UNLOCKING THE POTENTIAL OF LIGHT

Annual Report 2012
Year ended March 31, 2012

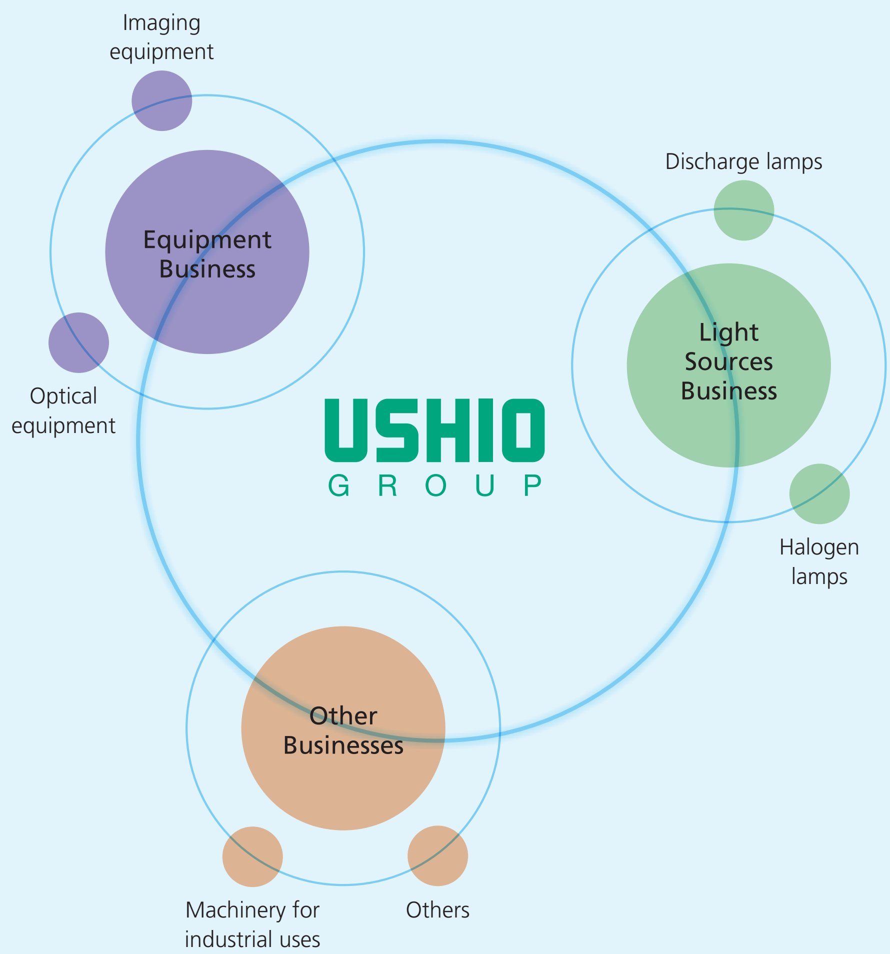
USHIO Lighting—Edge Technologies

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 engineering 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

What the USHIO Group Should Aim For

Aim to become a “Light Innovation Company” with the world’s No. 1 technology and branding in light-related business able to propose solutions that fully satisfy customers’ needs at all times.

Medium-Term Vision — Key Business Strategies

Imaging Equipment	Ensuring profits in the digital cinema business Growth and expansion of the non-cinema business (growth driver)
Optical Equipment	Provision of products that underpin the manufacturing of LCD panels, semiconductors, and high precision PCBs (growth driver) Lithography tools: Synergy with ADTEC Engineering Equipment for LCD panel manufacturing: Expansion into fields other than large-sized TVs Sales expansion of new processes Establish leading-edge lithography business (EUV) for the manufacturing of next-generation semiconductor products
Others	New products and businesses (medical, life science) Solid-state light sources Promotion of business alliances, joint ventures, and M&A

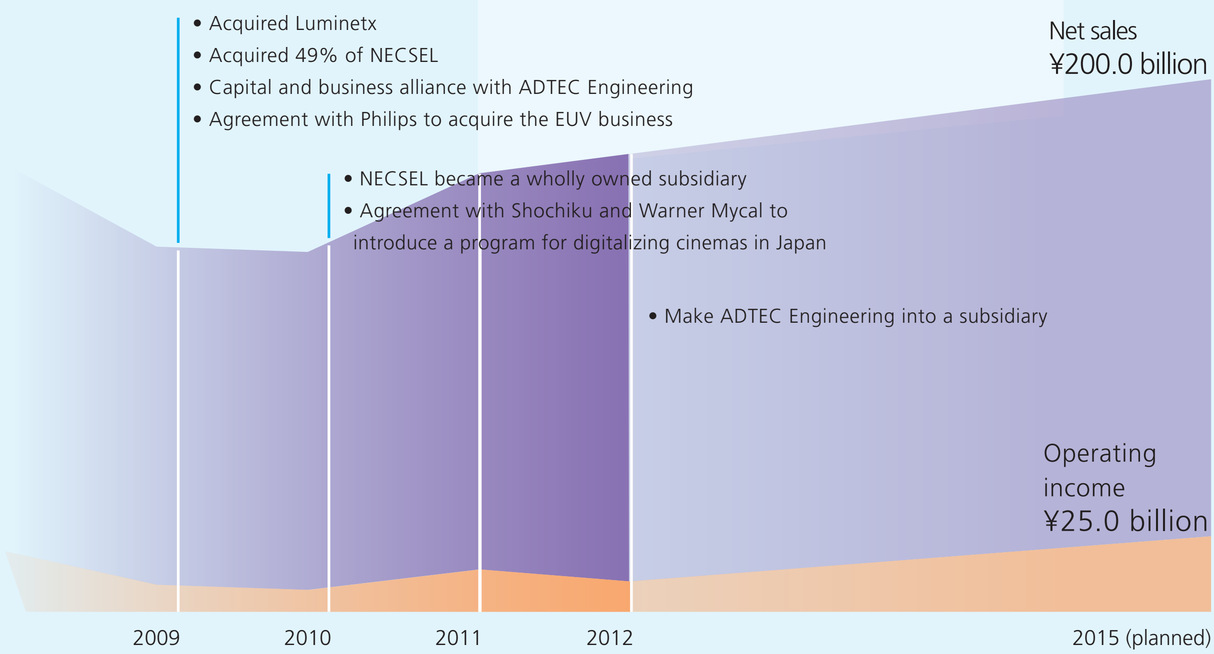
(Millions of yen)

Years ended March 31	2010	2011	2012
Net sales	¥119,079	¥145,125	¥150,087
Operating income	7,262	14,034	10,696
Ordinary income	9,290	17,362	13,112
Net income	7,071	9,577	8,748
Free cash flow	6,284	6,711	14,293
Total assets	202,119	217,292	224,412
Net assets	156,685	157,867	162,048
Return on equity (ROE) (%)	4.7	6.2	5.6

2015 (planned)

Quantitative Target of the Medium-Term Vision

Net sales	¥200.0 billion
Operating income	¥ 25.0 billion
ROE	More than 10%

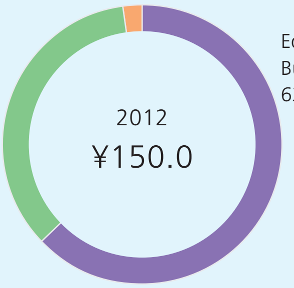


Business Overview

Years ended March 31

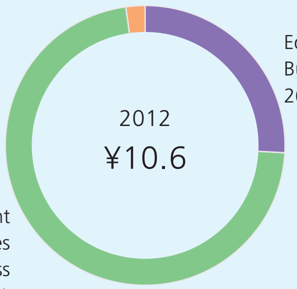
Breakdown of Sales

(Billions of yen)



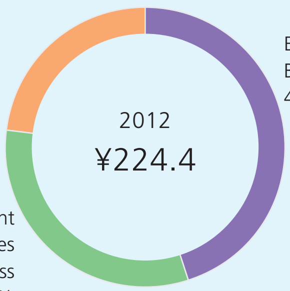
Breakdown of Operating Income

(Billions of yen)



Breakdown of Assets

(Billions of yen)



Segments	Sub-segments and Main Products

Equipment Business

Imaging 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 tools, 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

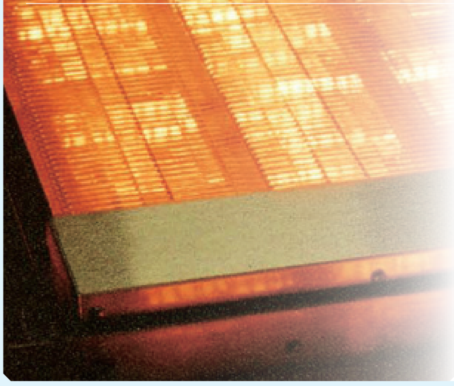
Discharge lamps

- 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

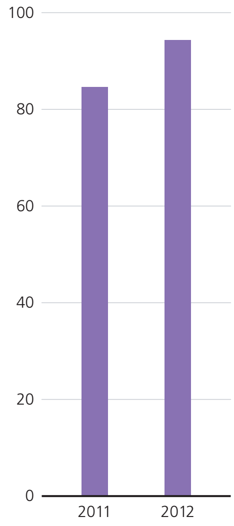


Machinery for industrial uses and others

- Plastic forming applications, peripheral machinery
- Industrial machinery and systems
- Others

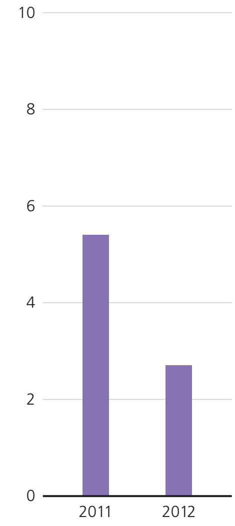
Sales

(Billions of yen)



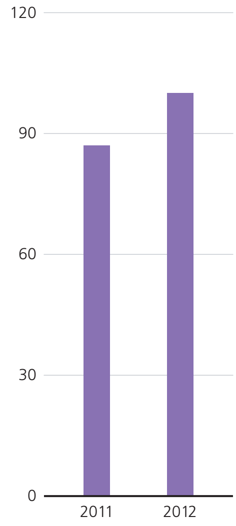
Segment Income

(Billions of yen)



Segment Assets

(Billions of yen)



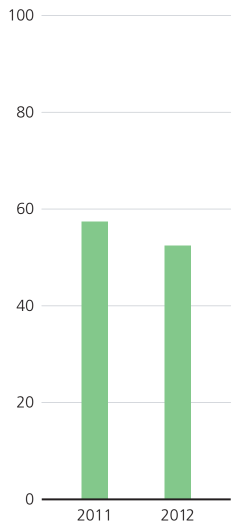
Key Strengths

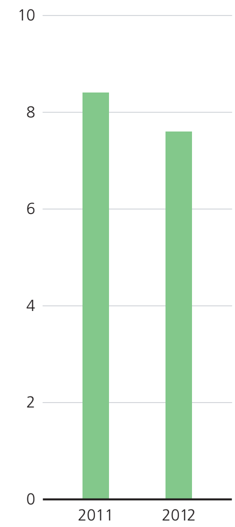
Imaging equipment

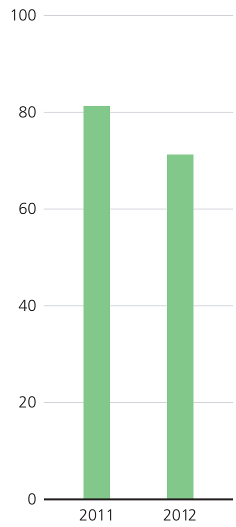
- Global market share for digital cinema projectors 40%

Optical equipment

- Global market share for UV curing equipment for bonding LCD panels 70%
- Global market share for step-and-repeat projection lithography tools for flip chip substrate 95%
- Global market share for excimer irradiation unit for photo-cleaning LCD panels 85%





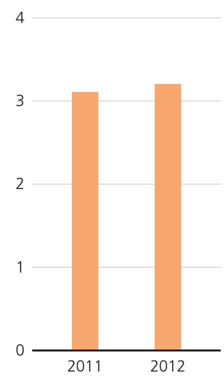


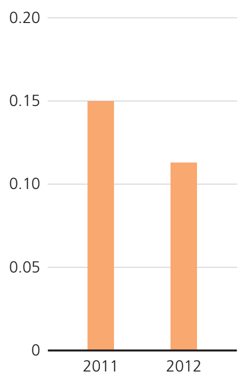
Discharge lamps

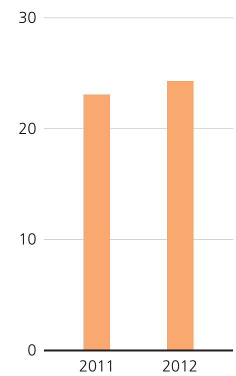
- Global market share for UV lamps for lithography 75%
- Global market share for lamps for cinema projectors 55%
- Global market share for lamps for document scanners 70%

Halogen lamps

- Global market share for lamps for fixing toners 70%







Source: USHIO

Interview with the President

USHIO unlocks the potential of light to develop solutions for the entire planet

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.

Today's global society faces a multitude of concerns, from overpopulation and environmental issues to energy use and conservation. I believe that the power of "light," and associated technologies, can help to address these issues. Over many years, USHIO has built up strengths in developing light-related technologies and applications. By providing new solutions to global issues, the Company aims to achieve sustainable growth into the future.

Earnings results and forecasts

Q1 Although sales increased in fiscal 2011, operating income declined. What were the reasons for this, how do you expect profits to fare in the future, and what dividend policy has USHIO adopted?

A1 This year net sales increased by 3.4% year on year to ¥150 billion. However, operating income declined by 23.8% to ¥10.6 billion, ordinary income fell 24.5% to ¥13.1 billion and net income was down 8.7% to ¥8.7 billion. The main factor supporting sales growth was a strong surge in the equipment business, and in particular, a 14% year-on-year rise in sales of imaging equipment.

However, there was a slump in the electronics industry which affected demand for light sources and optical equipment. The situation was exacerbated by rapid yen appreciation, particularly in the early autumn, which depressed profits at all levels.

Future outlook

In fiscal 2012, we anticipate a pickup in rebuilding demand in Japan related to the Great East Japan Earthquake, along with a more stable exchange rate and a recovering domestic economy. On the other hand, the continuing fiscal debt crisis in Europe leaves the business outlook uncertain. By continuing to implement the measures laid out in our Medium-Term Vision, the USHIO Group expects to meet the targets set in this plan. We forecast sales to increase by 9.9% year on year in fiscal 2012 to ¥165.0 billion. Operating income is projected to rise 12.2% to ¥12.0 billion, ordinary income by 10.6% to ¥14.5 billion, and net income by 14.3% to ¥10.0 billion.

Dividend payout ratio target: 25–30%

USHIO's dividend policy is to maintain a relatively steady dividend over the long term. This year we set the annual dividend at ¥22 per share. We intend to continue adopting a payout ratio of approximately 25–30%, while steadily buying back shares, to provide shareholders with an appropriate return on their investment.

Financial Performance

(Millions of yen)

	2008	2009	2010	2011	2012
Net Sales	¥148,148	¥120,846	¥119,079	¥145,125	¥150,087
Operating Income	20,050	8,963	7,262	14,034	10,696
Net Income	15,486	3,481	7,071	9,577	8,748
Return On Equity (ROE) (%)	9.4	2.3	4.7	6.2	5.6

Imaging equipment demand remains brisk

Q2 Sales of imaging equipment—particularly digital cinema projectors—remained strong. What do you expect the market to do in the future?

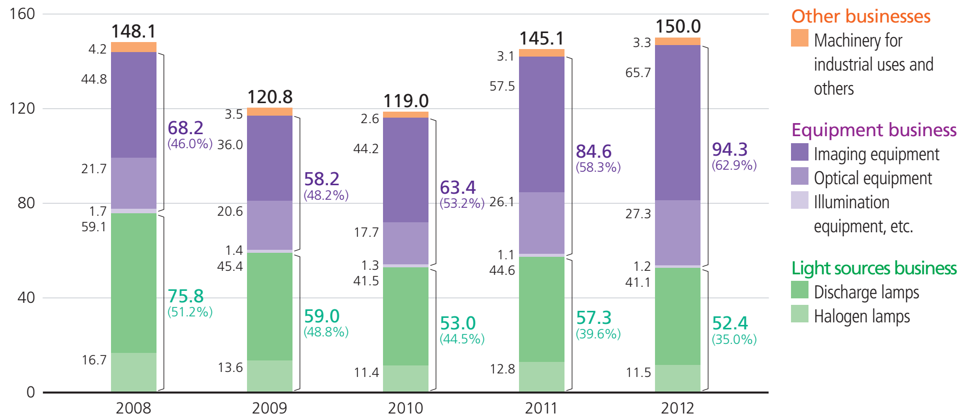
A2 In the imaging equipment business, shipments of digtal cinema projectors reached an all-time record high in fiscal 2011. In addition to booming sales in developed markets like Japan, the U.S. and Europe, shipments to Asia, South America and other emerging markets are rising. At present, emerging markets like China are seeing a boom in construction of cinema complexes as their economies continue to grow. This has supported strong digital cinema projector sales.

Penetrating non-cinema markets

In the future, this trend is likely to spread to other emerging markets like India and Brazil. Meanwhile, in developed markets where penetration is already high, demand is likely to shift towards smaller projector models to suit smaller cinemas. The digital cinema business is therefore likely to support earnings in our imaging division for the foreseeable future, during which time we will work to expand non-cinema business as a driver for further growth.

Sales by Product

(Billions of yen)



Q3 Tell us more about the non-cinema businesses that are likely to play a part in future growth.

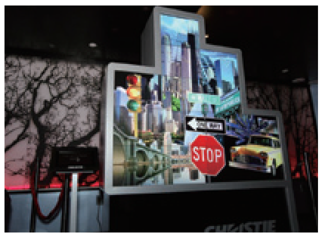
A3 The non-cinema business includes demand for projectors used in applications and venues other than cinemas. Growth rates in the non-cinema business currently match those of digital cinema projectors. In this sector, demand not only covers projectors themselves, but also associated software and operating systems. Therefore it gives us an opportunity to develop a fully integrated business. In terms of the market, and the potential applications, it covers a much broader spectrum than digital cinema projectors, which have a simple market and application. For example, in the educational and research markets the applications include simulators and virtual reality systems. In department stores and shopping centers, the projection systems can be used for advertising or for public entertainment. The potential is almost limitless, and we expect it to drive strong growth in the future.

Non-cinema Businesses

Segment	Application	Main markets	Forecast for fiscal 2012–fiscal 2014
Visual Environment (VE)	Virtual reality	Manufacturing industry, construction industry, academy	Increased demand in emerging countries
	Simulation	Defense, shipbuilding, academy	
	Control rooms	Infrastructure	
Business Products (BP)	Large venues	Entertainment, office developers, education-related markets	Gradual growth
	Large venues, projection mapping, signage, etc.	Advertising, entertainment	Gradual growth
	Control rooms, signage	Broadcasting, advertising, entertainment, construction	Increased demands in broadcasting and entertainment fields, etc.


Virtual reality


Control rooms



Signage

Investment plans

Q4 In fiscal 2011, the electronics segment of USHIO's equipment business was weak. Will this have any impact on future investment plans?

A4 Although strong market demand for smartphones and tablet PCs had a positive impact on the electronics sector in fiscal 2011, the lingering effects of a long economic slump held sales of optical equipment back to just a slight increase. As in the previous year, the manufacturers who are USHIO's main clients still face deteriorating capacity utilization levels on their production lines. This depressed sales in the light sources business. Nevertheless, based on electronics industry conditions and expected market trends over the medium to long term, we invested aggressively in new products and new technologies for the future, such as equipment for EUV light sources.

The USHIO Group will continue to focus on measures to improve productivity, reduce production costs, control expenses, and strengthen overseas operations by expanding the sales network and shifting production to optimal locations. Meanwhile, in our optical devices business, we will position our product group for production of LCDs, semiconductors and high precision PCBs as the main growth driver. In doing so, we will work to establish our business in leading-edge photolithography equipment (EUV) for manufacturing next-generation semiconductors and have it contribute to earnings as quickly as possible.

Investment Plan

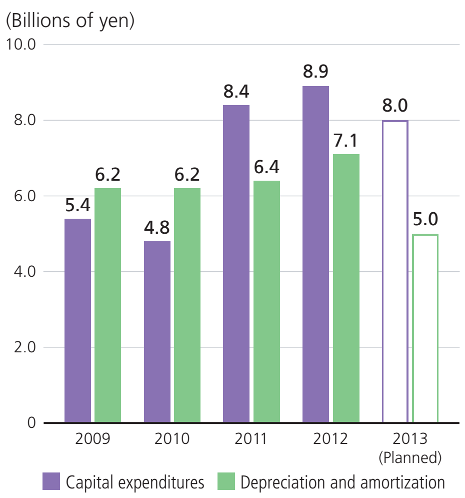
- **R&D**

  Intensive investments in EUV, solid light sources, and new businesses (medical, life science). 5–6% of the sales.

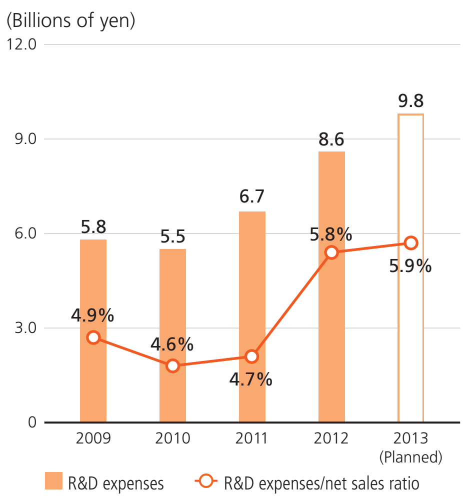
- **Capital Expenditures**

  Capital expenditures centered on EUV, solid-state light sources, and new businesses.

Capital Expenditures/ Depreciation and Amortization



R&D Expenses



New businesses

Q5 What are USHIO's specific plans for future investment in businesses alongside EUV and solid-state lighting?

A5 The USHIO Group is enhancing its ability to develop new products and new business segments. In particular, we are trying to bolster operations in areas such as medical equipment and biotechnology, which are quite different from the electronics and imaging industries that we have concentrated on so far. The importance of medical science is gaining recognition, and is set to become one of the world's leading industries in the future. We are adopting a long-term perspective in our efforts to cultivate this field.

We already offer several products in this segment, such as 308nm ultraviolet light equipment for treating skin ailments, and imaging equipment that allows doctors to see veins inside the body. Although the overall scale of sales is still small, these products have been received positively. Currently, they are mainly used in countries where medical treatment is advanced, such as the U.S. and Japan. In the very near future, however, as economic progress and the quality of life in regions like China and Southeast Asia continue to rise, these products are likely to become increasingly common.

TheraBeam® UV308: From a top domestic market share to a global presence

USHIO's TheraBeam® UV308 is widely used by dermatologists to treat skin disorders, due to its high level of safety and efficacy. USHIO's market research indicates that it currently holds the top market share in Japan. The product has already been approved for medical use in China and Taiwan, and sales are under way. The company aims to expand the market to include South Korea, India and other parts of Asia, as well as the U.S. and Europe.

VeinViewer®: Addressing needs associated with greater longevity and an aging society

The VeinViewer® is marketed by an USHIO Group subsidiary, Luminetx Corporation. This product allows doctors to easily locate veins in patients that often pose difficulty, such as newborns and people whose skin color obscures the veins. This makes it much easier to administer injections or IV needles, thus cutting costs and easing the burden on patients. In this way, USHIO is expanding its optical solutions business, leveraging the opportunities associated with greater longevity and an aging society.

ADTEC becomes a consolidated subsidiary

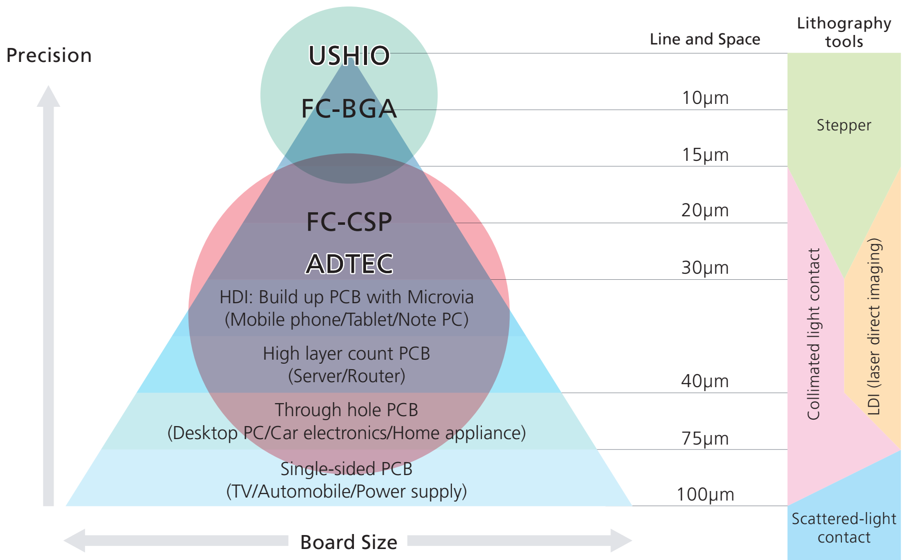
Q6 The USHIO Group recently acquired ADTEC Engineering Co., Ltd. as a wholly owned subsidiary through a tender offer. What were the reasons for this move?

A6 In fiscal 2011, the USHIO Group acquired ADTEC, which has advanced technology and a strong market share in the market for lithography tools used to make printed circuit boards. USHIO already had a high degree of expertise in the lithography tools market. However, by developing ties to ADTEC, which has complementary strengths in the printed circuit board business, we expect to enhance the product breadth and capabilities of the USHIO Group. This should help us to capture an even larger share of the printed circuit board manufacturing market.

Upgrading sales capabilities in growing Asian markets

By uniting the capabilities of USHIO and ADTEC, we are consolidating our technological strength in light sources and production equipment and broadening our product development capabilities. In addition, the USHIO Group gains access to the solid sales network that ADTEC has established in South Korea, Taiwan, China and other parts of Asia. This should further bolster our competitiveness in the region.

Positioning of USHIO and ADTEC in the PCB Market



ADTEC Engineering Co., Ltd.

Date of Foundation:	October 26, 1983 (Listed on JASDAQ in April, 2006)
Locations: Headquarters:	Toranomon, Tokyo
	Plant: Nagaoka City, Niigata
	Employees: 224
Business lines:	Manufacturer of lithography tools for PCBs. Offers wide-ranging solutions such as contact-style lithography tools (automatic/semi-automatic) and direct imaging-style lithography tools.
Net sales:	¥9,428 million
Operating income:	¥515 million

As of September 30, 2011

Aspirations for the USHIO Group

Q7 USHIO recently unveiled a new Medium-Term Vision which contains a statement entitled "What USHIO Group should aim for." Could you summarize the main objectives of this vision?

A7 The objective of this new Medium-Term Vision is to establish the USHIO Group as the "Light Innovation Company" with the world's No. 1 technology and branding in light-related business able to propose solutions that fully satisfy customers' needs at all times. However, this is really nothing new, since we have been proclaiming this objective for many years.

Cultivating a sustainable future as a "Light Innovation Company"

Essentially, we have taken it upon ourselves the search for ways to use light to address new factors, explore new fields and develop new solutions for customers. The USHIO Group recognizes that the ideas and methods used in the past will not be adequate to meet the challenges of a new era. We need to constantly seek improvements and changes that can respond to the needs of the future.

In the past, the USHIO Group focused mainly on the market for products like copiers, car headlights and fog lamps. We then progressed into areas such as semiconductor lithography and light sources for projectors. In this way, the Group has always explored new applications for light and developed new products to address market needs and drive company growth. The use of light is well established in methods and techniques for making high-precision components used in semiconductors and displays; and we believe the applications for light can be expanded even further. There is a growing demand for information delivery via graphics and video, and there are new fields opening up such as the environment and food. I believe that the uses for light will continue to expand, along with the applications that we have not yet even imagined. And if these applications and products are truly needed by customers, then as a "Light Creator," the USHIO Group stands ready to lead the way in providing them.

Overview of Operations by Segment

Equipment Business

Results of Operations

The Equipment Business segment achieved growth in sales while earnings declined. Sales increased 11.4% to ¥94,511 million, with Sales to external customers accounting for about 63% of total. Sales were up 14% in the imaging equipment sector and 5% in the optical equipment sector, which drove the overall sales increase. Segment income declined 48.3% to ¥2,795 million.

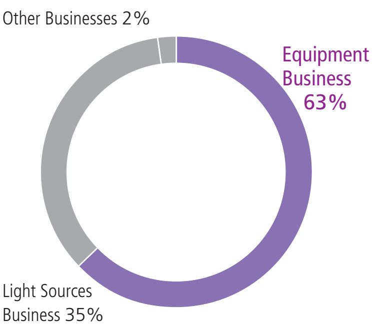
Market Overview

In the market for visual imaging equipment, demand for digital cinema projectors expanded, driven by the launch of investment schemes for the transition to digital cinema projectors in various regions around the world. Demand for products in the non-cinema market also remained firm, supporting a year-on-year increase in unit sales of imaging equipment.

The market for production equipment used to manufacture semiconductors, flat panel displays and electronic components was supported mainly by the growing smartphone and tablet markets, which generated firm demand for semiconductors and LCD panels. However, as demand for LCD TV

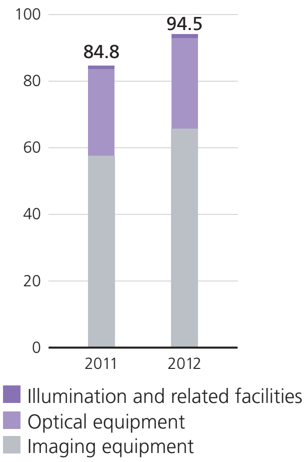
Main Indices

Breakdown of Sales
2012

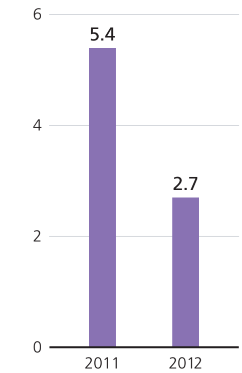


*Sales figures include intersegment sales and transfers

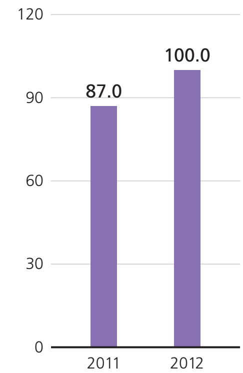
Sales
(Billions of yen)



Segment Income
(Billions of yen)



Segment Assets
(Billions of yen)



Main Products

Imaging 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 tools, photo-cleaning units, UV-curing systems, and others)
· UV phototherapy devices and other medical equipment
· EUV light sources for next-generation semiconductor lithography

Quantitative Targets for the Equipment Business Segment under the Medium-Term Vision (Sales)

	2012 (actual)	2013 (planned)	2014 (planned)	2015 (planned)
Imaging equipment	¥65.7 billion	¥61.0 billion	¥62.5 billion	¥64.0 billion
Optical equipment	¥27.3 billion	¥41.0 billion	¥49.0 billion	¥62.0 billion

and PC monitors dropped off, semiconductor and flat panel display manufacturers curtailed their investments, causing unit sales in this segment to slump.

Outlook for the Fiscal Year Ending March 31, 2013

In imaging equipment, developed markets where the transition to digital cinema projectors has progressed may begin to see a decline in demand, but digitalization is likely to gather pace in emerging economies. With non-cinema demand also remaining firm, sales in fiscal 2012 are expected to increase.

The production equipment market, on the other hand, is likely to remain in a correction phase. Inventory adjustments have been completed, however, and therefore the growing markets for smartphones and tablets are likely to support firm sales, particularly to Taiwan and China.

COLUMN

Three Models of Lithography Tools Capable of Manufacturing a Wide Range of ICs

USHIO has introduced a new model of lithography tools for manufacturing power devices. The UX4-ECO FFPL 150 has a newly developed lens which provides line-and-space resolution of 2μm/2μm. The UX4-MEMS FFPL 200 is designed for manufacturing MEMS devices. It has an overlay accuracy of 0.5μm and a new lens module with a maximum focal depth of 500μm, as well as an automatic mask changer module that allows it to manufacture several types of device. The UX4-3Di FFPL 300 has a full-field projection lens module with a diameter of 300mm. It is designed for manufacturing 3D LSI devices.

UX4-ECO FFPL 150 and UX4-MEMS FFPL 200 (left)
UX4-3Di FFPL 300 (right)

Light Sources Business

Results of Operations

Sales and earnings were lower year on year in the Light Sources Business segment. Sales decreased 8.6% to ¥52,535 million, accounting for approximately 35% of total sales to external customers. Segment income was down 8.5% to ¥7,699 million.

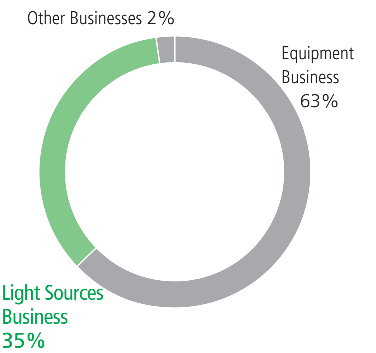
Market Overview

With investment schemes for the transition to digital cinema projectors launched around the world, sales growth in digital cinema projectors supported sales growth for xenon lamps, which are used in them. On the other hand, unit prices came under downward pressure. Meanwhile, sluggish economic growth caused sales of data projector lamps and halogen lamps for office equipment to decline.

In the market for production equipment used to make semiconductors, flat panel displays and electronic components, manufacturers of flat panel displays and semiconductors saw capacity utilization ratios drop off as demand for LCD TV and PC monitors weakened. As a result, demand for UV lamps used in semiconductor, flat panel display and electronic components production equipment also weakened.

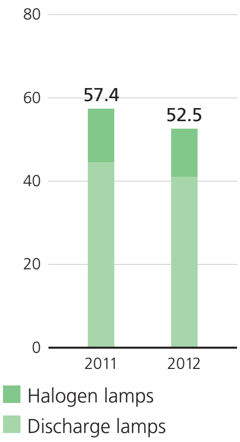
Main Indices

Breakdown of Sales
2012

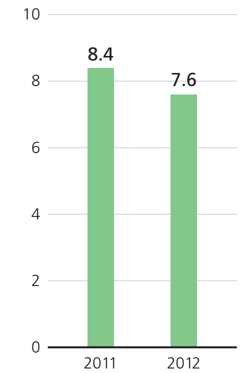


*Sales figures include intersegment sales and transfers

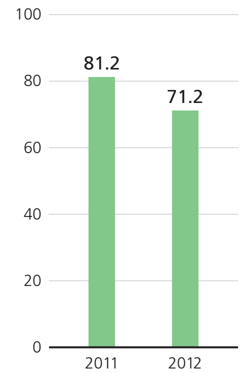
Sales
(Billions of yen)



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 (Sales)

	2012 (actual)	2013 (planned)	2014 (planned)	2015 (planned)
Halogen lamps	¥11.5 billion	¥12.0 billion	¥12.0 billion	¥12.0 billion
Discharge lamps	¥41.1 billion	¥45.0 billion	¥50.0 billion	¥55.0 billion

Outlook for the Fiscal Year Ending March 31, 2013

Sales of xenon lamps used in digital cinema projectors are likely to rise as demand in emerging markets rises. The market for office automation equipment also may benefit from expected growth in these markets. Shipment volume is projected to increase in the first half of fiscal 2012.

The production equipment market is likely to remain in a correction phase. However, progress in inventory adjustment efforts and the growing markets for smartphones and tablets should support a recovery in capacity utilization ratios and generate firm demand for UV lamps.

COLUMN

Expanding the Lineup of LED Lighting Products

USHIO has expanded its lineup of Cool Spot LEDs—LED spotlights that render the colors of illuminated objects brightly and flawlessly. Additional new features include a black body color, color temperatures of 3,200 kelvin, and narrow-angle lenses, making them suitable for a wider range of applications. The company has launched the LEDIU LED lamp multicore type dichroic mirror ϕ70 and the LEDIU LED lamp multicore type dichroic mirror ϕ50 (65-watt equivalent), which are suitable for use as replacement bulbs in halogen-type lamps, in applications such as store displays or general home and commercial building lights. These LEDs provide light that is the same size, quality and brightness as the halogen lights they replace, making them suitable for any base lighting use.

Sustainability

Fundamental Concept

USHIO Group Management Philosophy

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

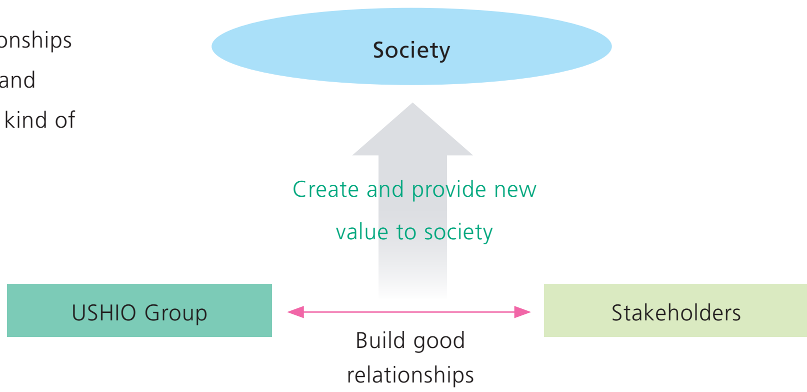
To translate our management philosophy into concrete action, we abide by the 10 Action Guidelines listed below. These guidelines shape the goals and behavior of every USHIO employee.

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 the basic human rights of all individuals and endeavor to create bright, safe and pleasant working environment.
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.

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

Formulation of a 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.

USHIO CSR Action Plan (Policy) for the 50th Business Period

Five pillars		Issues
Governance	Establish compliance activities that encompass international standards in global corporate activities, work to publicize CSR-related information and establish stakeholder communication, and strengthen and enhance the governance framework.	• Promotion of risk management • Take steps to promote observance of laws and regulations • Build information security systems • Protect and make strategic use of intellectual property • Formulate a business continuity plan
People	Consider workplace environments, human rights, and diversity of values in hiring and using human resources.	• Formulate a human resources plan looking three-years into the future (Promote human resources, employee composition, and diversity to match future strategies) • Promote work-life balance • Reduce total work hours • Promote measures to help employees achieve meaningful work and life fulfillment • Promote health and safety measures
Quality	Initiatives to meet the needs of customers, shareholders, and business partners based on observance of market rules and regulations. Creation of a social business.	• Promote initiatives to increase customer satisfaction and quality in addition to achieving sales and profit targets • Strengthen supply chains (Promote CSR and green procurement) • View social issues as needs and formulate business targets and strategies for Asia and other emerging markets (include solutions to social issues such as employment creation and sales strategies)
Society	Engage widely with society at all levels from local to international, cooperating and coordinating with other groups in contributing to education, culture, welfare, development and other aspects of society.	• Promote social contribution activities • Communicate with local communities and explore ways to contribute to the world through our core businesses
Environment	Engage in corporate activities to protect the environment. Strive to meet both environmental and business needs, including addressing global environmental problems affecting biotopes.	• Promote Phase Three of the Environmental Action Plan • Contribute to the environment by reducing energy and resource costs • Comply with environmental laws and regulations; develop products and markets ahead of regulatory trends

Supporting the United Nations Global Compact's Ten Principles

USHIO formally declared its support for the United Nations Global Compact of principles concerning human rights, labor, the environment and anti-corruption in October 2010. We have joined the local UN Network supporting the compact, Global Compact Japan Network, and have taken an active role in various sectional activities, such as collaborating with other participating companies to help with the drafting of a declaration on supply chain management.

THE GLOBAL COMPACT
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.

Formulation of a Business Continuity Plan

The Great East Japan Earthquake of March 2011 and the flooding that affected Thailand in the following July provided a powerful impetus for reviewing the state of companies' supply chain management and supply structures. USHIO has formulated a business continuity plan (BCP) to ensure that it can continue to meet its responsibility as a company to supply markets, even after a major disaster. In fiscal 2011, we prepared an initial response manual. To ensure that we are able to respond to unanticipated situations, we worked to produce a highly operable manual, and we will continue to update and improve the contents and carry out regular drills.

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.

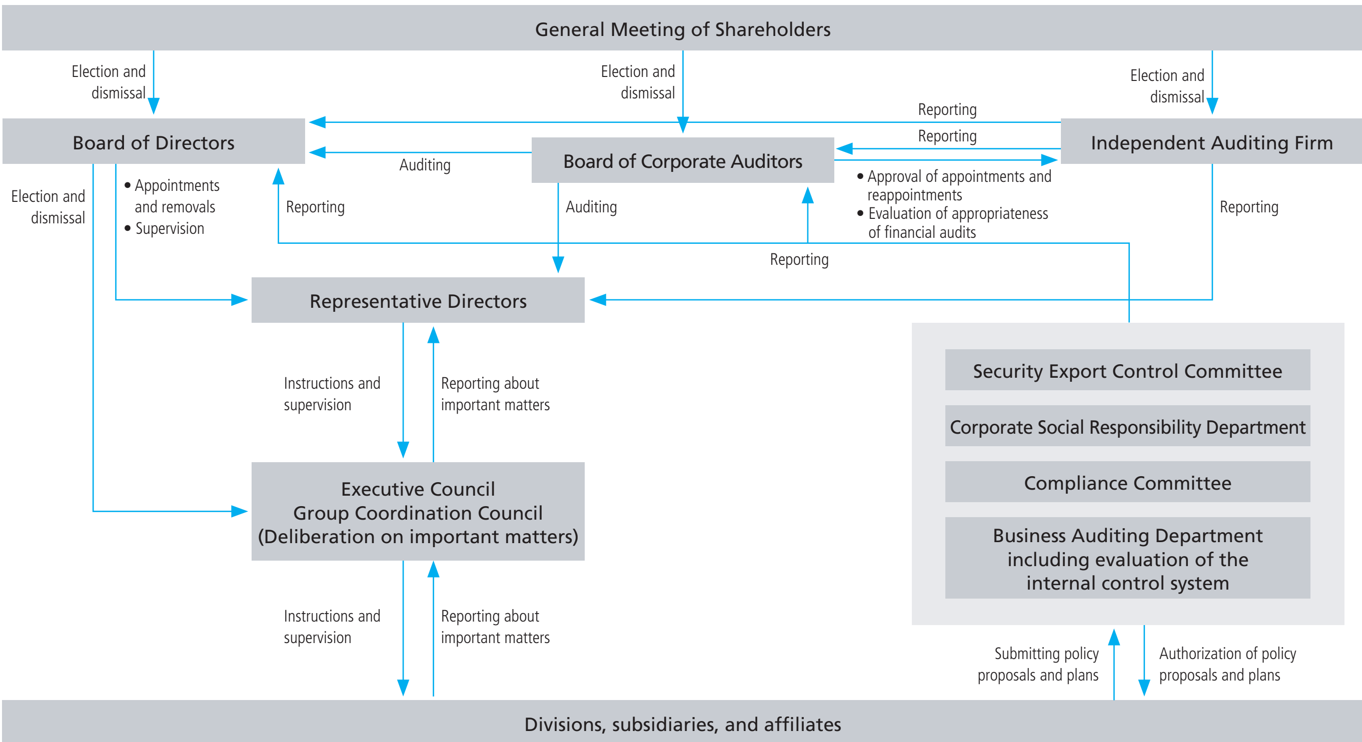
The Board of Directors comprises a total of 11 directors; 10 internal directors and 1 highly independent outside director. The board submits reports concerning legally required items and other matters to the Board of Corporate Auditors. Other matters include items that may have a significant impact on 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 auditors 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.

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.

The risk management structures include establishment of regulations to counter export-related risk and a Security Export Control Committee to enforce them. For environmental regulation risk, the Company has established a CSR department to conduct risk management. 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.

Message from an Outside Director

Companies are called to conduct their corporate activities from a social perspective as well as a financial one. To meet the demands of our society and deliver further business development, we must naturally strengthen our compliance and corporate governance systems.

To develop businesses, companies must have a clear corporate strategy to guide them in the rapidly changing global economy. For this reason, corporate strategy makers must have a clear, accurate grasp of global political and economic trends over the long term.

As USHIO's first outside director, I will draw upon my long experience as an economist to offer proposals and guidance from a global perspective.

Tadashi Nakamae,
Outside Director
Appointed June 2012

Board of Directors and Corporate Auditors

As of June 28, 2012

Directors


Jiro Ushio
Chairman and USHIO Group Representative


Shiro Sugata
President and Chief Executive Officer


Seiji Oshima
Director


Kenji Hamashima
Director


Keizo Tokuhiro
Director


Tadashi Taki
Director


Shiro Ushio
Director


Ryutaro Tada
Director


Hiroaki Banno
Director


Manabu Goto
Director


Tadashi Nakamae
Outside Director

Corporate Auditors


Standing Auditor
Susumu Nakaichi


Standing Auditor
Shigeki Nakayama


Standing Auditor
Shinichiro Kanzaki


Outside Corporate Auditor
Shuichi Hattori


Outside Corporate Auditor
Yasusuke Miyazaki


Outside Corporate Auditor
Kazuo Shiohata

Financial Section

Contents

11-Year Summary of Consolidated Financial Data

USHIO INC. and Consolidated Subsidiaries
Years ended March 31

	2002	2003	2004	2005
FOR THE YEAR:				
Net sales	¥ 81,301	¥ 91,937	¥ 99,081	¥119,159
Overseas sales	36,763	45,347	48,855	62,176
North America	16,148	19,980	19,514	20,634
Europe	6,894	7,583	7,633	8,420
Asia	11,676	16,495	20,517	31,859
Other areas	2,044	1,289	1,189	1,260
Operating Income	9,775	12,190	15,006	20,189
Net income	1,643	4,651	9,346	13,634
Capital expenditures	4,837	2,693	5,376	12,837
Depreciation and amortization	2,816	2,889	2,748	3,014
R&D expenses	3,557	3,355	3,358	4,174
AT YEAR-END:				
Total assets	149,669	149,390	169,771	187,251
Net assets	106,838	105,582	117,726	129,302
CASH FLOWS:				
Net cash provided by operating activities	7,305	13,394	7,969	12,408
Net cash used in investing activities	(7,496)	(6,523)	(9,490)	(6,473)
Net cash used in financing activities	(2,112)	(4,117)	(1,592)	(1,758)
Free cash flows	(191)	6,871	(1,520)	5,934
PER SHARE OF COMMON STOCK (Yen):				
Net income	11.77	33.14	67.36	98.89
Cash dividends	13.00	13.00	20.00	20.00
Net assets	765.32	764.94	853.40	935.80
KEY FINANCIAL RATIOS:				
Return on equity (ROE) (%)	1.6	4.4	8.4	11.0
Return on assets (%)	1.1	3.1	5.9	7.6
Asset turnover (times)	0.57	0.61	0.62	0.67
Return on sales (%)	2.0	5.1	9.4	11.4
Operating margin (%)	12.0	13.3	15.1	16.9
Employees (number)	3,706	3,889	3,971	4,755
Net sales per employee	21.9	23.6	25.0	25.1

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

2006	2007	2008	2009	2010	2011	**2012**
¥ 129,284	¥ 151,495	¥ 148,148	¥ 120,846	¥ 119,079	¥ 145,125	**¥ 150,087**
72,688	93,847	96,449	78,168	83,240	105,703	**110,292**
29,874	44,135	39,271	27,652	27,513	35,226	**40,144**
10,295	13,187	14,731	14,209	15,945	21,248	**21,612**
31,860	35,754	41,329	34,517	37,809	47,148	**47,206**
656	769	1,117	1,789	1,972	2,079	**1,329**
18,501	19,727	20,050	8,963	7,262	14,034	**10,696**
14,895	16,553	15,486	3,481	7,071	9,577	**8,748**
6,810	6,748	7,608	5,415	4,874	8,416	**8,947**
4,763	5,179	5,834	6,280	6,219	6,476	**7,139**
4,645	4,884	5,193	5,877	5,523	6,787	**8,665**
213,027	237,520	216,659	184,401	202,119	217,292	**224,412**
150,533	170,738	162,092	145,774	156,685	157,867	**162,048**
9,397	20,071	15,237	11,873	18,999	8,390	**12,382**
(9,762)	(7,227)	(10,041)	(3,194)	(12,714)	(1,679)	**1,911**
(3,324)	(10,625)	(85)	(7,588)	(4,760)	1,081	**(7,615)**
(365)	12,844	5,196	8,678	6,284	6,711	**14,293**
107.81	120.16	112.96	25.76	52.95	71.72	**66.26**
20.00	24.00	24.00	20.00	20.00	22.00	**22.00**
1,089.67	1,233.65	1,177.77	1,083.63	1,162.26	1,169.42	**1,211.51**
10.7	10.3	9.4	2.3	4.7	6.2	**5.6**
7.4	7.3	6.8	1.7	3.7	4.6	**4.0**
0.65	0.67	0.65	0.60	0.62	0.69	**0.68**
11.5	10.9	10.5	2.9	5.9	6.6	**5.8**
14.3	13.0	13.5	7.4	6.1	9.7	**7.1**
4,390	4,782	4,681	4,620	4,732	5,269	**5,731**
29.4	31.7	31.6	26.2	25.2	27.5	**26.1**

Financial Review

USHIO INC. and Consolidated 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, 2012, the Japanese economy faced challenging conditions, including a severe environment surrounding employment and income, as private-sector capital investment weakened following a decline in corporate earnings. These conditions principally reflected certain negative impacts such as the yen's appreciation and the Thai floods, as well as the Great East Japan Earthquake. Overseas, as a result of widening financial instability in Europe, the U.S. economy experienced a weak recovery in housing demand and personal consumption, while the Asian economy witnessed slower growth rates in China, India and other countries.

Under these economic conditions, looking at the markets related to the USHIO Group, the imaging equipment-related market saw continued strong investment sentiment for digitalization, despite stagnant demand for digital cinema projectors in certain parts of Europe due to the economic slowdown. Meanwhile, in the LCD panel and semiconductor-related markets and other electronic component-related markets, there was buoyant demand for LCD panels and semiconductors in step with the expanding market for smartphones and tablet PCs. However, LCD panel and semiconductor manufacturers reexamined capital expenditures following a large drop in the capacity utilization rate for facilities, after a sharp slowdown and slump in demand for LCD TVs and PCs.

Under these conditions, the USHIO Group converted ADTEC Engineering Co., Ltd., with whom it had forged a capital and business alliance, into a subsidiary through a tender offer for its shares, with the aim of further strengthening the equipment business. The USHIO Group also actively executed R&D investments in new technologies and products for the future, such as extreme ultraviolet (EUV) light source equipment. 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 production in optimal locations.

Earnings

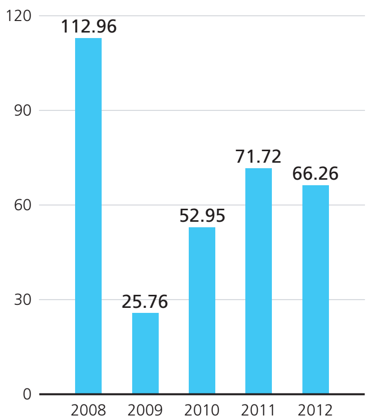
Consolidated net sales for the fiscal year ended March 31, 2012 rose 3.4% year on year to ¥150,087 million, due mainly to strong sales of visual image equipment and xenon lamps, among others. Sales of optical equipment and UV lamps were sluggish, however.

Operating income decreased 23.8% year on year to ¥10,696 million, impacted by the sharp appreciation of the yen and higher R&D expenses, as well as changes to the product mix of net sales.

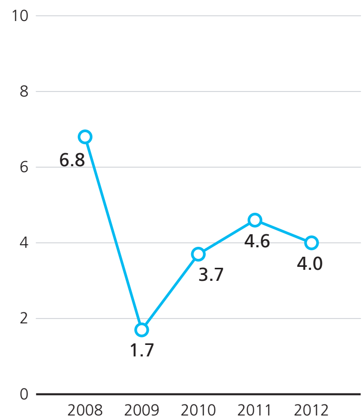
Ordinary income declined 24.5% year on year to ¥13,112 million. The main factors in the decline were the nagative outcome of foreign exchange loss, net due to the yen's appreciation and a significant drop in equity in gains of affiliates. Positive factors included interest and dividends income and gains on sale of investment securities, net.

Net income declined 8.7% year on year to ¥8,748 million. The main factors in the decline were increases in impairment losses and losses on impairment of investment securities, and the decline in earnings.

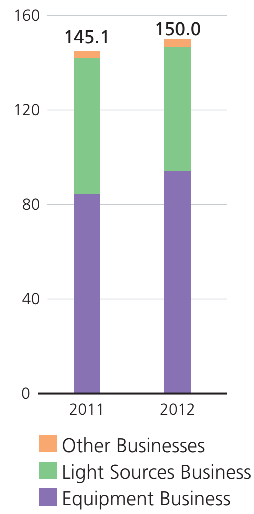
Net Income per Share
(Yen)



Return on Assets (ROA)
(%)



Net Sales
(Billions of yen)



Results by Business Segment

Including internal sales and transfers between segments

Equipment Business

In the equipment business, net sales increased 11.4% year on year to ¥94,511 million, while segment income fell 48.3% to ¥2,795 million. The visual image equipment field saw higher demand for digital cinema projectors as investment schemes for the transition to digital cinema projectors were launched in various regions around the world. In non-cinema fields, demand for various products held firm. On the other hand, in the optical equipment field, equipment sales related to LCD panels, semiconductors, LEDs, and other electronic components weakened, reflecting widespread curtailment or postponement of capital expenditures in the LCD panel and semiconductor industries due to decreased demand for LCD TVs and PCs. In this business, the USHIO Group actively executed R&D investment directed at new technologies and products such as EUV light source equipment, which could lead to strong business results in the future.

Light Sources Business

In the light sources business, net sales declined by 8.6% year on year to ¥52,535 million and segment income was down 8.5% to ¥7,699 million. Sales of xenon lamps for cinema projectors continued to increase steadily in line with higher sales of digital cinema projectors. Meanwhile, data projector lamps and halogen lamps were impacted by sluggish economic conditions and other factors. In addition, replacement demand for ultraviolet exposure lamps and other products was lackluster due to the lower capacity utilization rate of facilities at LCD panel and semiconductor manufacturers. The USHIO Group promoted product development in such areas as achieving longer replacement cycles, and high luminance and higher efficiency for various lamps, while actively conducting R&D activities focused on solid-state light source products, namely LEDs and laser diodes (LDs).

Other Businesses

Other businesses saw net sales rise 5.7% year on year to ¥3,364 million, and segment income decline 24.9% to ¥113 million. In the industrial machinery products category, demand for facilities in the packaging machinery market grew steadily, but demand in the injection molding market was sluggish.

Sources of Funds and Liquidity

Cash flows

Cash and cash equivalents on March 31, 2012 totaled ¥41,585 million, up ¥6,630 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, 2012 provided net cash of ¥12,382 million (compared with ¥8,390 million in the previous year). The main factors increasing cash were ¥13,762 million in income before income taxes and minority interests, ¥7,139 million in depreciation and amortization and a decrease in inventories of ¥384 million. Meanwhile, the main factors that decreased cash were an increase in notes and accounts receivable of ¥684 million, a decrease in notes and accounts payable of ¥2,695 million, and ¥6,789 million in income taxes paid.

Cash flows from investing activities

Investing activities provided net cash of ¥1,911 million (compared with net cash used of ¥1,679 million in the previous fiscal year). The main factors increasing cash were proceeds from withdrawal of time deposits of ¥13,630 million, proceeds from redemption and sales of investment securities of ¥2,366 million, proceeds from purchase of investments in subsidiaries resulting in a change in scope of consolidation of ¥1,117 million, and proceeds from sales of stocks of subsidiaries and affiliates of ¥7,500 million. The main factors decreasing cash were an increase in time deposits of ¥10,934 million, a purchase of short-term investments of ¥2,301 million, a purchase of property, plant and equipment of ¥6,588 million, and a purchase of investment securities of ¥2,275 million.

Cash flows from financing activities

Financing activities used net cash of ¥7,615 million (compared with net cash provided of ¥1,081 million in the previous fiscal year). The main factor increasing cash was proceeds from long-term debt of ¥1,184 million, while the main factors decreasing cash were cash dividends paid of ¥2,940 million and a purchase of treasury stock of ¥3,013 million.

Financial Position

Current assets

At the fiscal year-end, total current assets were ¥143,120 million, an increase of ¥12,389 million year on year. The main factors behind this increase were increases in cash and bank deposits at Group companies, higher notes and accounts receivable accompanying a higher business volume towards the fiscal year-end, and an increase in short-term investments reflecting the investment of surplus funds.

Property, plant and equipment

Property, plant and equipment, net was ¥37,827 million, an increase of ¥1,370 million year on year.

Intangible fixed assets

Intangible fixed assets were ¥3,900 million, up ¥861 million year on year.

Investments and other assets

Total investments and other assets were ¥39,564 million, a decline of ¥7,500 million year on year. The main factors in the decline were a decline in investment securities due to sales of investments in stocks of affiliates and a slump on the sharemarket, and a decline in investments in and advances to affiliates.

Current liabilities

Total current liabilities at the end of the fiscal year were ¥40,634 million, a decline of ¥824 million year on year. The main factor in the decline was a decrease in short-term debt.

Long-term liabilities

Total long-term liabilities at the end of the fiscal year were ¥21,729 million, an increase of ¥3,763 million year on year. The increase was primarily due to an increase in long-term debt following a change in the scope of consolidation. This was partially offset by a decline in deferred tax liabilities due to a reduction in the statutory effective tax rate following a tax code amendment and a reduction in the tax component of unrealized gains on investment securities due to weak stock prices.

Net assets

At the fiscal year-end, total net assets were ¥162,048 million, an increase of ¥4,180 million from the previous fiscal year-end. The main factor behind this increase was an increase in retained earnings. Factors decreasing net assets included an increase in treasury stock, at cost, following the repurchase of the Company's own shares, and the payment of cash dividends.

Capital Expenditures

The USHIO Group's capital expenditures for the fiscal year ended March 31, 2012 were ¥8,947 million. The bulk of this expenditure was for capital investment in the light sources and equipment businesses. Investments focused on bolstering existing facilities, promising growth businesses, and research and development. A breakdown of capital expenditures for the fiscal year 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).

	FY2011	Y-o-Y Change
Light sources business	¥3,423 million	104.4%
Equipment business	¥5,366 million	106.4%
Other businesses	¥157 million	165.1%
Total capital expenditures	¥8,947 million	106.3%

Capital expenditures increased during the fiscal year. The increase was due to key investments aimed at strengthening the Group's operational competitiveness in potential growth fields, although the Group continued to select investments rigorously in every segment and to focus on capital efficiency.

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, including LEDs and LDs which are being developed in various fields; the high-precision and high-density surface-mounting businesses, where rapid reductions in the size and weight of information processing products and other electronics are taking place, as well as rapid advances in functionality and performance; exposure technology, which has wide ranging applications from high-density, miniaturized next-generation semiconductors including development of extreme ultraviolet (EUV) light sources to flat panel displays and printed circuit boards; and other capital investments in important businesses in the fields of biomedical life sciences, MEMS and nanotech, and the environment. USHIO funded its capital expenditures with a combination of internally generated funds and borrowings.

Loss on disposal of fixed assets was ¥165 million, due to the disposal of plant facilities such as buildings and machinery in the light sources and equipment businesses.

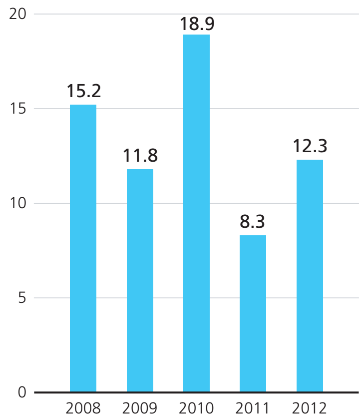
Research and Development

The main target of the Group's R&D was 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 conducted strategic R&D activities. It continued to promote interaction among

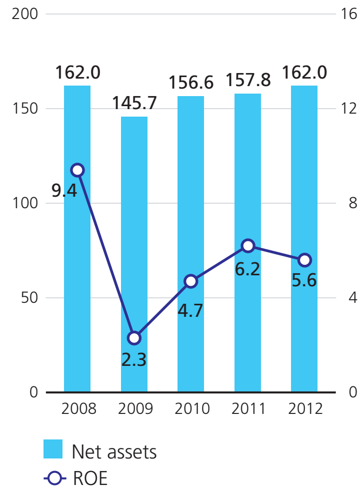
Net Cash Provided by Operating Activities

(Billions of yen)



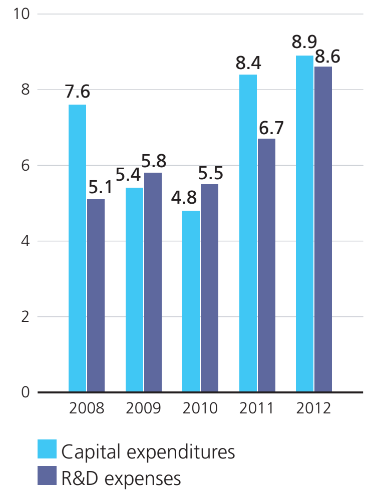
Net Assets and Return on Equity (ROE)

(Billions of yen) (%)



Capital Expenditures and R&D Expenses

(Billions of yen)



the R&D teams in its different product groups with an eye to developing new kinds of light sources and equipment.

Group-wide R&D expenses totaled ¥8,665 million. Most of this was spent in the light sources and equipment businesses.

Risks

Below is a summary of risks that could affect the Company's business performance, financial position, and cash flow adversely and materially. These are the risks cited by management in the Company's Yukashoken Hokokusho (Annual Securities Report) to the Japanese government, filed on June 28, 2012. 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 LED industries. USHIO's principal products for those industries are replacement exposure lamps for 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 medium and long-term changes in demand and developments in technological progress in semiconductors and LCDs. Unexpected developments in 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 LED panel fields, the Group supplies on-board light sources for data projectors, illumination and radiation light sources and for digital cinema projectors, 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 a broad range of 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 miniaturized microcircuitry patterns. However, semiconductor manufacturing is beginning to shift to other exposure technologies. One new exposure technology is EUV 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 these risks 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 it had allocated 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. Returns on those operations are 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.

Important management contracts

There are no important contracts to report.

Consolidated Balance Sheets

USHIO INC. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**2012**	2011	**2012**
Current assets:			
Cash and bank deposits (Notes 8 and 14)	**¥ 41,692**	¥ 38,496	**$ 507,273**
Notes and accounts receivable (Note 8)	**37,582**	34,300	**457,263**
Short-term investments (Notes 8 and 9)	**12,043**	8,447	**146,537**
Merchandise and finished goods	**22,207**	23,065	**270,195**
Work in process	**8,314**	6,675	**101,157**
Raw materials and supplies	**9,918**	9,766	**120,672**
Deferred tax assets (Note 4)	**5,065**	4,593	**61,636**
Prepaid expenses and other current assets	**6,819**	5,805	**82,976**
Less: Allowance for doubtful accounts	**(523)**	(419)	**(6,371)**
Total current assets	**143,120**	130,730	**1,741,337**
Property, plant and equipment, at cost:			
Buildings and structures (Note 3)	**34,968**	31,231	**425,463**
Machinery, equipment and other (Note 3)	**46,602**	41,666	**567,012**
Land	**8,885**	8,849	**108,113**
Construction in progress	**941**	1,126	**11,455**
	91,398	82,873	**1,112,042**
Less: Accumulated depreciation	**(53,571)**	(46,416)	**(651,798)**
Property, plant and equipment, net	**37,827**	36,457	**460,245**
Intangible fixed assets	**3,900**	3,039	**47,458**
Investments and other assets:			
Investment securities (Notes 8 and 9)	**36,773**	39,495	**447,417**
Investments in and advances to affiliates	**132**	5,639	**1,613**
Deferred tax assets (Note 4)	**541**	510	**6,584**
Other assets	**2,117**	1,418	**25,759**
Total investments and other assets	**39,564**	47,064	**481,373**
Total assets	**¥224,412**	¥217,292	**$2,730,413**

LIABILITIES AND NET ASSETS	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 2) 2012
Current liabilities:			
Notes and accounts payable (Note 8)	**¥ 18,477**	¥ 18,052	**$ 224,814**
Short-term debt (Notes 3 and 8)	**4,383**	6,512	**53,339**
Current portion of long-term debt (Notes 3 and 8)	**1,042**	849	**12,682**
Income taxes payable	**3,049**	3,564	**37,098**
Deferred tax liabilities (Note 4)	**150**	129	**1,834**
Allowance for employees' bonuses	**2,662**	2,819	**32,391**
Warranty reserve	**1,897**	2,337	**23,088**
Other current liabilities	**8,971**	7,192	**109,153**
Total current liabilities	**40,634**	41,458	**494,399**
Long-term liabilities:			
Long-term debt (Notes 3 and 8)	**7,439**	4,922	**90,518**
Deferred tax liabilities (Note 4)	**5,954**	8,277	**72,449**
Retirement benefits (Note 11)	**2,143**	1,165	**26,085**
Other long-term liabilities	**6,191**	3,601	**75,330**
Total long-term liabilities	**21,729**	17,966	**264,382**
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized —300,000,000 shares			
Issued —139,628,721 shares	**19,556**	19,556	**237,940**
Additional paid-in capital	**28,371**	28,371	**345,192**
Retained earnings	**122,642**	116,831	**1,492,178**
Treasury stock, at cost	**(12,228)**	(9,215)	**(148,787)**
Total shareholders' equity	**158,341**	155,544	**1,926,524**
Accumulated other comprehensive income:			
Unrealized gains on available-for-sale securities	**12,628**	12,245	**153,645**
Translation adjustments	**(12,103)**	(11,622)	**(147,267)**
Total accumulated other comprehensive income	**524**	622	**6,378**
Minority interests	**3,183**	1,700	**38,729**
Total net assets (Note 13)	**162,048**	157,867	**1,971,632**
Total liabilities and net assets	**¥224,412**	¥217,292	**$2,730,413**

See notes to consolidated financial statements.

Consolidated Statements of Income

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
Net sales	**¥150,087**	¥145,125	**$1,826,104**
Cost of sales	**101,635**	96,962	**1,236,596**
Gross profit	**48,451**	48,163	**589,508**
Selling, general and administrative expenses (Note 5)	**37,755**	34,129	**459,370**
Operating income	**10,696**	14,034	**130,138**
Other income (expenses):			
Interest and dividends income	**1,234**	1,148	**15,016**
Interest expenses	**(202)**	(217)	**(2,461)**
Foreign exchange loss, net	**(428)**	(430)	**(5,209)**
Gains (losses) on trading securities	**53**	(2)	**657**
Equity in gains of affiliates	**107**	1,585	**1,312**
Gains on sales of investment securities, net	**1,016**	1,341	**12,362**
Losses on impairment of investment securities	**(1,150)**	(732)	**(13,995)**
Gains on sales of subsidiaries' and affiliates' stocks	**2,972**	–	**36,162**
Impairment losses (Note 6)	**(651)**	(154)	**(7,929)**
Gains on negative goodwill	**896**	–	**10,904**
Losses on liquidation of business	**(378)**	–	**(4,610)**
Losses on step acquisitions	**(375)**	–	**(4,569)**
Other, net	**(26)**	(321)	**(328)**
	3,066	2,214	**37,312**
Income before income taxes and minority interests	**13,762**	16,248	**167,450**
Income taxes (Note 4):			
Current	**6,286**	6,343	**76,493**
Deferred	**(1,558)**	(8)	**(18,967)**
	4,728	6,335	**57,525**
Income before minority interests	**9,034**	9,913	**109,925**
Minority interests	**286**	335	**3,486**
Net income (Note 13)	**¥ 8,748**	¥ 9,577	**$ 106,439**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
Income before minority interests	**¥9,034**	¥ 9,913	**$109,925**
Other comprehensive income (Note 12)			
Unrealized gains (losses) on available-for-sale securities	**383**	(1,424)	**4,663**
Translation adjustments	**(535)**	(4,616)	**(6,513)**
Share of other comprehensive income of affiliates accounted for by the equity method	**12**	3	**151**
Total other comprehensive income	**(139)**	(6,037)	**(1,698)**
Comprehensive income (Note 12)	**¥8,895**	¥ 3,875	**$108,226**
Comprehensive income attributable to shareholders of the parent	**¥8,649**	¥ 3,628	**$105,240**
Comprehensive income attributable to minority interests	**245**	247	**2,986**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
Shareholders' equity			
Common stock			
Balance at beginning of year (2012—139,628,721 shares 2011—139,628,721 shares)	**¥ 19,556**	¥ 19,556	**$ 237,940**
Balance at end of year (2012—139,628,721 shares 2011—139,628,721 shares)	**¥ 19,556**	¥ 19,556	**$ 237,940**
Additional paid-in capital			
Balance at beginning of year	**¥ 28,371**	¥ 28,371	**$ 345,192**
Balance at end of year	**¥ 28,371**	¥ 28,371	**$ 345,192**
Retained earnings			
Balance at beginning of year	**¥116,831**	¥109,925	**$1,421,485**
Dividends from surplus	**(2,937)**	(2,670)	**(35,746)**
Net income	**8,748**	9,577	**106,439**
Balance at end of year	**¥122,642**	¥116,831	**$1,492,178**
Treasury stock, at cost			
Balance at beginning of year	**¥ (9,215)**	¥ (9,209)	**$ (112,124)**
Purchase of treasury stock	**(3,013)**	(6)	**(36,663)**
Balance at end of year	**¥ (12,228)**	¥ (9,215)	**$ (148,787)**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities			
Balance at beginning of year	**¥ 12,245**	¥ 13,668	**$ 148,987**
Net changes of items other than shareholders' equity	**382**	(1,423)	**4,659**
Balance at end of year	**¥ 12,628**	¥ 12,245	**$ 153,645**
Translation adjustments			
Balance at beginning of year	**¥ (11,622)**	¥ (7,096)	**$ (141,409)**
Net changes of items other than shareholders' equity	**(481)**	(4,526)	**(5,858)**
Balance at end of year	**¥ (12,103)**	¥ (11,622)	**$ (147,267)**
Total accumulated other comprehensive income			
Balance at beginning of year	**¥ 622**	¥ 6,572	**$ 7,577**
Net changes of items other than shareholders' equity	**(98)**	(5,949)	**(1,199)**
Balance at end of year	**¥ 524**	¥ 622	**$ 6,378**
Minority interests			
Balance at beginning of year	**¥ 1,700**	¥ 1,469	**$ 20,691**
Net changes of items other than shareholders' equity	**1,482**	231	**18,038**
Balance at end of year	**¥ 3,183**	¥ 1,700	**$ 38,729**
Total net assets			
Balance at beginning of year	**¥157,867**	¥156,685	**$1,920,762**
Dividends from surplus	**(2,937)**	(2,670)	**(35,746)**
Net income	**8,748**	9,577	**106,439**
Purchase of treasury stock	**(3,013)**	(6)	**(36,663)**
Net changes of items other than shareholders' equity	**1,383**	(5,718)	**16,839**
Balance at end of year	**¥162,048**	¥157,867	**$1,971,632**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
Operating activities			
Income before income taxes and minority interests	**¥ 13,762**	¥ 16,248	**$ 167,450**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**7,139**	6,476	**86,864**
Impairment losses	**651**	154	**7,929**
Losses on liquidation of business	**378**	–	**4,610**
Interest and dividends income	**(1,234)**	(1,148)	**(15,016)**
Interest expenses	**202**	217	**2,461**
(Gains) losses on trading securities	**(53)**	2	**(657)**
Equity in gains of affiliates	**(107)**	(1,585)	**(1,312)**
Gains on sales of investment securities, net	**(1,016)**	(1,341)	**(12,362)**
Losses on impairment of investment securities	**1,150**	732	**13,995**
Gains on sales of subsidiaries' and affiliates' stocks	**(2,972)**	–	**(36,162)**
Increase in notes and accounts receivable	**(684)**	(4,209)	**(8,329)**
Decrease (increase) in inventories	**384**	(14,157)	**4,675**
(Decrease) increase in notes and accounts payable	**(2,695)**	5,633	**(32,800)**
Other	**3,256**	4,115	**39,621**
Subtotal	**18,161**	11,140	**220,969**
Interest and dividends received	**1,212**	1,181	**14,754**
Interest paid	**(202)**	(213)	**(2,467)**
Income taxes paid	**(6,789)**	(3,717)	**(82,603)**
Net cash provided by operating activities	**12,382**	8,390	**150,653**
Investing activities			
Increase in time deposits	**(10,934)**	(21,901)	**(133,045)**
Proceeds from withdrawal of time deposits	**13,630**	24,430	**165,847**
Increase in short-term loans receivable	**(28)**	(179)	**(349)**
Proceeds from collection of short-term loans receivable	**40**	1,599	**497**
Purchase of short-term investments	**(2,301)**	(1,142)	**(28,002)**
Proceeds from redemption and sales of short-term investments	**1,275**	2,704	**15,515**
Purchase of property, plant and equipment	**(6,588)**	(7,231)	**(80,160)**
Proceeds from sales of property, plant and equipment	**94**	103	**1,154**
Purchase of intangible fixed assets	**(1,699)**	(213)	**(20,683)**
Purchase of investment securities	**(2,275)**	(1,911)	**(27,680)**
Proceeds from redemption and sales of investment securities	**2,366**	1,743	**28,792**
Additional purchase of investments in subsidiaries	**(304)**	(313)	**(3,707)**
Payments for investments in capital of subsidiaries and affiliates	**(78)**	–	**(961)**
Proceeds from purchase of investments in subsidiaries resulting in a change in scope of consolidation (Note 14)	**1,117**	–	**13,593**
Proceeds from sales of stocks of subsidiaries and affiliates	**7,500**	–	**91,252**
Increase in long-term loans receivable	**(27)**	(24)	**(341)**
Proceeds from collection of long-term loans receivable	**14**	819	**171**
Payments for business transfer	**–**	(188)	**–**
Other	**112**	25	**1,365**
Net cash provided by (used in) investing activities	**1,911**	(1,679)	**23,260**
Financing activities			
Net (decrease) increase in short-term debt	**(1,931)**	2,175	**(23,501)**
Proceeds from long-term debt	**1,184**	4,548	**14,414**
Repayment of long-term debt	**(807)**	(2,887)	**(9,822)**
Purchase of treasury stock	**(3,013)**	(6)	**(36,663)**
Cash dividends paid	**(2,940)**	(2,671)	**(35,771)**
Cash dividends paid to minority interests	**(108)**	(75)	**(1,320)**
Net cash (used in) provided by financing activities	**(7,615)**	1,081	**(92,663)**
Effect of exchange rate changes on cash and cash equivalents	**(47)**	(1,527)	**(579)**
Net increase in cash and cash equivalents	**6,630**	6,264	**80,671**
Cash and cash equivalents at beginning of year	**34,954**	28,595	**425,295**
Increase in cash and cash equivalents resulting from a change in scope of consolidation	**–**	94	**–**
Cash and cash equivalents at end of year (Note 14)	**¥ 41,585**	¥ 34,954	**$ 505,966**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

USHIO INC. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

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 its 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, 2012, the numbers of consolidated subsidiaries and subsidiaries and affiliates accounted for by the equity method were 47 and 2 (44 and 4 in 2011), respectively.

The changes in the scope of consolidation for the year ended March 31, 2012 are as follows:

Due to new establishment, CHRISTIE DIGITAL SYSTEMS SOUTH AMERICA LTDA. was included in the consolidation scope.

Due to an acquisition of shares, MIZUTANI Co., LTD. was included in the consolidation scope.

ADTEC Engineering Co., Ltd. was included in the consolidation scope due to an additional acquisition of shares.

The changes in the scope of application of the equity method for the year ended March 31, 2012 are as follows:

Universal Cinema Services Co., Ltd. was included in the scope of application of the equity method since the Company has significant influence on decisions of financial and business policies of the company.

Gigaphoton Inc. and Gigaphoton USA Inc. were excluded from the scope of application of the equity method since the Company transferred all of its shares of the companies.

ADTEC Engineering Co., Ltd. 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 (5 in 2011) is December 31. The closing date of subsidiary, ADTEC Engineering Co., Ltd. is September 30. Their financial accounts are consolidated using their financial statements as of the parent's 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 its 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 in which it is 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 and 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 leased 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) Leased assets

Leased assets related to finance lease transactions that transfer ownership mainly consist of software of the Company's consolidated subsidiaries and are depreciated by the same approach as the depreciation method applied to non-current assets.

Leased assets related to finance lease transactions that do not transfer ownership mainly consist of production facilities (machinery and vehicles) and inspection instruments (tools and equipment) of the Company's consolidated subsidiaries and are depreciated by the straight-line method over the lease period which is deemed as the useful life, assuming no residual value.

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

(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 benefits

The Company and certain of its consolidated subsidiaries have defined benefit pension plans, 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 from the year following the year in which the gain or loss is recognized by the straight-line method over a certain period (15 years) which is within the average remaining years of service of the eligible employees when the gain or loss occurs. Prior service costs are amortized as incurred by the straight-line method over a certain period (15 years) which is the average remaining years of service of the eligible employees when the costs occur.

Some of the 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 an allowance is provided when losses on orders are probable and reasonably estimated.

(o) Derivatives and hedge accounting

The Company and certain consolidated subsidiaries have entered into currency derivative transactions and interest rate swap transactions primarily in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates.

In accordance with the accounting standard for financial instruments, derivative financial instruments are carried at fair value with any changes in unrealized 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. Certain domestic consolidated subsidiaries apply the assignment for the currency derivative transactions that qualify for the method to the hedges of foreign currency risk and use the exceptional treatment for interest rate swaps that is qualified for the treatment.

Hedging instruments and hedged items used by the Company and certain consolidated subsidiaries are as follows:

(a) Hedging instruments: foreign exchange contracts

Hedged items: monetary receivables and payables denominated in foreign currencies,

(b) Hedging instruments: interest rate swaps

Hedged items: debt

The Company and its consolidated subsidiaries hedge the fluctuation risk for foreign currency and interest rate in accordance with internal rules for market risk management and for derivative transactions.

The Company and its consolidated subsidiaries compare the cumulative changes in fair value or cash flow of the hedged items and those of the hedging instrument during the period from the inception of the hedge to the time of determining the effectiveness and assess the hedge effectiveness based on the changes.

(p) Deferred income taxes

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

(q) Additional information

The "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) have been applied to the accounting changes which are made after the beginning of the fiscal year ended March 31, 2012 and corrections of prior period errors.

2. U.S. Dollar Amounts

For the readers' convenience, the accompanying consolidated financial statements with respect to the year ended March 31, 2012 have been presented in U.S. dollars by translating all yen amounts at ¥82.19 = U.S. $1.00, the exchange rate prevailing on March 31, 2012. 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 0.56% to 5.02% and from 0.57% to 9.0% per annum at March 31, 2012 and 2011, respectively.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
The Company:			
Loans from banks, due through 2013 at a rate of 0.84%	**¥2,840**	¥2,840	**$ 34,554**
Consolidated subsidiaries:			
Loans from banks, due through 2016 at rates ranging from 1.33% to 6.79%	**5,641**	2,931	**68,646**
Total long-term debt	**8,481**	5,771	**103,200**
Less: Current portion	**1,042**	849	**12,682**
	¥7,439	¥4,922	**$ 90,518**

The assets pledged as collateral for debt at March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	**¥283**	**$3,451**
Machinery, equipment and other	**71**	**872**
Land	**266**	**3,240**
	¥621	**$7,564**

The related debt for which the above assets were pledged as collateral at March 31, 2012 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Current portion of long-term debt	**¥231**	**$2,822**
Long-term debt	**138**	**1,690**
	¥370	**$4,512**

The aggregate annual maturities of long-term debt subsequent to March 31, 2012 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥1,042	$ 12,682
2014	3,907	47,541
2015	1,510	18,381
2016	1,968	23,956
2017 and thereafter	52	640
Total	¥8,481	$103,200

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, 2012 and 2011. 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, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 170**	¥ 264	**$ 2,071**
Allowance for employees' bonuses	**817**	849	**9,942**
Warranty reserve	**499**	643	**6,083**
Retirement benefit expenses	**1,878**	1,888	**22,854**
Retirement allowance and accrual for directors, corporate auditors and others	**570**	549	**6,938**
Write-downs of inventories	**1,329**	644	**16,172**
Net losses carried forward	**1,944**	795	**23,660**
Unrealized gains on available-for-sale securities	**14**	358	**180**
Other	**3,076**	2,699	**37,428**
Gross deferred tax assets	**10,300**	8,693	**125,328**
Valuation allowance	**(2,793)**	(1,202)	**(33,992)**
Total deferred tax assets	**7,506**	7,490	**91,337**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**(6,628)**	(8,413)	**(80,650)**
Gains on contribution of securities to employees' retirement benefit trust	**(671)**	(766)	**(8,173)**
Depreciation	**(336)**	(438)	**(4,096)**
Retained earnings of subsidiaries and affiliates	**(144)**	(952)	**(1,764)**
Other	**(223)**	(222)	**(2,717)**
Total deferred tax liabilities	**(8,005)**	(10,793)	**(97,401)**
Net deferred tax liabilities	**¥ (498)**	¥ (3,302)	**$ (6,064)**

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, 2012 and 2011 is summarized as follows:

	2012	2011
Statutory tax rate	**40.7%**	40.7%
Reconciliation:		
Increase in valuation allowance for deferred tax assets	**8.0**	6.6
Non-taxable income for income tax purposes	**(1.7)**	(1.3)
Non-deductible expenses for income tax purposes	**0.3**	0.5
Tax deductions related to R&D activities	**(3.7)**	(3.0)
Different tax rates applied to overseas subsidiaries	**(4.9)**	(8.0)
Equity in net income of affiliated companies	**(0.4)**	(1.3)
Retained earnings of subsidiaries and affiliates	**0.2**	3.2
Elimination of losses on sales of investments in capital of subsidiaries and affiliates	**(7.4)**	–
Adjustment to deferred tax assets due to changes in the tax rate	**2.7**	–
Other	**0.5**	1.6
Effective tax rates	**34.4%**	39.0%

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), corporation tax rates will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 1, 2012. In line with these revisions, the statutory tax rate to calculate deferred tax assets and liabilities was changed from 40.7% to 38.0% for temporary differences which are expected to reverse during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the statutory tax rate to calculate deferred tax assets and liabilities was changed from 40.7% to 35.6% for temporary differences which are expected to reverse from the fiscal years beginning on or after April 1, 2015. As a result of this change, the net amount of deferred tax assets, deferred income taxes and unrealized gains on available-for-sale securities increased by ¥619 million ($7,543 thousand), ¥370 million ($4,512 thousand) and ¥990 million ($12,056 thousand), respectively.

5. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Salaries and wages	**¥9,134**	¥8,525	**$111,136**
Provision for allowance for employees' bonuses	**831**	960	**10,115**
Retirement benefit expenses	**581**	508	**7,071**
Research and development expenses	**8,665**	6,787	**105,429**
Provision for allowance for doubtful accounts	**126**	18	**1,534**

6. Impairment Losses

For the year ended March 31, 2012, the Group recognized impairment losses on the following asset groups:

Location	Classification by use	Type of assets	Millions of yen	Thousands of U.S. dollars
Tatebayashi and Oura, Gunma	Idle assets	Buildings and structures and land	¥252	$3,068
Nagaizumi, Shizuoka	Idle assets	Buildings and structures, land and other	185	2,253
Takasago and Himeji, Hyogo	Idle assets	Machinery and vehicles and other	1	20
Kowloon, Hong Kong	Idle assets	Machinery and vehicles	42	514
Tsukuba, Ibaraki	Business assets	Buildings and structures and land	177	2,160
Tennessee, U.S.A.	Business assets	Goodwill (intangible fixed assets)	170	2,075

In principle, the Group's business assets are grouped according to division or to whom assets are lent, and the Group's idle assets are grouped on an individual asset basis.

For idle assets that are not used for business, the book values of the group assets, whose market values fall significantly, are written down to their recoverable amounts, and such write-downs are recorded as impairment losses.

The book values of business assets that are not expected to be used in the future due to resolution for dissolution of TSUKUBA USHIO ELECTRIC, INC. are written down to their recoverable amounts, and such write-downs are recorded as losses on liquidation of business.

Goodwill is written down to its recoverable amount since initially anticipated revenue is not expected to be generated, and such write-down is recorded as impairment losses.

The recoverable amounts of the related asset groups are measured by net sales value, and buildings and land are determined by appraisal value.

Losses on liquidation of business for the year ended March 31, 2012 resulted from the resolution for dissolution of TSUKUBA USHIO ELECTRIC, INC. and comprised impairment losses of ¥177 million ($2,160 thousand).

7. Leases

Finance lease transactions that do not transfer ownership executed on or before March 31, 2008 are accounted for as operating leases. The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and amortization and net book value of the leased assets as of March 31, 2012 and 2011, 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			
	2012			
	Machinery and vehicles	Other (tools and equipment)	Intangible fixed assets (software)	Total
Acquisition costs	**¥13**	**¥73**	**¥20**	**¥107**
Accumulated depreciation and amortization	**12**	**68**	**16**	**96**
Net book value	**¥ 1**	**¥ 5**	**¥ 3**	**¥ 10**

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

	Thousands of U.S. dollars			
	2012			
	Machinery and vehicles	Other (tools and equipment)	Intangible fixed assets (software)	Total
Acquisition costs	**$161**	**$897**	**$245**	**$1,303**
Accumulated depreciation and amortization	**146**	**828**	**204**	**1,178**
Net book value	**$ 15**	**$ 69**	**$ 41**	**$ 126**

Lease expenses related to finance leases accounted for as operating leases for the years ended March 31, 2012 and 2011 totaled ¥15 million ($195 thousand) and ¥23 million, respectively. The following *pro forma* amounts represent depreciation/amortization for the years ended March 31, 2012 and 2011, 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
	2012	2011	**2012**
Depreciation/amortization	**¥15**	¥23	**$195**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 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	**¥10**	**$124**
Due after one year	**0**	**2**
Total	**¥10**	**$126**

The amount of future minimum lease payments was less than the threshold indicated by the Accounting Standards Board of Japan. 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 for the year ended March 31, 2012, are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	**¥266**	**$3,239**
Due after one year	**436**	**5,307**
Total	**¥702**	**$8,546**

8. 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 rate fluctuation 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 customer credit risk. Operating receivables denominated in foreign currencies are also exposed to foreign exchange risk which is hedged by using forward foreign exchange contracts.

Short-term investments and investment securities consist mainly of equity securities issued by companies with a 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, which are operating payables, 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 using 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. Floating-rate debts are exposed to interest rate risk. For certain long-term floating-rate debts, derivative transactions (interest rate swaps) are used as the hedging instrument on an individual contract basis to avoid risks of fluctuations in interest rates and to fix the interest payable.

As for derivative transactions, forward foreign exchange contracts are entered into for the purpose of hedging foreign exchange risk deriving from operating receivables and payables denominated in foreign currencies.

c. Risk management structure regarding financial instruments

Credit risk—The Company and its 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 each customer 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 for foreign exchange risk identified by currency and by month in relation to operating receivables and payables denominated in foreign currencies in accordance with the internal rules for market risk management.

For short-term investments 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 reported to directors in charge on a daily basis as well as to the Board of Directors in accordance with the internal rules for derivative transactions which define the authorization policy and limits of transactions.

Liquidity risk—Liquidity risk of the Company and its consolidated subsidiaries is managed by the Finance and Treasury Departments, preparing and updating the cash management plan based upon reports from each department as well as by maintaining certain liquidity.

(2) Fair value of financial instruments

The table below presents the amounts of financial instruments recorded in the consolidated balance sheets and their fair values as of March 31, 2012 and 2011, as well as their differences. Financial instruments whose fair values cannot be reliably determined are not included.

	Millions of yen		
As of March 31, 2012	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and bank deposits	**¥ 41,692**	**¥ 41,692**	**¥ –**
(2) Notes and accounts receivable	**37,582**		
Allowance for doubtful accounts (*1)	**(510)**		
	37,072	**37,072**	**–**
(3) Short-term investments and investment securities			
Trading securities	**1,762**	**1,762**	**–**
Available-for-sale securities	**45,018**	**45,018**	**–**
(4) Specified money in trust	**2,010**	**2,010**	**–**
Assets, total	**¥127,556**	**¥127,556**	**¥ –**
(1) Notes and accounts payable	**18,477**	**18,477**	**–**
(2) Short-term debt	**4,383**	**4,383**	**–**
(3) Current portion of long-term debt	**1,042**	**1,045**	**3**
(4) Long-term debt	**7,439**	**7,538**	**99**
Liabilities, total	**¥ 31,343**	**¥ 31,445**	**¥102**
Derivative transactions (*2)			
for which hedge accounting is not applied	**(117)**	**(117)**	**–**
for which hedge accounting is applied	**–**	**–**	**–**

(*1): Notes and accounts receivable are stated net of corresponding general and specific allowance for doubtful accounts.
(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parenthesis indicate net liabilities.

	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	–	–	–

(*1): Notes and accounts receivable are stated net of corresponding general and specific allowance for doubtful accounts.
(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parenthesis indicate net liabilities.

As of March 31, 2012	Thousands of U.S. dollars Consolidated balance sheet amount	Fair value	Difference
(1) Cash and bank deposits	$ 507,273	$ 507,273	$ –
(2) Notes and accounts receivable	457,263		
Allowance for doubtful accounts (*1)	(6,206)		
	451,057	451,057	–
(3) Short-term investments and investment securities			
Trading securities	21,440	21,440	–
Available-for-sale securities	547,741	547,741	–
(4) Specified money in trust	24,461	24,461	–
Assets, total	$1,551,972	$1,551,972	$ –
(1) Notes and accounts payable	224,814	224,814	–
(2) Short-term debt	53,339	53,339	–
(3) Current portion of long-term debt	12,682	12,718	37
(4) Long-term debt	90,518	91,726	1,208
Liabilities, total	$ 381,353	$ 382,598	$1,245
Derivative transactions (*2)			
for which hedge accounting is not applied	(1,425)	(1,425)	–
for which hedge accounting is applied	–	–	–

(*1): Notes and accounts receivable are stated net of corresponding general and specific allowance for doubtful accounts.
(*2): Assets and liabilities from derivative transactions are stated in the net amount. 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 total of principal and interest at an assumed rate for similar new borrowings. Certain floating-rate long-term debts qualify for exceptional treatment for interest rate swaps. The fair value of these debts is measured based on the present value of the total of the principal and interest which are treated together with the relevant interest rate swap, discounted by a reasonably estimated rate of interest that is applied to similar borrowings.

Derivative transactions

The fair value is measured based upon the prices obtained from financial institutions. The fair value of interest rate swaps for which exceptional treatment is applied is included in the estimated fair value of long-term debt, since the interest swap is processed together with long-term debt subject to hedging.

As of March 31, 2012 and 2011, the consolidated balance sheets include the following financial instruments whose fair values cannot be reliably determined:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unlisted stocks and investments in business partnerships with limited liability	¥2,036	¥2,387	$24,772

(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, 2012 and 2011 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	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	¥2,749	¥2,061	¥–	$33,457	$25,084	$–
Total	¥2,749	¥2,061	¥–	$33,457	$25,084	$–

As of March 31, 2011	Millions of yen 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	¥–
Total	¥888	¥1,415	¥–

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

9. Short-Term Investments and Investment Securities

(1) Trading securities

Trading securities as of March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
As of March 31, 2012	Carrying value	Loss	Carrying value	Loss
	¥1,762	**¥(39)**	**$21,440**	**$(483)**

	Millions of yen	
As of March 31, 2011	Carrying value	Loss
	¥1,036	¥(46)

(2) Marketable available-for-sale securities

Marketable available-for-sale securities as of March 31, 2012 and 2011 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
(1) Stock	**¥26,885**	**¥ 6,615**	**¥20,270**	**$327,119**	**$ 80,490**	**$246,629**
(2) Bonds:						
Corporate bonds	**2,217**	**2,149**	**67**	**26,978**	**26,158**	**820**
(3) Other	**169**	**140**	**28**	**2,058**	**1,705**	**353**
Subtotal	**29,272**	**8,905**	**20,366**	**356,155**	**108,353**	**247,801**
Securities whose carrying value does not exceed their acquisition costs:						
(1) Stock	**5,278**	**5,779**	**(500)**	**64,219**	**70,314**	**(6,095)**
(2) Bonds:						
Corporate bonds	**2,640**	**2,747**	**(107)**	**32,128**	**33,433**	**(1,305)**
(3) Other	**7,827**	**7,916**	**(88)**	**95,239**	**96,316**	**(1,077)**
Subtotal	**15,746**	**16,443**	**(696)**	**191,587**	**200,063**	**(8,477)**
Total	**¥45,018**	**¥25,348**	**¥19,670**	**$547,741**	**$308,417**	**$239,324**

	Millions of yen		
As of March 31, 2011	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
(1) Stock	¥30,988	¥ 9,241	¥21,746
(2) Bonds:			
Corporate bonds	1,083	995	87
(3) Other	173	140	33
Subtotal	32,245	10,377	21,867
Securities whose carrying value does not exceed their acquisition costs:			
(1) Stock	4,221	5,279	(1,058)
(2) Bonds:			
Corporate bonds	1,205	1,257	(52)
(3) Other	6,846	6,890	(43)
Subtotal	12,273	13,427	(1,154)
Total	¥44,518	¥23,805	¥20,713

Note 1: Available-for-sale securities sold

Available-for-sale securities sold during the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Sales of securities			
(1) Stock	**¥2,334**	¥1,567	**$28,406**
(2) Other	**2,366**	–	**28,793**
Aggregate gains on sales			
Stock	**1,407**	1,261	**17,125**
Aggregate losses on sales			
Stock	**392**	–	**4,780**

Note 2: Impairment losses recognized on securities

The Group recognized impairment losses of ¥1,147 million ($13,956 thousand) and ¥403 million on stocks classified as marketable available-for-sale securities for the years ended March 31, 2012 and 2011, respectively. Impairment losses are recognized when the average market value for the month ended on the balance sheets date 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 recoverability.

10. Derivative Transactions

The notional amounts and the estimated fair value of the derivative positions outstanding at March 31, 2012 and 2011 are summarized below.

(1) Derivative transactions for which hedge accounting is not applied

Currency-related transactions:

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2012	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	**¥1,664**	**¥ –**	**¥ (60)**	**¥ (60)**	**$20,250**	**$ –**	**$ (733)**	**$ (733)**
Euro	**438**	**–**	**(0)**	**(0)**	**5,332**	**–**	**(8)**	**(8)**
Buy:								
USD	**579**	**327**	**11**	**11**	**7,052**	**3,980**	**134**	**134**
JPY	**1,748**	**–**	**(71)**	**(71)**	**21,276**	**–**	**(871)**	**(871)**
KRW	**50**	**–**	**4**	**4**	**608**	**–**	**52**	**52**
Total	**¥4,480**	**¥327**	**¥(117)**	**¥(117)**	**$54,519**	**$3,980**	**$(1,425)**	**$(1,425)**

	Millions of yen			
As of March 31, 2011	Notional amounts	Maturing after one year	Estimated fair value	Unrealized gain (loss)
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
USD	¥3,933	¥ –	¥ (0)	¥ (0)
Euro	537	–	(23)	(23)
Buy:				
USD	1,048	755	14	14
Euro	601	–	43	43
JPY	2,328	–	(67)	(67)
Total	¥8,449	¥755	¥(33)	¥(33)

(2) Derivative transactions for which hedge accounting is applied

Interest-rate related transactions:

As of March 31, 2012	Hedged item	Millions of yen Notional amounts	Millions of yen Maturing after one year	Millions of yen Estimated fair value	Thousands of U.S. dollars Notional amounts	Thousands of U.S. dollars Maturing after one year	Thousands of U.S. dollars Estimated fair value
Derivative transactions for which the exceptional treatment is applied:							
Interest rate swap							
Receive floating / Pay fixed	Long-term debt	**¥497**	**¥273**	(*1)	**$6,047**	**$3,328**	(*1)
Total		**¥497**	**¥273**	–	**$6,047**	**$3,328**	–

(*1) Interest rate swap for which the exceptional treatment is applied is processed together with long-term debt subject to hedging. Accordingly, its fair value is included in the fair value of the long-term debt.

11. 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.

Certain domestic consolidated subsidiaries participate in the Kanto IT Software Pension Fund, a welfare pension fund system of multi-employer plans, and the amount of plan assets proportionate to their contributions cannot be calculated in a reasonable manner. Therefore, the required contributions to the pension fund system are accounted for as retirement benefit expenses in accordance with the Accounting Standard for Retirement Benefits.

The most recent information about the multi-employer plan for which the required contributions to the pension fund system are accounted for as retirement benefit expenses is as follows:

(1) Funded status of the plan

As of March 31	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Plan assets	**¥171,944**	¥–	**$2,092,037**
Benefit obligations under pension funding calculation	**172,108**	–	**2,094,029**
Difference	**¥ (163)**	¥–	**$ (1,992)**

(2) Ratio of Group's contributions to total contributions to the plan

For the years ended March 31	2012	2011
Ratio of Group's contributions	**0.24%**	–%

(3) Supplemental information

The main factors for the difference in (1) above are as follows:

As of March 31	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Addition due to appraisal of assets	**¥ (3,493)**	¥–	**$ (42,506)**
Voluntary reserve	**14,983**	–	**182,300**
Deficit for the year	**(11,653)**	–	**(141,786)**

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, 2012 and 2011 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
(1) Retirement benefit obligations	**¥(27,595)**	¥(23,356)	**$(335,753)**
(2) Plan assets at fair value (including the trust fund for retirement benefits)	**16,062**	15,284	**195,428**
(3) Unfunded net retirement benefit obligations (1) + (2)	**(11,533)**	(8,071)	**(140,324)**
(4) Unrecognized actuarial gains or losses	**9,698**	6,962	**118,000**
(5) Unrecognized prior service costs	**70**	56	**859**
(6) Net liability for retirement benefits (3) + (4) + (5)	**(1,764)**	(1,053)	**(21,465)**
(7) Prepaid pension expenses	**–**	–	**–**
(8) Accrued retirement benefits (6) – (7)	**¥ (1,764)**	¥ (1,053)	**$ (21,465)**
(9) Retirement benefit for directors, corporate auditors, and others	**¥ (379)**	¥ (112)	**$ (4,620)**
(10) Total (8) + (9)	**¥ (2,143)**	¥ (1,165)	**$ (26,085)**

Notes: 1. The substitutional portion of the Welfare Pension Fund 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, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
(1) Service costs (*1 and *2)	**¥1,065**	¥1,065	**$12,959**
(2) Interest costs	**575**	542	**7,002**
(3) Expected return on plan assets	**(591)**	(558)	**(7,202)**
(4) Amortization of actuarial gains or losses	**662**	574	**8,062**
(5) Amortization of prior service costs	**(14)**	(14)	**(175)**
Total retirement benefit expenses (*3)	**¥1,696**	¥1,610	**$20,646**

Notes: *1 The employees' portion of the contributions to the Welfare Pension Fund is excluded.
*2 The retirement benefit expenses of the consolidated subsidiaries applying the simplified method are included in (1) Service costs.
*3 Besides the amount stated, several consolidated subsidiaries have recognized a total of ¥408 million ($4,969 thousand) and ¥370 million as retirement expenses for defined contribution pension plans for the years ended March 31, 2012 and 2011, respectively.

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

	2012	2011
Discount rate	**2.0%**	2.5%
Expected rate of return on plan assets	**4.5%**	4.5%
Method of inter period allocation of expected benefit	Straight-line basis	
Amortization period of prior service costs	15 years (straight-line method)	
Amortization period of actuarial gains or losses	15 years (straight-line method)	

12. Other Comprehensive Income

Reclassification adjustments and income tax effect allocated to each component of other comprehensive income for the year ended March 31, 2012 were as follows:

Year ended March 31, 2012	Millions of yen	Thousands of U.S. dollars
Unrealized gains on available-for-sale securities:		
Amount arising during the year	**¥(1,209)**	**$(14,715)**
Reclassification adjustments	**156**	**1,899**
Amount before income tax effect	**(1,053)**	**(12,816)**
Income tax effect	**(1,436)**	**(17,480)**
Unrealized gains on available-for-sale securities	**383**	**4,663**
Translation adjustments:		
Amount arising during the year	**(535)**	**(6,513)**
Share of other comprehensive income of affiliates accounted for by the equity method:		
Amount arising during the year	**13**	**163**
Reclassification adjustments	**(0)**	**(11)**
Share of other comprehensive income of affiliates accounted for by the equity method	**12**	**151**
Total other comprehensive income	**¥ (139)**	**$ (1,698)**

13. 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
	2012	2011	**2012**
Basic net income	**¥ 66.26**	¥ 71.72	**$ 0.81**
Net assets	**1,211.51**	1,169.42	**14.74**

Per-share amounts assuming full dilution have not been presented because no potential dilutive shares were outstanding at March 31, 2012 or 2011.

14. Supplementary Cash Flow Information

The following table presents a reconciliation of cash and bank deposits with cash and cash equivalents at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and bank deposits	**¥41,692**	¥ 38,496	**$507,273**
Time deposits with a maturity of more than three months	**(7,633)**	(10,040)	**(92,872)**
Money management funds and others included in short-term investments	**7,525**	6,499	**91,565**
Cash and cash equivalents	**¥41,585**	¥ 34,954	**$505,966**

Breakdown of assets and liabilities at the inception of consolidation of ADTEC Engineering Co., Ltd. that is included in the scope of consolidation due to an additional acquisition of shares and relationship between acquisition cost and proceeds from purchase of ADTEC Engineering Co., Ltd. are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 8,437**	**$102,661**
Non-current assets	**2,699**	**32,846**
Current liabilities	**(5,212)**	**(63,423)**
Non-current liabilities	**(1,527)**	**(18,587)**
Minority interests	**(1,954)**	**(23,776)**
Gains on negative goodwill	**(896)**	**(10,904)**
Losses on step acquisitions	**375**	**4,569**
Portion already owned	**(1,129)**	**(13,737)**
Acquisition cost	**793**	**9,649**
Cash and cash equivalents	**(2,056)**	**(25,018)**
Proceeds from purchase	**1,263**	**15,369**

15. Segment Information

(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 a division system based on product type and similarity in sales market, etc., and each division develops and implements comprehensive domestic and overseas strategies for its development, manufacturing, sales of products 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 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 Group. Segment income presents operating income of the segment. Intersegment sales and transfers are recognized based on the market price.

(3) Information about net sales, segment income or loss, assets, liabilities and other items by reportable segment

Millions of yen

Year ended March 31, 2012	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: 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	**¥52,436**	**¥ 94,365**	**¥146,802**	**¥ 3,284**	**¥150,087**	**¥ –**	**¥150,087**
Intersegment sales or transfers	**98**	**146**	**244**	**79**	**324**	**(324)**	**–**
Total	**¥52,535**	**¥ 94,511**	**¥147,047**	**¥ 3,364**	**¥150,411**	**¥ (324)**	**¥150,087**
Segment income	**¥ 7,699**	**¥ 2,795**	**¥ 10,495**	**¥ 113**	**¥ 10,608**	**¥ 87**	**¥ 10,696**
Segment assets	**¥71,289**	**¥100,015**	**¥171,304**	**¥24,327**	**¥195,632**	**¥28,780**	**¥224,412**
Other items:							
Depreciation	**¥ 2,839**	**¥ 4,045**	**¥ 6,885**	**¥ 253**	**¥ 7,139**	**¥ –**	**¥ 7,139**
Amortization of goodwill	**21**	**294**	**316**	**5**	**321**	**–**	**321**
Investment in affiliates under equity method	**–**	**132**	**132**	**–**	**132**	**–**	**132**
Increase in property, plant and equipment and intangible assets	**3,423**	**5,366**	**8,789**	**157**	**8,947**	**–**	**8,947**

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 ¥87 million, include elimination of intersegment transactions totaling ¥115 million. Eliminations or unallocated amounts of segment assets, amounting to ¥28,780 million, include elimination of intersegment receivables and payables totaling ¥(7,767) million and unallocated corporate assets totaling ¥36,563 million which consists 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. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

Millions of yen

Year ended March 31, 2011	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: 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 intersegment transactions totaling ¥134 million. Eliminations or unallocated amounts of segment assets, amounting to ¥25,946 million, include elimination of intersegment receivables and payables totaling ¥(11,083) million and unallocated corporate assets totaling ¥36,993 million which consists 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. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

Year ended March 31, 2012	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: Total	Other businesses (Note 1)	Total	Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
	Thousands of U.S. dollars						
Net sales							
Sales to external customers	$637,997	$1,148,139	$1,786,136	$ 39,968	$1,826,104	$ –	$1,826,104
Intersegment sales or transfers	1,196	1,782	2,978	969	3,947	(3,947)	–
Total	$639,193	$1,149,921	$1,789,114	$ 40,936	$1,830,050	$ (3,947)	$1,826,104
Segment income	$ 93,682	$ 34,017	$ 127,698	$ 1,380	$ 129,078	$ 1,060	$ 130,138
Segment assets	$867,376	$1,216,877	$2,084,252	$295,994	$2,380,246	$350,167	$2,730,413
Other items:							
Depreciation	$ 34,554	$ 49,222	$ 83,776	$ 3,088	$ 86,864	$ –	$ 86,864
Amortization of goodwill	259	3,589	3,848	64	3,912	–	3,912
Investment in affiliates under equity method	–	1,613	1,613	–	1,613	–	1,613
Increase in property, plant and equipment and intangible assets	41,654	65,294	106,947	1,917	108,864	–	108,864

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 $1,060 thousand, include elimination of intersegment transactions totaling $1,406 thousand. Eliminations or unallocated amounts of segment assets, amounting to $350,167 thousand, include elimination of intersegment receivables and payables totaling $(94,505) thousand and unallocated corporate assets totaling $444,860 thousand which consists 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. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

(4) Other segment information

Year ended March 31, 2012	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: Total	Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements
	Millions of yen						
Impairment losses	¥221	¥355	¥577	¥–	¥577	¥252	¥829
Goodwill:							
Amortized for the year	21	294	316	5	321	–	321
Balance	104	379	483	–	483	–	483

Notes 1. Impairment losses on the light sources business, ¥177 million is included in losses on liquidation of business on the consolidated statements of income.
2. Elimination or unallocated amounts are impairment losses on idle assets and real estates which are not allocated to any reportable segment.
3. In the equipment business, the Company converted ADTEC Engineering Co., Ltd. into a consolidated subsidiary by acquiring shares through tender offer. Along with this acquisition, gains on negative goodwill of ¥896 million were recorded in the fiscal year ended March 31, 2012.

Year ended March 31, 2011	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: Total	Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements
	Millions of yen						
Impairment losses	¥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, 2012	Reportable segment: Light sources business	Reportable segment: Equipment business	Reportable segment: Total	Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements
	Thousands of U.S. dollars						
Impairment losses	$2,694	$4,328	$7,022	$ –	$7,022	$3,068	$10,090
Goodwill:							
Amortized for the year	259	3,589	3,848	64	3,912	–	3,912
Balance	1,271	4,615	5,886	–	5,886	–	5,886

Notes 1. Impairment losses on the light sources business, $2,160 thousand is included in losses on liquidation of business on the consolidated statements of income.
2. Elimination or unallocated amounts are impairment losses on idle assets and real estates which are not allocated to any reportable segment.
3. In the equipment business, the Company converted ADTEC Engineering Co., Ltd. into a consolidated subsidiary by acquiring shares through tender offer. Along with this acquisition, gains on negative goodwill of $10,904 thousand were recorded in the fiscal year ended March 31, 2012.

(5) Related information

Analyses of revenues and certain non-current assets by geographical area

Millions of yen / Thousands of U.S. dollars

		North America			Asia			
Year ended March 31, 2012	Japan	U.S.A	Other	Europe	China	Other	Other areas	Total
Net sales	**¥ 39,794**	**¥ 32,830**	**¥ 7,313**	**¥ 21,612**	**¥ 19,951**	**¥ 27,255**	**¥ 1,329**	**¥ 150,087**
	$484,182	**$399,448**	**$88,982**	**$262,952**	**$242,746**	**$331,614**	**$16,179**	**$1,826,104**

Millions of yen

		North America			Asia			
Year ended March 31, 2011	Japan	U.S.A	Other	Europe	China	Other	Other areas	Total
Net sales	¥39,422	¥29,910	¥5,315	¥21,248	¥20,484	¥26,664	¥2,079	¥145,125

Millions of yen / Thousands of U.S. dollars

		North America					
Year ended March 31, 2012	Japan	U.S.A	Other	Europe	Asia	Other areas	Total
Property, plant and equipment	**¥ 23,884**	**¥ 3,925**	**¥ 3,696**	**¥ 2,471**	**¥ 3,848**	**¥–**	**¥ 37,827**
	$290,603	**$47,765**	**$44,979**	**$30,072**	**$46,827**	**$–**	**$460,245**

Millions of yen

		North America					
Year ended March 31, 2011	Japan	U.S.A	Other	Europe	Asia	Other areas	Total
Property, plant and equipment	¥23,015	¥3,702	¥3,462	¥2,926	¥3,350	¥–	¥36,457

Information by product and service is omitted since the same information is already disclosed in (3) above.

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

16. Business Combination

The following summarizes the business combination completed for the year ended March 31, 2012.

Business combination by acquisition

(1) Overview of the business combination

a. Name and businesses of the acquired company
Name: ADTEC Engineering Co., Ltd.
Business description: Exposure equipment and inspection equipment businesses, etc.

b. Primary reasons for business combination
The Company intends to develop the business alliance in order to achieve an improvement in the corporate value and maximize shareholder returns by converting ADTEC Engineering Co., Ltd. into a consolidated subsidiary and mutually taking advantage of the complementary relationship in a more proactive manner.

c. Date of business combination
March 19, 2012

d. Legal form of business combination
Share acquisition

e. Corporate name after business combination
The corporate name has not changed.

f. Percentage of voting rights acquired

Percentage of voting rights held before the date of business combination	25.68%
Percentage of voting rights additionally acquired on the date of business combination	39.88%
Percentage of voting rights after acquisition	65.56%

g. Grounds for determining the acquiring company
Because the consideration was paid in cash, the Company that delivered the cash is the acquiring company.

(2) Period of acquired company's financial results included in the consolidated financial statements

As the deemed date of acquisition is March 31, 2012, the operating results of ADTEC Engineering Co., Ltd. are not included in the consolidated financial statements. The acquired company's results during the period from April 1, 2011 to March 31, 2012 are recorded as "Equity in gains of affiliates" in the consolidated financial statements.

(3) Acquisition cost and its breakdown

	Millions of yen	Thousands of U.S. dollars
Fair value of shares of the acquired company held immediately before the additional acquisition at the date of business combination	**¥ 753**	**$ 9,169**
Consideration for the purchase of the shares acquired at the date of business combination	**1,170**	**14,239**
Expenses directly spent for the acquisition	**62**	**764**
Acquisition cost	**¥1,986**	**$24,171**

(4) Difference between acquisition cost of acquired company and the total acquisition cost of each transaction in the acquisition

Losses on step acquisitions: ¥375 million ($4,569 thousand)

(5) Amount and cause of gains on negative goodwill

Amount: ¥896 million ($10,904 thousand)

Cause:

Since the fair value of net assets exceeded the acquisition cost at the time of the business combination, the difference was recognized as negative goodwill.

(6) Amounts and its primary breakdown of assets acquired and liabilities assumed at date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 8,437**	**$102,661**
Non-current assets	**2,699**	**32,846**
Total assets	**¥11,137**	**$135,508**
Current liabilities	**¥ 5,212**	**$ 63,423**
Non-current liabilities	**1,527**	**18,587**
Total liabilities	**¥ 6,740**	**$ 82,009**

(7) Estimated impacts on the consolidated statement of income for the year ended March 31, 2012, if this business combination had been completed as of April 1, 2011

	Millions of yen	Thousands of U.S. dollars
Net sales	**¥9,268**	**$112,765**
Operating income	**443**	**5,396**
Income before income taxes and minority interests	**284**	**3,462**
Net income	**¥ 120**	**$ 1,467**
Net income per share (yen)	**¥ 0.91**	**$ 0.01**

(Note) Calculation method of the estimated impacts and material assumptions

Estimated impacts were determined as the difference between the net sales and profits or losses calculated if the business combination had been completed as of April 1, 2011, and the net sales and profits or losses on the acquired businesses on the consolidated statement of income of the acquired company.

These estimated impacts have not been audited.

There was no business combination completed for the year ended March 31, 2011.

17. Related Party Information

For the year ended March 31, 2012, there are no relevant items on related party transactions and notes relating to significant affiliates.

18. Subsequent Events

There are no significant subsequent events.

Independent Auditor's Report

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

Independent Auditor's Report

The Board of Directors
USHIO INC.

We have audited the accompanying consolidated financial statements of USHIO INC. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USHIO INC. and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 28, 2012
Tokyo, Japan

Investor Information

As of March 31, 2012

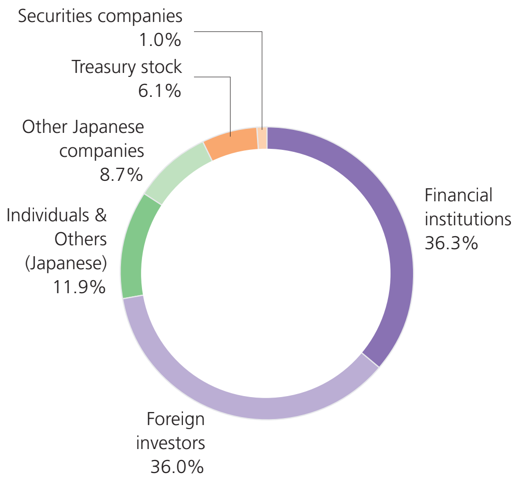
Total Number of Shares Issued	139,628,721
Number of Shareholders	14,669

Major Shareholders (holding 2 million shares or more)

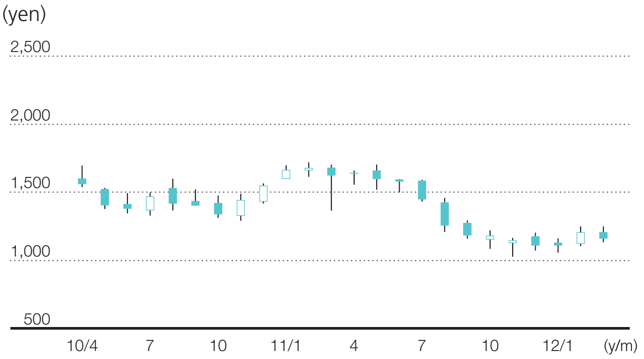
Name	Number of shares (1,000 shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,298	6.65%
Japan Trustee Services Bank, Ltd. (Trust Account)	6,208	4.44%
NT RE GOVT OF SPORE INVT CORP P. LTD	5,642	4.04%
Asahi Mutual Life Insurance Co.	4,477	3.20%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,248	3.04%
RBC DEXIA INVESTOR SERVICES TRUST, LONDON-LENDING ACCOUNT	4,103	2.93%
Aioi Nissay Dowa Insurance Co., Ltd.	3,964	2.83%
STATE STREET BANK CLIENT OMNIBUS OM04	3,744	2.68%
Resona Bank, Limited	3,616	2.58%
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	3,228	2.31%
Jiro Ushio	3,201	2.29%
JP MORGAN CHASE BANK 385174	3,076	2.20%
Japan Trustee Services Bank, Ltd. (the Sumitomo Trust and Banking Co., Ltd. retrust portion/Resona Bank, Limited Retirement Allowance Trust Account)	2,924	2.09%
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	2,445	1.75%
THE USHIO FOUNDATION	2,400	1.71%

*In addition to the above, the Company owns 8,499 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.

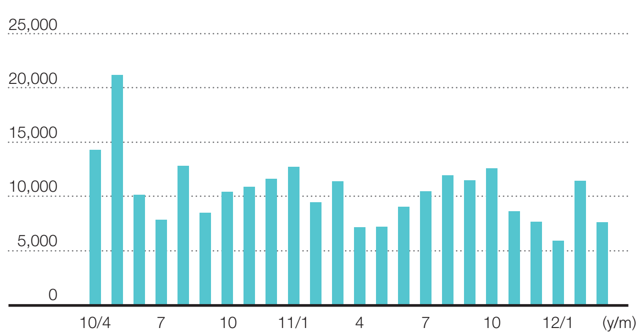
Composition of Shareholders



Stock Price Movement



Stock Turnover



Corporate Data

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

Employees (as of March 31, 2012):	5,731
Parent company	1,791
Subsidiaries	
• Japan	721
• Overseas	3,219

Principal Business Units (as of March 31, 2012)

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.
XEBEX INC.
USHIO SPAX, INC.
NIHON DENSHI GIJUTSU CO., LTD.
EPITEX INC.
ADTEC Engineering Co., Ltd.

7 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.

12 other companies

*In April 2012, USHIO SINGAPORE PTE LTD. changed its name to USHIO ASIA PACIFIC PTE. LTD.

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.

IR & Public Relations
USHIO INC.
2-6-1, Otemachi, Chiyoda-ku, Tokyo 100-8150, Japan
TEL: +81 3-3242-1815 FAX: +81 3-3245-0589
www.ushio.co.jp/global/

1208G①-500E①
Printed in Japan