are now working to implement Phase Three of the Environmental Action Plan.
Anti-Corruption	<p>Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.</p>	Under section 6 of the 10 Action Guidelines, USHIO strives to prevent corruption and to conduct fair business activities. We have also set up a Compliance Committee and the USHIO Hotline (internal reporting system).

For more information about the USHIO Group's CSR initiatives, please visit our corporate website.

<http://www.ushio.co.jp/en/csr/>

Sustainability report 2016 (PDF) update schedule:
 Japanese version: End of October
 English version: End of November



Financial Information

Financial Review

USHIO INC. and Consolidated Subsidiaries
Year ended March 31, 2016

The USHIO Group—comprising the parent company, 57 consolidated subsidiaries and 2 equity-method affiliates—engages mainly in manufacturing and marketing 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, 2016, the U.S. economy saw a gradual recovery supported by an increase in personal spending and improving employment conditions. Meanwhile, the Chinese economy continued to decelerate and other developing countries remained under pressure, mainly owing to the impact of a drop in crude oil prices. In Japan, although corporate earnings and employment conditions showed signs of improvement, personal spending was sluggish.

In the cinema-related markets, which are key markets for the USHIO Group's imaging equipment and light sources, the number of screens continues to increase in developing markets, including China.

In the electronics market, a key market for the USHIO Group's optical equipment and light sources, demand increased for electronic components and small and medium-sized LCD panels for high-end smartphones.

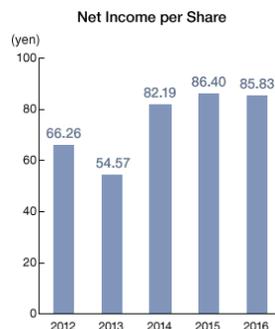
Under these economic conditions, the USHIO Group took steps to bolster Group-wide synergies, including expanding visual imaging business solutions. In addition, the Group actively executed R&D investments in new technologies and products for the future, in fields such as the science and biomedical businesses.

Earnings

During the fiscal year ended March 31, 2016, both sales and income increased.

Net Sales

Consolidated net sales increased 12.4% year on year to ¥179,121 million. In the equipment business, in addition to the foreign exchange impact, sales increased mainly due to increased sales in the visual imaging business. In the light sources business, in addition to the foreign exchange impact of the yen's depreciation against the dollar, sales increased mainly due to increased sales of xenon lamps for digital cinema projectors, and of solid state light sources.



Operating income

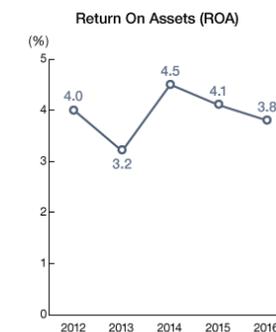
Operating income rose by 26.8% year on year to ¥13,130 million. The improvement was attributable to steady growth both in the equipment and light sources businesses.

Ordinary income

Ordinary income rose 6.7% year on year to ¥14,633 million. This increase mainly reflected the foreign exchange impact of the yen's depreciation against the dollar, which was partially offset by investment losses on stock held.

Net income attributable to owners of parent

Net income attributable to owners of parent declined 1.5% to ¥11,105 million, mainly due to the posting of an extraordinary loss from the expenses of moving the Head Office.



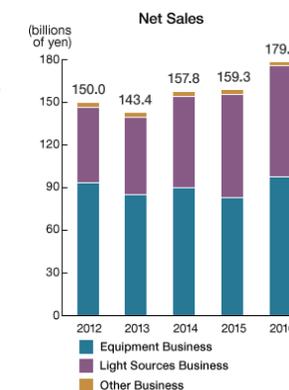
Results by Business Segment

Equipment Business

The equipment business saw sales increase 17.4% year on year to ¥98,828 million, recording segment income of ¥1,726 million.

In the imaging equipment sub-segment of the business, in the cinema field, sales in the cinema-related business increased, mainly due to increased adoption of laser projectors, in addition to higher shipments of digital cinema projectors supported by the continuing installation of new cinema screens, primarily in newly developing countries, including China. In general imaging equipment, the USHIO Group posted higher sales of imaging equipment for entertainment, primarily amusement parks and various events, mainly due to the launch of new products. Combined with a boost from the yen's depreciation, profit increased for the imaging equipment sub-segment as a whole.

In the optical equipment sub-segment, solid demand primarily for high-end smartphones, among other factors, led to an increase in sales of projection lithography equipment for related electronic devices. Meanwhile, there were signs of restrained capital investment in smartphones in the middle and lower price ranges primarily in the Chinese market, leading to lackluster demand for lithography equipment for PCBs. In addition, in the LCD-related market, sales of optical alignment equipment for high-definition LCD panels for mobile devices increased on the back of continuing demand for high-resolution small and medium-sized LCD panels. Consequently, profit increased for the optical equipment sub-segment as a whole.



○ Light Sources Business

Sales in the light sources business increased by 7.6% year on year to ¥78,574 million. Segment profit was up by 9.0% year on year to ¥10,976 million.

The light sources business posted higher sales and profit, aided significantly by the foreign exchange impact of the weaker yen against the dollar.

Among discharge lamps, UV lamps for lithography saw lower sales mainly due to continuing growth in the use of long-life types both in the semiconductor and LCD equipment fields, along with the impact of price competition, although earnings were lifted by the impact of the yen's depreciation. Meanwhile, xenon lamps for digital cinema projectors posted higher sales, despite the impact of price competition. This result was mainly due to a continuing increase in the total number of digital cinema projectors in newly developing markets, including China, along with a boost from the yen's depreciation. In solid state light sources, sales increased due to M&A-driven growth in the semiconductor laser and LED businesses, in addition to expansion in demand for laser light sources for projectors.

Halogen lamps posted lower sales, mainly as lamps for office automation equipment were impacted by lackluster economic conditions in developing countries, although sales were lifted by the impact of the yen's depreciation.

○ Other Businesses

Sales in other businesses decreased by 5.7% year on year to ¥3,218 million and segment profit increased by 3.5% year on year to ¥181 million.

In other businesses, the USHIO Group posted sluggish sales of products such as die-casting inspection equipment, despite firm sales of plastic molding machines.

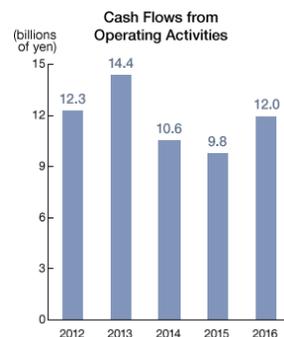
Sources of Funds and Liquidity

○ Cash Flows

Cash and cash equivalents on March 31, 2016 totaled ¥47,813 million, down ¥9,176 million from the previous fiscal year-end. Cash flows are broken down as follows:

○ Cash Flows from Operating Activities

Operating activities in the fiscal year ended March 31, 2016 provided net cash of ¥12,031 million (compared with net cash of ¥9,876 million provided in the previous year). The main positive contributions to this result were ¥15,187 million in income before income taxes and minority interests, and a ¥6,495 million adjustment for depreciation and amortization. Meanwhile, factors reducing cash included a ¥1,075 million loss on sales of non-current assets, an ¥8,108 million increase in inventories and income taxes paid of ¥4,349 million.



○ Cash Flows from Investing Activities

Investing activities used net cash of ¥10,367 million (compared with net cash used of ¥3,710 million in the previous fiscal year). The main factors increasing cash were proceeds from withdrawal of time deposits of ¥15,432 million, proceeds from sales and redemption of securities of ¥7,248 million and proceeds from sales of property, plant and equipment of ¥1,953 million. The main factors decreasing cash were an increase in time deposits of ¥13,766 million, purchase of securities of ¥3,940 million, purchase of property, plant and equipment of ¥7,903 million, purchase of investment securities of ¥6,134 million, and purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥3,883 million.

○ Cash Flows from Financing Activities

Financing activities used net cash of ¥7,849 million (compared with ¥1,210 million provided in the previous fiscal year). The main factor increasing cash was proceeds from long-term debt of ¥1,212 million. Against this, factors decreasing cash included repayment of long-term debt of ¥1,373 million, purchase of treasury stock of ¥3,177 million, cash dividends paid totaling ¥3,133 million and payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation of ¥1,415 million.

Financial Position

○ Assets

At the fiscal year-end, assets totaled ¥294,525 million, a decrease of ¥16 million from the previous fiscal year-end. The main factors behind this decrease were decreases in cash and deposits mainly due to the purchase of treasury shares, and securities due to the sale of bond investment trusts and other securities.

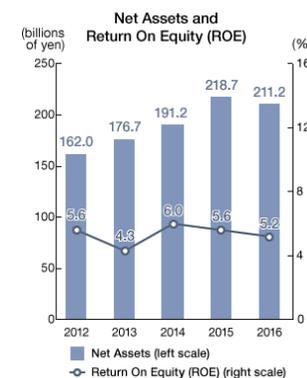
The main factors increasing total assets were increases in inventories in line with higher business volume, goodwill associated with M&A activity, and investment securities due to the purchase of bonds.

○ Liabilities

At the fiscal year-end, liabilities totaled ¥83,228 million, an increase of ¥7,410 million from the previous fiscal year-end. The main factors behind this increase were increases in short-term loans payable to meet demand for working capital and net defined benefit liability due to changes in the discount rate and other parameters.

○ Net assets

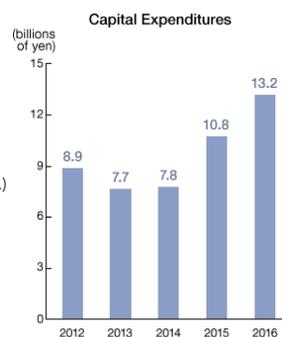
At the fiscal year-end, net assets totaled ¥211,296 million, a decrease of ¥7,427 million from the previous fiscal year-end. The main factors behind this decrease were decreases in foreign currency translation adjustments due to a stronger yen, and re-measurements of defined benefit plans due to a change in the discount rate, along with an increase in treasury stock due to the purchase of treasury stock.



Capital Expenditures

The USHIO Group's capital expenditures for the fiscal year ended March 31, 2016 were ¥13,224 million. The bulk of this expenditure was for capital investment in the light sources and equipment businesses, with investments focused on building up existing facilities, as well as on businesses promising growth in future, and research and development. A breakdown of capital expenditures for the fiscal year was as follows. (Figures are calculated on an acceptance basis for property, plant and equipment, intangible fixed assets, and long-term prepaid expenses. Amounts do not include consumption tax or other levies.)

	2016	YoY Change
Light sources business	¥5,870 million	164.9%
Equipment business	¥6,871 million	101.8%
Other businesses	¥481 million	82.5%
Total capital expenditures	¥13,224 million	121.3%



Capital expenditures increased in the fiscal year ended March 31, 2016. This reflected the fact that in every segment the Group continued to make key investments aimed at strengthening the Group's operational competitiveness in potential growth fields, while selecting investments rigorously and focusing on capital efficiency.

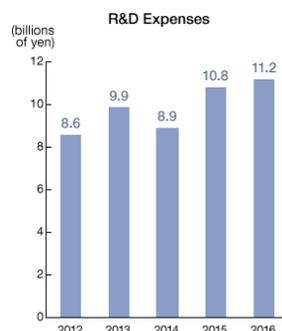
The USHIO Group's investments focused mainly on the equipment and light sources businesses. In the equipment business, the Group focused its expenditure on optical equipment including lithography equipment and optical processing equipment targeting diversifying market needs, as well as laser projectors and sound systems in visual imaging fields, and simulation systems and virtual reality in general imaging fields. In the light sources business, the Group focused primarily on expenditure to maintain its high quality and technological advantages and to expand its solid state light sources (LEDs and laser diodes) business.

The Group funded its capital expenditures with a combination of internally generated funds and borrowings.

Loss on disposal of plant, property and equipment was ¥226 million, due to the disposal of plant facilities such as buildings and machinery in the light sources and equipment businesses.

Research and Development

Group-wide R&D expenses totaled ¥11,228 million. Most of this was spent in the light sources and equipment businesses. The main targets of the Group's R&D were light sources for industrial applications for development and production, which included work use and application of optical applications in electronic and electromechanical equipment, moving ahead with development of indispensable peripheral technologies and development for commercialization of optical units, optical equipment and systemization. The Company stepped up its efforts to keep abreast of the latest developments in markets and technology and conducted strategic R&D activities. It is organized in a way that enables interaction among the R&D teams from different product groups to encourage development of new kinds of light sources and equipment. R&D expenses in every segment include inter-segment transactions.



The USHIO Group's key achievements during the fiscal year ended March 31, 2016 were as follows:

○ Light Sources Business

Development of Red Laser Diode

Our subsidiary USHIO OPTO SEMICONDUCTORS, INC. developed a red laser diode for use in the industrial measurement field and head-up displays where future growth is anticipated. The product features a transverse mode to produce a single peak beam, a wavelength of 638 nm, and output power of 200 mW. It is world-class among single transverse mode laser diodes in this wavelength range. Further, this subsidiary is working to develop a red laser diode with high output power for use as a solid state light source in cinema and industrial projectors. It is developing a product with a wide luminescence band and vast output power to the tune of 1.2 W or 2 W, targeting commercialization in the fiscal year ending March 31, 2017.

○ Equipment Business

(1) Development of Direct Imaging Exposure System for Solder Resist

Our subsidiary ADTEC Engineering Co., Ltd. fully leveraged its technology in direct imaging exposure systems for patterning to develop a direct imaging exposure system for solder resist. The system uses semiconductor laser diodes of two wavelengths—375nm and 405nm—for a light source, enabling the wavelength ratio to be changed. This allows for the light source to be matched to the best spectral sensitivity for resist, giving each user the ability to optimally adjust solder resist qualities (resolution, cross-section shape, rigidity, etc.) to differing processes. Further, the product employs a magnifying optical system using an optical microlens array to deliver high definition and wide exposure area, enabling single pass exposure. By using two light source wavelengths and a microlens array magnifying optical system, the product realizes both high resolution with diameters up to 50 μm and high productivity of 60 seconds at 200 mJ.

(2) Development of High Dynamic Range Projectors

Our subsidiary CHRISTIE DIGITAL SYSTEMS CANADA INC. developed the world's first digital light processing (DLP) projector to achieve a stunning contrast ratio of 1,000,000:1. That is a huge advancement over the 2,500:1 contrast ratio for the latest conventional digital cinema projector models. DLP projectors made it possible to multiply the normally attainable contrast ratios of about several thousand to one due to the optical characteristics of imaging devices by putting one more imaging device into the optical system to be used as a backup for modulation. Moreover, these projectors realize high contrast by aligning imaging devices in rows and connecting the two optical engines to relay lenses. This development makes the bright parts of images brighter and the dark parts darker, and realizes crisp images down to the finest details throughout the bright to dark spectrum to create even more realistic images.

Issues to Be Addressed

Looking at the USHIO Group's business climate, the electronics sector is likely to see ongoing capital expenditures in the LCD field led by China, whereas smartphone market growth looks set to slow. In small- and medium-sized LCD panels, organic EL uptake is expected to advance chiefly in high-end models. Turning to semiconductors, an increase in data centers as the IoT advances and there are increasingly sophisticated smartphones, and rising demand for lithography equipment driven by growing automotive and infrastructure investment are anticipated. Also for the electronics industry overall, end users are quite interested in enhancing cost effectiveness and long life-type light sources continue to gain ground.

In the cinema area of visual imaging fields, the annual number of new digital cinema screen installations is expected to keep rising, led by China and other emerging countries. On the other hand, flat sales of digital cinema projectors are anticipated in developed countries where the annual pace of new installations is decelerating since the shift to digital screens has already made substantial headway. Turning to the general imaging field, opportunities to utilize images for industrial and entertainment purposes are expected to keep growing in the future.

The Group will address these developments in its business environment and markets—the major priorities are to accelerate its development of new products and entry into new fields, and to improve profitability. To implement these priorities, the Group will expand its operations by making active strategic investments to develop new products, find new applications for its products, and launch new products and businesses. The Group will also enhance its product lineup to respond to diversifying market needs, reduce manufacturing costs throughout its operations, and improve quality and productivity. In addition, the Group will endeavor to expand and reinforce its manufacturing bases as well as its sales bases and networks both in Japan and overseas. In doing so, it aims to optimize its service structure and develop a more proposal-oriented total-solution type business to expand its sales of light sources, optical equipment, and imaging equipment to global markets. The Group will not limit itself to in-house development, but will also seek to develop dynamic businesses by considering business partnerships, investments, or other options.

The USHIO Group regards environmental issues as a key management concern in terms of corporate social responsibility, and will continue to take active steps to save energy and resources, cut waste, increase recycling, and otherwise reduce its environmental footprint. Meanwhile, the Group will continue with measures to ensure that it merits the trust of all its stakeholders. These will involve optimizing its internal control systems by bolstering corporate governance and compliance, and ensuring continued stability in its operations by putting in place the best possible provision for risk management including business continuity planning.

Risks

Below is a summary of risks that could affect the USHIO Group's business performance, financial position, and cash flow adversely and materially.

These are the risks cited by management in the Group's Yukashoken Hokokusho (Annual Securities Report) to the Japanese government, filed on June 29 2016. This is only a partial listing, and the Group faces risks other than those cited here that could also affect its business performance, financial position, and cash flow materially.

(1) Fluctuations in Demand in the Semiconductor and LCD Industries

The Group's business performance is affected by fluctuations in demand in the semiconductor and LCD industries. Currently, the USHIO Group's product line includes lamps for manufacturing equipment. These products are consumables, and demand for these lamps is generally steady as long as customer plants are operating. However, the semiconductor and LCD manufacturing equipment the Group handles is affected by changes in demand for products in the short-term and the medium-to-long-term, as well as by technological developments, which can materially affect the Group's business performance and financial position.

(2) Fluctuations in Market Demand for Illumination and Irradiation Light Sources

In addition to the semiconductor and LCD panel fields, the Group supplies light sources that are included in data projectors and digital cinema projectors and for illumination. Trends in technology and fluctuations in prices and demand for these light sources could materially affect the Group's business performance and financial position.

(3) Fluctuations in Demand in Imaging Equipment

The Group supplies cinema projectors and large projectors for business use. Fluctuations in demand in business areas, technical trends in the market, and fluctuations in prices could have a material impact on the Group's business performance and financial position.

(4) Access to Raw Materials

The Group relies on externally sourced raw materials that it obtains from a broad range of suppliers to ensure the steady supply of high-quality materials at stable prices. In particular, rare metals such as tungsten and molybdenum and special glass are the essential raw materials for manufacturing lamps. Supply shortages or price increases of these materials may boost manufacturing costs and materially affect the Group's business performance and financial position.

(5) Cross-Border Activities and Entering Overseas Markets

The Group conducts manufacturing and sales activities in regions outside Japan such as other Asian nations, North America, and Europe. Entry into these overseas markets is accompanied by potential risks in each country, such as changes in various rules and regulations, instability in securing human resources, underdeveloped infrastructure, and social unrest. If realized, these risks could materially affect the Group's business performance and financial position.

(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 key factors to remaining competitive and maintaining a 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. In addition, the patent authorities could refuse patent applications submitted by the Group. Events such as these which would significantly comprise the Group's protection of its intellectual property rights, could affect the Group's business performance and financial position materially.

(7) Currency Exchange Rates

The Group conducts its commercial and financial operations such as investments and loans in yen and in other currencies. Profits and losses in the Group's commercial and financial operations conducted in foreign currencies are 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 this risk completely. Fluctuations in the foreign exchange rates could therefore materially affect the Group's business performance and financial position.

(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.

Important Management Contracts

There are no important contracts to report.

Corporate Data

Established

March 1964

Paid-in Capital

¥19,556,326,316

Directors (As of June 29, 2016)

Chairman and USHIO Group Representative	Jiro Ushio	Director (Audit & Supervisory Committee Member (Full-time))	Nobuyuki Kobayashi
President and Chief Executive Officer	Kenji Hamashima	Outside Director (Audit & Supervisory Committee Member)	Masanori Yoneda
Director	Shiro Ushio	Outside Director (Audit & Supervisory Committee Member)	Nobuyoshi Yamaguchi
Director	Hiroaki Banno		
Outside Director	Tadashi Nakamae		
Outside Director	Yoshinari Hara		
Outside Director	Yasufumi Kanemaru		
Outside Director	Shuichi Hattori		
Outside Director	Sakie T. Fukushima		

Employees (as of March 31, 2016)

Parent company	1,744
Japanese subsidiaries	852
Overseas Subsidiaries	3,290
Total	5,886

Group Companies (57 companies) (as of March 31, 2016)

Parent Company

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

Japanese Subsidiaries (11 companies)

USHIO LIGHTING, INC.
XEBEX INC.
ADTEC Engineering Co., Ltd.
PROTOSERA INC.
USHIO OPTO SEMICONDUCTORS, INC.

6 other companies

Overseas Subsidiaries (46 companies)

North America

- USHIO AMERICA, INC.
- CHRISTIE DIGITAL SYSTEMS USA, INC.
- CHRISTIE DIGITAL SYSTEMS CANADA INC.
- CHRISTIE MEDICAL HOLDINGS, INC.
- NECSEL INTELLECTUAL PROPERTY, INC.

Europe

- USHIO EUROPE B.V.
- USHIO FRANCE S.A.R.L.
- USHIO DEUTSCHLAND GmbH
- USHIO U.K., LTD.
- BLV Licht-und Vakuumtechnik GmbH
- NATRIUM Sp. zo.o.

Asia

- USHIO HONG KONG LTD.
- USHIO TAIWAN, INC.
- USHIO PHILIPPINES, INC.
- USHIO (SUZHOU) CO., LTD.
- USHIO ASIA PACIFIC PTE. LTD.
- USHIO KOREA, INC.
- USHIO SHANGHAI, INC.
- USHIO SHENZHEN, INC.

27 other companies

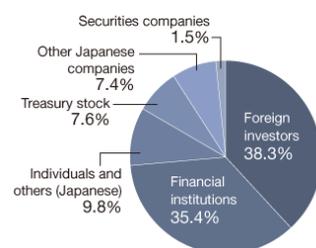
Investor Information

Stock Information (As of March 31, 2016)

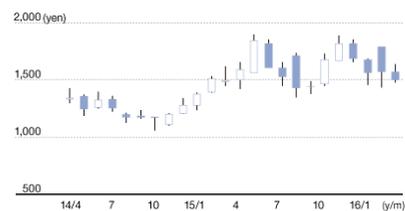
Stock Information

Total Number of Shares Issued	139,628,721
Number of Shareholders	11,951

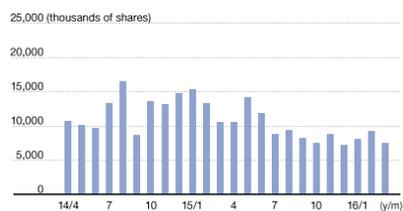
Composition of Shareholders



Stock Price Movement



Stock Turnover



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)	8,711	6.23%
Resona Bank, Limited.	6,471	4.63%
Japan Trustee Services Bank, Ltd. (Trust Account)	6,093	4.36%
STATE STREET BANK CLIENT OMNIBUS OM04	5,615	4.02%
Aioi Nissay Dowa Insurance Co., Ltd.	4,274	3.06%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,248	3.04%
JP MORGAN CHASE BANK 385174	3,924	2.81%
Asahi Mutual Life Insurance Co.	3,305	2.36%
Jiro Ushio	3,136	2.24%
STATE STREET BANK AND TRUST COMPANY 505001	2,464	1.76%
THE USHIO FOUNDATION	2,400	1.71%
STATE STREET BANK AND TRUST COMPANY 505103	2,275	1.62%
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	2,233	1.59%
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUND	2,199	1.57%
NORTHERN TRUST CO. (AVFC) RE - SSD00	2,019	1.44%

* In addition to the above, the Company owns 10,647 thousand shares of treasury stock. These 10,647 thousand shares of treasury stock do not include 306 thousand shares of the Company's stock held in a trust account in connection with a stock-based compensation plan for executives.

* Each of the investment banks listed in the upper portion of the major shareholders table manages securities held primarily by 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 monies in trust from the institutional investors concerned.



CONTACT:

**Corporate Communication, Corporate Planning Department
USHIO INC.**

1-6-5 Marunouchi, Chiyoda-ku, Tokyo 100-8150, Japan

TEL: +81-3-5657-1007 FAX: +81-3-5657-1020

www.ushio.co.jp/en/