

SUSTAINABILITY REPORT 2012

Year ended March 31, 2012

Environmental Consciousness of this Publication

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USHIO Lighting—Edge Technologies



USHIO UNLOCKS THE POTENTIAL OF LIGHT TO DEVELOP SOLUTIONS FOR THE ENTIRE PLANET



Today, the world faces global pressure relating to issues like the environment, the scale of the human population, and the need for energy. USHIO believes that the power of light is part of the solution. We are using the technology that the Company has acquired over decades of operation, and our skill at applying and developing that technology, to provide solutions, in the hope that USHIO, as well as human society, can continue to grow and prosper.

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.

USHIO Group Management Philosophy

The Management Philosophy that underpins all activities of USHIO Group employees was revised in fiscal 2004. The new philosophy retains the spirit of the “Basic Policy” that was formulated when the Company was first founded, while also recognizing the social issues that have emerged with the changing times. Our Management Philosophy therefore calls us to “fulfill our corporate social responsibility.”

Editorial Policy

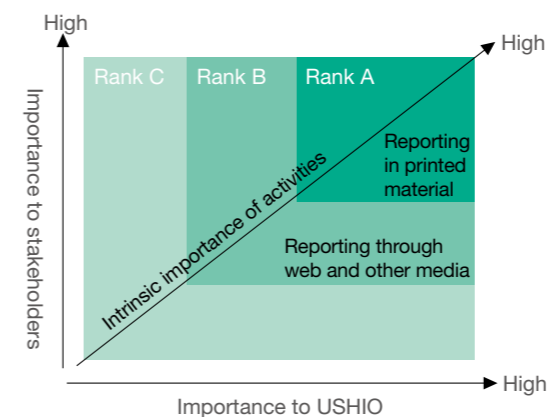
In choosing the material for this Sustainability Report 2012, we made an effort to report in greater depth on the correlation between management and corporate social responsibility (CSR) issues. The report was created mainly for the following stakeholder audience, while emphasizing links with our Annual Report and various other media for communicating our corporate activities.

1) Approach to Materiality

Dialogue and the exchange of opinions with our stakeholders guided us in narrowing down the most important social issues confronting corporations and USHIO’s numerous CSR initiatives.

This booklet reports on issues and initiatives that were judged to be of high importance. Other initiatives too numerous to mention are introduced on the Group’s website.

Approach to Materiality at the USHIO Group



2) Annual Report

For detailed information about the USHIO Group’s business activities, please see our Annual Report 2012, and our Group website.



• Use of Website

We provide more comprehensive and detailed reporting on our corporate website.

Please refer to the USHIO corporate website at the link shown below for more detail on items marked by the following symbol.

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

• Scope of Report

Time period: This report basically covers fiscal 2012 (April 1, 2011 to March 31, 2012), but also includes some continuing activities from before fiscal 2011, and some activities in fiscal 2013. Fiscal 2012 and fiscal 2013 are years ended March 31, 2012 and 2013.

Organizations: All USHIO INC. business sites and Group companies worldwide

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• The Tri-colored Leaf—A Symbol of the USHIO Group’s Activities

The Tri-colored Leaf that appears on the cover of this report is designed to symbolize the three primary colors of light in a budding leaf motif that symbolizes the natural environment. At the same time, the design represents three elements of sustainable management—financial viability (red), social responsibility (blue), and regard for the environment (green). Our goal is to grow each of these leaves through steady, daily activities, until they produce a powerful trunk.



Top Message

In fiscal 2012, USHIO sought to embed corporate social responsibility (CSR) activities in day-to-day operations by drafting a CSR Action Plan (Policy) designed to clarify CSR issues to be addressed. We did this because we recognized that CSR is going to become even more critical to business activities. This perspective is especially important in fields where USHIO is enacting long-term initiatives in pursuit of future growth.



Results of Operations and Future Outlook

First up is a look at USHIO today in terms of business performance. In fiscal 2012, net sales increased by 3.4% year on year to ¥150 billion. 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, the market for light sources stagnated, and the equipment business was affected by a slump in the electronics industry in Japan. The situation was exacerbated by rapid yen appreciation, particularly in the early autumn, which depressed profits at all levels.

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 |

Years ended March 31

In fiscal 2013, we expect the business outlook to remain uncertain. Nevertheless, the USHIO Group is committed to meeting the targets set in the Medium-Term Vision. We forecast net sales to increase by 9.9% year on year in fiscal 2013 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.

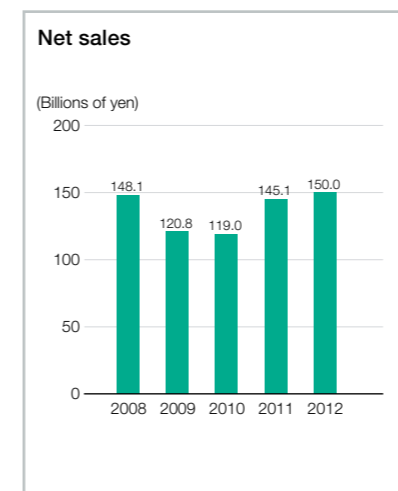
Medium-Term Vision

USHIO announced its Medium-Term Vision in May 2012. In imaging equipment, our task is to retain profitability in the digital cinema business while spurring growth in the non-cinema business, which will drive future growth. In optical equipment, our range of products supporting the manufacture of LCD panels, semiconductors and high-precision PCBs are positioned as growth drivers. We are also quickly considering ways to establish our leading-edge lithography business (EUV) for use in next-generation semiconductor manufacturing, and have this contribute to profits. USHIO is also aggressively developing operations in fields connected to social issues such as medicine and the environment. By enacting these measures, we are aiming to achieve net sales of ¥200.0 billion and operating income of ¥25.0 billion by fiscal 2015.

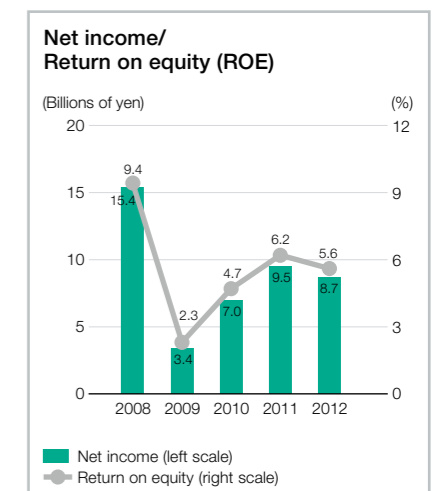
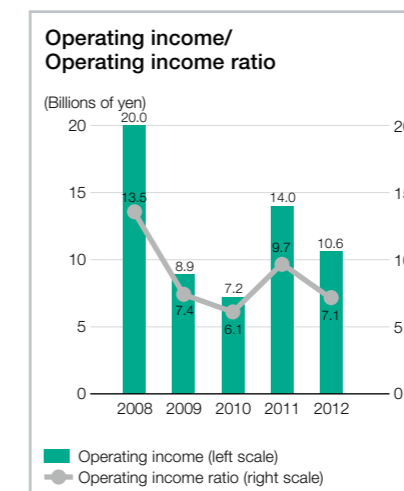
Vision for the USHIO Group

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. Essentially, we have taken it upon ourselves to search for ways to use light to address new factors, explore new fields and develop new solutions for customers.

Our efforts in electronics over the years have seen the Group offer products in response to demands for new processes and functions. Growth for the Group has always come in step with new applications for light and new light-related products. The USHIO Group remains committed to meeting light-related needs in the fields of video and imaging. At the same time, from a long-term perspective we are proactively addressing areas such as the environment, medicine and biotechnology, as well as fields that seek to resolve social issues. Whatever our customers or the public truly needs, our vision for the USHIO Group is that we will become a “Light Innovation Company” able to meet those needs first.



Years ended March 31



Vital Human Resources for an Era of Transformation

The diversification and globalization of market needs has gained momentum over the past several years. As our markets spread to emerging countries across Asia and beyond, this radically different environment has the potential to generate completely new needs. This landscape requires people capable of experiencing and offering firsthand feedback on this change, and connecting this to the development of products through cooperation between Japan and local markets, and to business. Looking at the Group as a whole, there are already more foreign workers in our ranks than Japanese staff. Promoting diversity therefore is crucial to creating new possibilities and realizing growth.

I believe that we live in an era today not simply of change, but of transformation; and that the ongoing globalization we see is just one aspect of this. This means, of course, that many of the ways that things were done and conceptualized before are no longer effective. But it also means that we live in a time when minor improvements and changes are simply not enough. Through a CSR perspective, USHIO committed to creating new value and driving ongoing transformation and change to meet the expectations of our customers and of global society.

October 2012



Shiro Sugata
President and Chief Executive Officer

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

FY2015 Quantitative Target

Net sales **¥200.0 billion**

Operating income **¥25.0 billion**

ROE More than **10%**

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 |

FEATURE: Part 1 「Healing with Light」 Part 2 「Phototherapy and Excimer Filters」

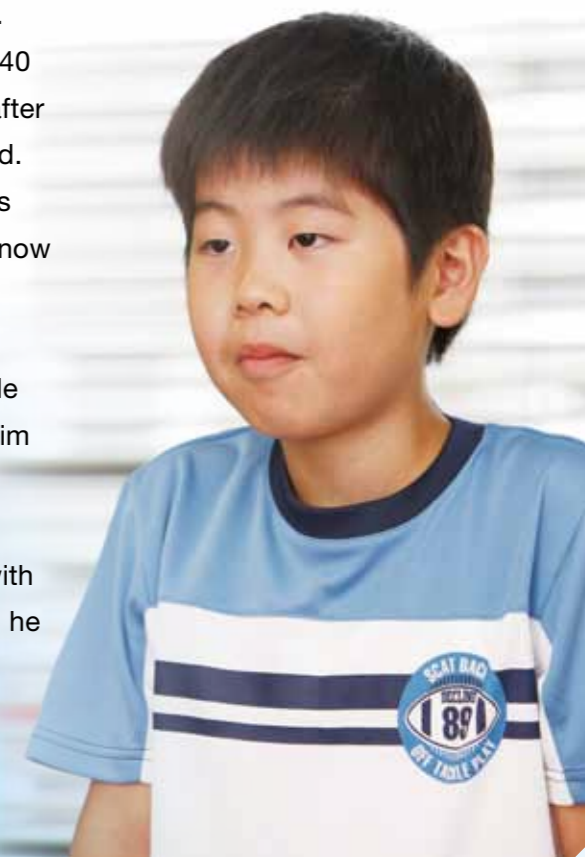
Yuta Hanamoto is a typical fifth-grader who loves bugs, books and playing Pokemon™, and lives with his parents and older sister. One morning when Yuta was in first grade, his parents noticed something peculiar as Yuta prepared to go happily off to school. They saw that the area around Yuta's mouth had a dull, whitish appearance. Thinking his face was just a little dirty, Yuta's mother proceeded to wipe it, but to no avail.

After visiting a dermatologist, Yuta was diagnosed as having vitiligo, a condition in which white patches form on the skin. While phototherapy was known to be an effective treatment, previous devices used for the therapy carried the danger of exposing healthy skin to ultraviolet rays as well. "Because our son was still so young, we were worried," recalls Yuta's father. "We were then introduced to Yahata Municipal Hospital in the city of Kitakyushu, where they had a phototherapy device that had minimal side effects even for small children."

Looking back on that time, Yuta's father recalls the therapy sessions. "At first, we had to take him to the hospital once a week. The treatment itself only took about 10 seconds, but it took us 40 minutes to drive there. So that was tough. But about a month after the first treatment, the white spots on his skin began turning red. Once the redness left, his healthy skin color returned. The times between his treatments have also gradually gotten longer, and now he only needs to go in once every six months."

"Yuta is growing up nice and strong," says Dr. Fujino with a smile. The dermatologist has been treating Yuta since first grade when his symptoms first began. "Both parents are always with him for the long trip in. Yuta has a very loving family, and they are determined to overcome this together."

Today, Yuta is completely absorbed in playing videogames with his friends. When asked what it's like to undergo the treatment, he replies with a laugh, "It doesn't hurt at all."



Part 1

「Healing with Light」

Are you familiar with autoimmune diseases? These ailments are considered a type of allergic reaction, and many people suffer from them. With autoimmune diseases, instead of attacks by outside bacteria, viruses and other microbes, a person's own normally protective immune cells (white blood cells) suddenly begin to attack the body itself, causing symptoms to emerge. Therapeutic approaches that use light have had great success in combating these vexing illnesses.

Some Commonly Known Illnesses Are Allergies

Hay fever, hives and atopic skin inflammation are all commonly known allergic reactions. In recent years, however, a whole spectrum of illnesses and conditions are now known to actually be types of allergic reactions referred to as autoimmune diseases. These include conditions once classed as skin ailments, such as vitiligo, psoriasis, alopecia areata (autoimmune hair loss), and palmoplantar pustulosis (a form of psoriasis affecting the palms and soles of the feet), to

conditions with vastly different symptoms, such as rheumatoid arthritis. But why should what is basically an allergic reaction (autoimmune diseases) trigger so many illnesses that at first glance appear to be completely unrelated disorders sharing virtually none of the same symptoms? The reason for this is that when white blood cells, which normally protect the body, become overactive, they mistakenly begin to attack the body's own cells.

Attack on Friendly Cells by White Blood Cells

Vitiligo is thought to afflict some 100,000 people in Japan. In this condition, white blood cells lose control and begin attacking melanocytes, the cells that produce pigment for the skin. The attack causes these cells to lose their functionality and to stop making pigment, leading to the condition's telltale symptoms. Similar attacks on the cells that make up hair follicles in alopecia areata (autoimmune hair loss) and the synovial membrane of the joints in rheumatoid arthritis are the mechanism behind the symptoms associated with these disorders.

Interview with a Doctor

Perspective from a clinical setting



Yahata Municipal Hospital
(City of Kitakyushu), Dermatology Dept.
Dr. Masayo Fujino, M.D.

The root cause of vitiligo is still unclear, making it one of the more difficult skin ailments to treat. Although there is no pain associated with the condition, its symptoms are plainly visible to the eye. In many ways, this makes the psychological burden associated with the illness more challenging than the condition itself. While oral and topical medications have been available for treating vitiligo, these treatment options often yield little success. When I decided to install a phototherapy device as another treatment option, I chose one from USHIO. Since the product is made in Japan, the level of UV radiation used is optimally suited to the skin quality of my patients.

Even so, I initially had doubts about whether the therapy would actually work. But after using the system, I can now say that it has performed above and beyond what I ever imagined. The blending between the spot-affected area and healthy skin is extremely good, and patients are always pleasantly surprised that the treatment is over so quickly.

UV Phototherapy to Treat Skin Allergies

Until recently, skin allergy ailments were treated mostly with prescription medication or topical agents. However, concern arose over the limited effectiveness of these approaches, which was often accompanied by unpleasant side effects. UV phototherapy has thus been drawing increasing interest in recent years.

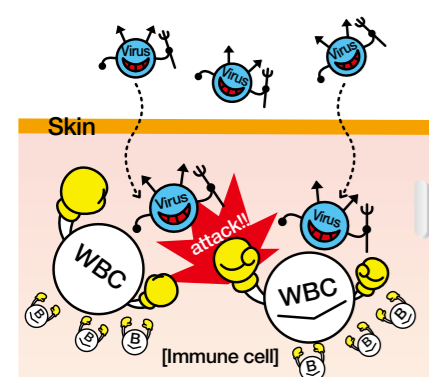
Two Mechanisms behind UV Phototherapy

Taking one type of skin allergy, psoriasis, as an example, there are two mechanisms behind how UV phototherapy works. The first is the destruction of the overactive white blood cells, the direct cause of the condition. The second involves increasing the number of a different set of white blood cells, called regulatory T cells, that help deactivate their trouble-causing counterparts. In other words, UV radiation has an immune suppressing effect that reduces the number and attack strength of white blood cells that have begun attacking the body's own cells, thereby mitigating the symptoms.

The Key is Wavelength

All UV light is not the same, however, when it comes to phototherapy. Indeed, it is widely known that UV light contains components that can be harmful to living tissue. As a result, there was a need for a phototherapy device that was safe and easy to use, and could stably bathe an affected area solely in wavelengths of UV that would enhance therapeutic effectiveness while minimizing any side effects.

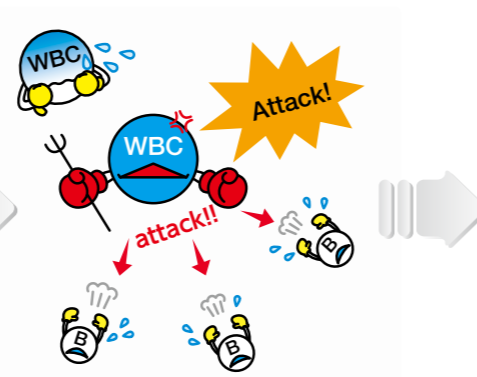
Ordinary Immune Function



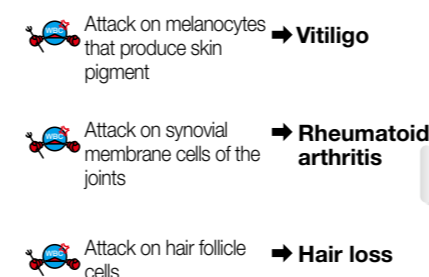
Internal/Eternal factors



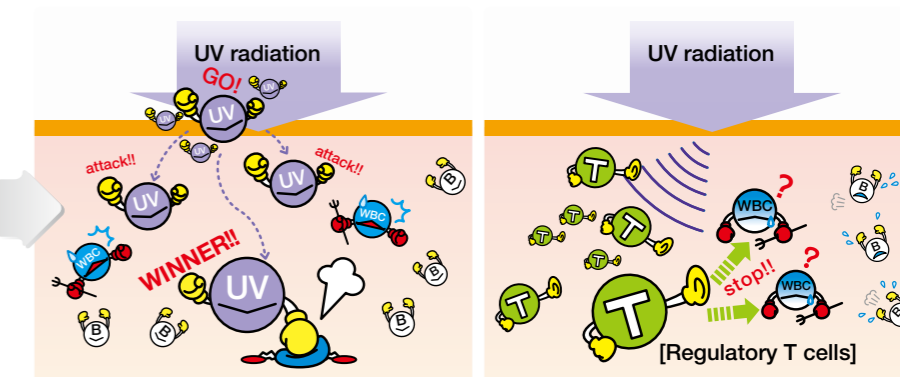
White blood cells lose control!



Completely different symptoms depending on which cells are attacked



Treatment of psoriasis via UV therapy



WBC: white blood cells
B: body cells (Melanocytes, synovial membrane cells, hair follicle cells, etc.)

The purpose of this information is to intuitively explain general medical information to a broad audience; it is not intended as a testimonial of effectiveness.

Part 2

All for the Sake of Patients

「Phototherapy and Excimer Filters」

Phototherapy utilizes the immune-suppressing effects of UV light to quell skin symptoms arising from an excessive immune response. Since the 1970s, when researchers at Harvard University discovered that UV radiation could effectively treat psoriasis, UV light in the 311-nanometer (nm) band has been the most commonly used wavelength for treatment.

In fact, though, the approximate effectiveness of a particular wavelength and its potential side effects had largely remained a mystery. And while the existence of relatively more effective wavelengths was suggested, the research did not extend to determining which specific wavelengths had a strong effect.



Identifying Light with Greater Therapeutic Effectiveness and Fewer Side Effects

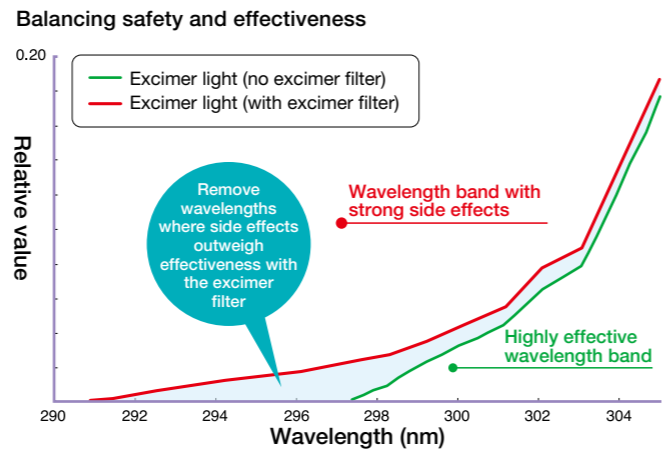
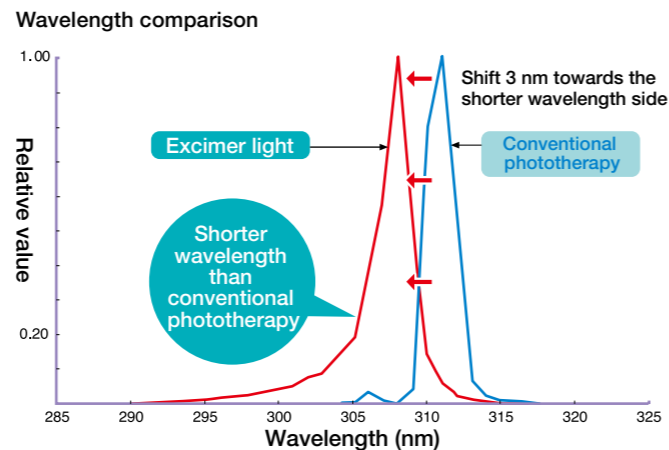
A joint research team from USHIO and the Nagoya City University Department of Geriatric and Environmental Dermatology (Prof. Akimichi Morita) decided to tackle the challenge of identifying the optimal treatment. In searching for light that would enhance therapeutic effectiveness with fewer side effects, the team concluded after a detailed analysis of wavelengths that the most effective light is at a wavelength of 308 nm, where effectiveness peaks. They also determined that cutting wavelengths below 297 nm reduced skin redness and other side effects.

While just 3 nm shorter than the 311-nm wavelength conventionally used, there were now grounds to expect that this previously unidentified wavelength could eventually make more effective therapy possible.

Original Excimer Filter Based on Light Technology

The same research team applied their findings to an excimer lamp, a product that USHIO led the world in commercializing in the 1970s. The team developed a light source to emit peak 308-nm wavelength, a technologically impossible task when the lamp was first marketed. The team also successfully developed an excimer filter to block short wavelengths below 297-nm, which were associated with the biggest side effects.

Based on the excimer light, in 2008, USHIO created a working phototherapy device equipped with its own proprietary light technology, making safe and highly effective phototherapy a reality. This was the birth of the TheraBeam® UV308, the world's first device of its kind to have both a 308-nm excimer light and excimer filter.



Kobayashi K, Morita A et al, Photoderm Photoimmunol Photomed 25: 30-36, 2009

Interview with a Doctor

Insights from the developer



Department of Geriatric and Environmental Dermatology, Nagoya City University Graduate School of Medical Sciences
Dr. Akimichi Morita, M.D.

Although phototherapy is much more widely known today than it once was, there are still many patients out there who would benefit from UV phototherapy, yet have given up on treatment because they believe their condition to be intractable. Nothing would be more gratifying for me than for those patients and the physicians involved in their treatment to challenge these tough disorders again by giving this more advanced phototherapy approach a try.

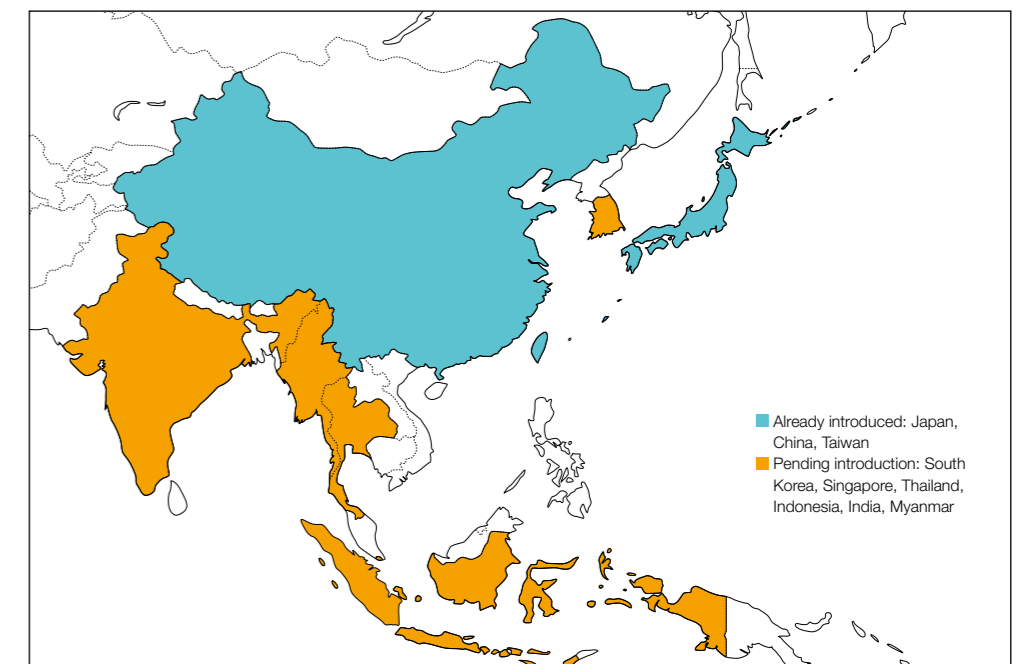
Because phototherapy devices are a type of medical equipment, the dependable quality and maintenance and support structures are very important. With the excimer light, we have leveraged precision technology to create the world's first 308-nm excimer light and excimer filter. The result is a safe device offering the most effective light for treatment possible. Effectively, we have made a treatment once deemed impossible a reality. I'm proud that we can present this feat of Japanese engineering to the world.

From Japan to the World

Since its launch, the outstanding safety and effectiveness of the TheraBeam® UV308 for dermatological use has earned the device a strong reputation among dermatologists and patients alike. Today, the TheraBeam® UV308 boasts the top share of the market in Japan (based on USHIO data). The device has already won approval for medical use in China

and Taiwan, where it is now being sold. USHIO now plans to obtain similar approval and promote sales in South Korea, India and other markets in Asia, as well as in the United States, Europe and elsewhere around the world. These products will enable both the light field and the position of the device to be selected more easily depending on the size and location of the target area of the body.

Sales Areas for TheraBeam® UV308

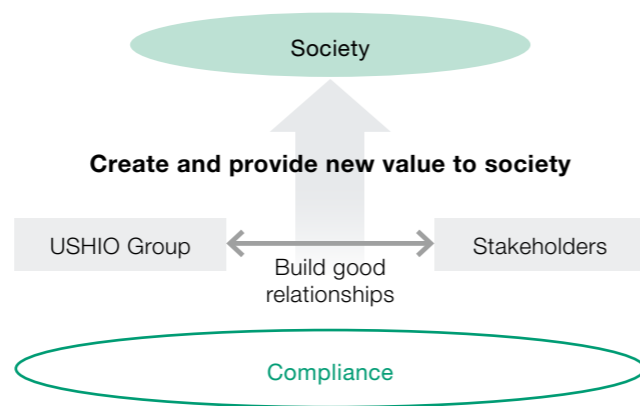


USHIO's CSR



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.



Glossary

CSR (Corporate Social Responsibility): The responsibility of a company as an entity in global society.

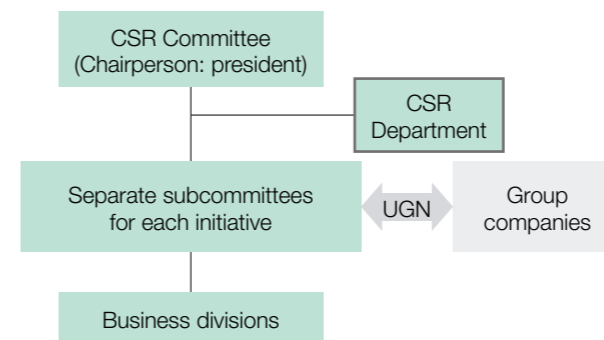
Stakeholders: People who are concerned or affected in some way by the decisions and actions of an organization. Generally described as people who have a stake in a company.

Compliance: Literally, compliance with laws and regulations. At one point this was all the word was taken to mean, but in recent years it has come to include observing the rules and norms of society, and contributing to society.

CSR Promotion Framework

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

CSR Promotion Framework



United Nations Global Compact's Ten Principles

USHIO has declared its support for the United Nations Global Compact of principles concerning human rights, labor standards, the environment and anti-corruption. We have joined the local UN network supporting the compact, Global Compact Japan Network, and have taken an active role in various sectional activities, including our involvement in co-sponsoring a proposal on supply chain management as one of the participating companies.



United Nations Global Compact's Ten Principles and Our Initiatives

| United Nations Global Compact's Ten Principles | | | USHIO's Related Initiatives |
|--|--------------|--|--|
| Human Rights | Principle 1 | Businesses should support and respect the protection of internationally proclaimed human rights; and | The third section of USHIO's 10 Action Guidelines sets out clear requirements for respecting basic human rights for all people, and prohibits unfair discrimination, among other measures. ⇒ Pages 16, 17 |
| | Principle 2 | make sure that they are not complicit in human rights abuses. | |
| Labor Standards | Principle 3 | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; | The USHIO Group respects the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. Under the third section of USHIO's 10 Action Guidelines, the Company strives to promote good labor-management relations, abolish discrimination in the workplace, and create working environments that are cheerful, safe, and comfortable. ⇒ Pages 16, 17 |
| | Principle 4 | the elimination of all forms of forced and compulsory labor; | |
| | Principle 5 | the effective abolition of child labor; and | |
| Environment | Principle 6 | the elimination of discrimination in respect of employment and occupation. | Section 8 of USHIO's 10 Action Guidelines clearly states the Company's position on actively working to protect the environment. We also formulated our 2020 Environmental Vision and are now working to implement Phase Three of the Environmental Action Plan. ⇒ Pages 22, 23 |
| | Principle 7 | Businesses should support a precautionary approach to environmental challenges; | |
| | Principle 8 | undertake initiatives to promote greater environmental responsibility; and | |
| Anti-Corruption | Principle 9 | encourage the development and diffusion of environmentally friendly technologies. | Under section 6 of the 10 Action Guidelines, USHIO strives to prevent corruption and to conduct fair business activities. We have also set up a Compliance Committee and the USHIO Hotline (internal reporting system). ⇒ Pages 15 |
| | Principle 10 | Businesses should work against corruption in all its forms, including extortion and bribery. | |

UGN: USHIO Green Network. An organization for promoting environmental action and information sharing at USHIO Group sites.

The United Nations Global Compact: This initiative was set up in 1999 by Kofi Annan, the United Nations secretary general at the time. The Global Compact calls for organizations to take practical steps to follow ten principles relating to human rights, labor standards, the environment and anti-corruption.

ILO: The International Labour Organization was established by the 1919 Treaty of Versailles. As an international organization, the ILO works in all countries to improve labor conditions and realize social justice.

Medium-term Planning for CSR

Since 2009, USHIO has formulated medium-term plans in promoting its CSR initiatives. In the first phase of planning, we identified the CSR issues USHIO should take up by conducting awareness surveys among the management tier and questionnaires with our employees at large and promoting dialogue with NGOs and knowledgeable experts by taking advantage of the seminars on the UN Global Compact we conducted. The results of the prioritization of CSR issues and initiatives in phase-1 were announced publicly in fiscal 2012 as a CSR Action Plan and fed back for implementation in the business plan of each division.

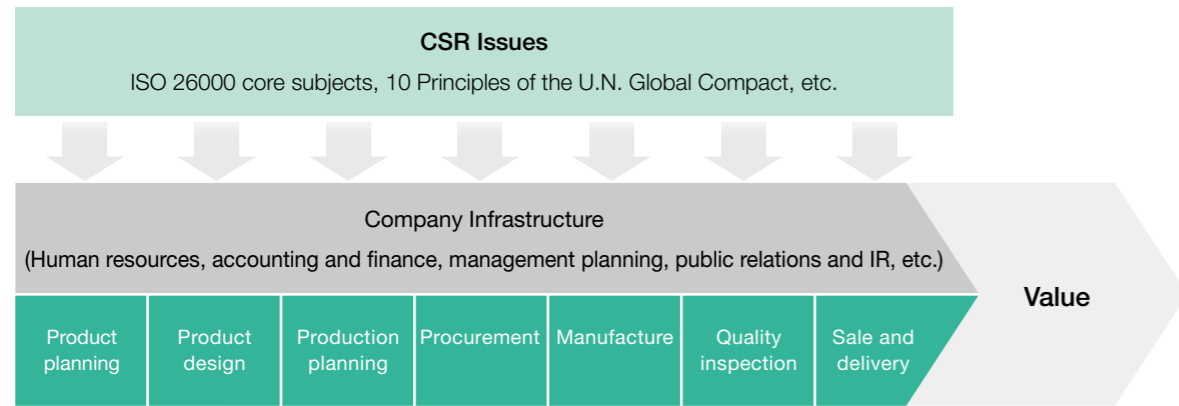
In phase-2, USHIO will delve deeper into its CSR priorities to fuse the relevant initiatives together with each business activity aimed at enhancing the Group's value chain.

Formulation of a CSR Action Plan

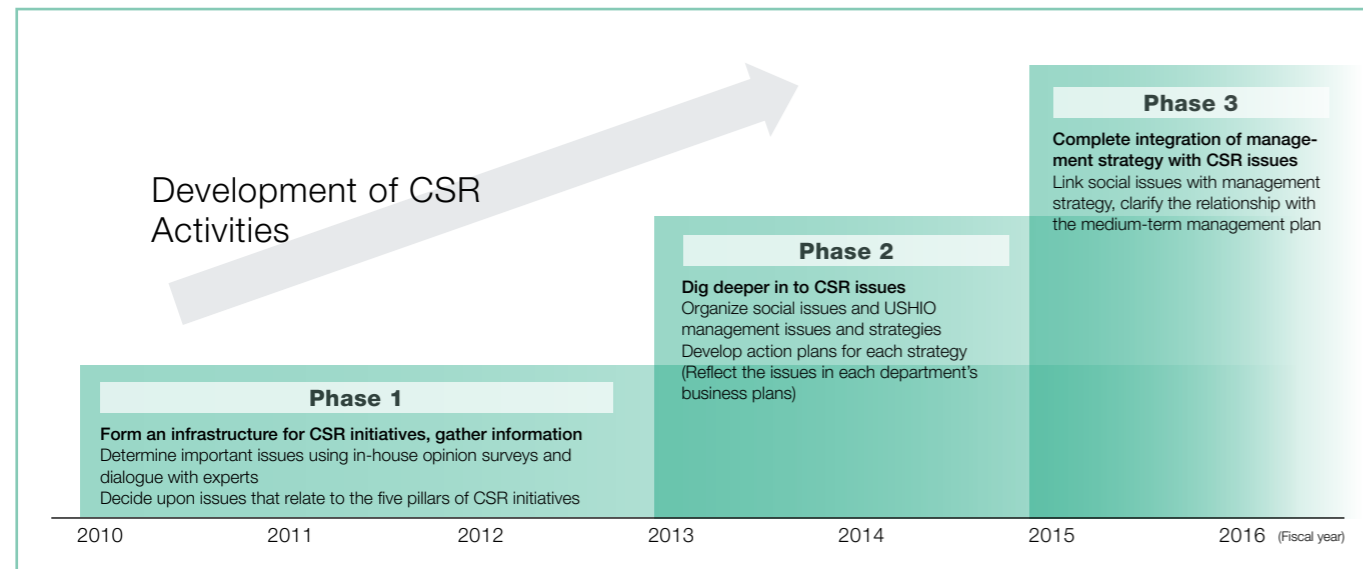
From fiscal 2012, USHIO has created a CSR Action Plan (Policy) and taken steps to reinforce its CSR initiatives. The plan covers items classified under the five pillars of governance, people, quality, society, and environment. These items are then broken down further into action policies.

Fiscal 2013 will be a year in which we strenuously promote these respective CSR initiatives within our business confines. As such, we will treat the CSR Action Plan as a guiding principle for fitting in our five CSR pillars harmoniously with the business plan and momentum of each division and department.

CSR Activities through the Value Chain



Medium-term Planning for CSR Goals and Roadmap



Glossary

Value chain: An approach in which the chain of value generated by buying and distribution, manufacturing, shipping, sales and marketing, and services, coupled with personnel and labor management, technology development and other efforts that support these processes, give rise to value in end products and services. The term was first coined in the book *Competitive Advantage* by American scholar Michael Porter.

ISO 26000: A global guideline for initiatives regarding organizational social responsibility published in October 2011 by the International Organization for Standardization (ISO). The guideline was drafted through discussions with representatives from government and industry, labor, consumer groups, NGOs and other organizations that began in the early 2000s. Unlike previous ISO programs, no certification is required.

Formulation of a CSR Action Plan under the Five Pillars

Governance

Establish a compliance system that encompasses international standards in global corporate activities, work to publicize CSR related information and establish stakeholder communication, and strengthen and enhance the governance framework

Issues

- Promulgation throughout the company
- Internal control
- Global measures
- BCP
- Compliance and ethics
- Building information security systems
- Fair and impartial business activities
- Protecting property rights

Fiscal 2013 Action Policies

- 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

Considering workplace environments, human rights, and diversity of values in hiring and using human resources

Issues

- Human rights
- Promotion of diversity
- Promotion of work-life balance
- Health and safety
- Human resources

Fiscal 2013 Action Policies

- 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 health and safety measures

Quality

Initiatives to meet the needs of customers, shareholders, and business partners based on observance of market rules, and regulations

Issues

- CSR procurement
- Quality
- Creation of solutions to meet new social needs

Fiscal 2013 Action Policies

- Promote initiatives to increase customer satisfaction and quality in addition to achieving sales and profit targets
- Strengthen supply chains (Promote CSR and green procurement)
- Formulate an approach for solving social issues through core business (product and service) capabilities, and a business promotion plan for Asia and other emerging markets

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

Issues

- Social contribution activities

Fiscal 2013 Action Policies

- 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

Issues

- Environment

Fiscal 2013 Action Policies

- 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

Internal control: The process of forming rules for conducting business appropriately within an organization such as a company, and ensuring business is conducted in accordance with these rules. In the wake of incidents of large-scale financial reporting and accounting fraud in the U.S., compliance has become an important issue worldwide.

BCP (Business Continuity Plan): An abbreviation for Business Continuity Plan, a set of policies and plans for continuing business operations and responding quickly

and effectively in the event of a natural disaster or other unforeseen circumstances. The key is to create frameworks for adapting to the unexpected, rather than attempting to respond to the unexpected in a predictable manner.

Social needs: Among the various needs in the world today, this refers to needs in public or social areas such as the environment, poverty, human rights, welfare and health.

Corporate Governance and Compliance

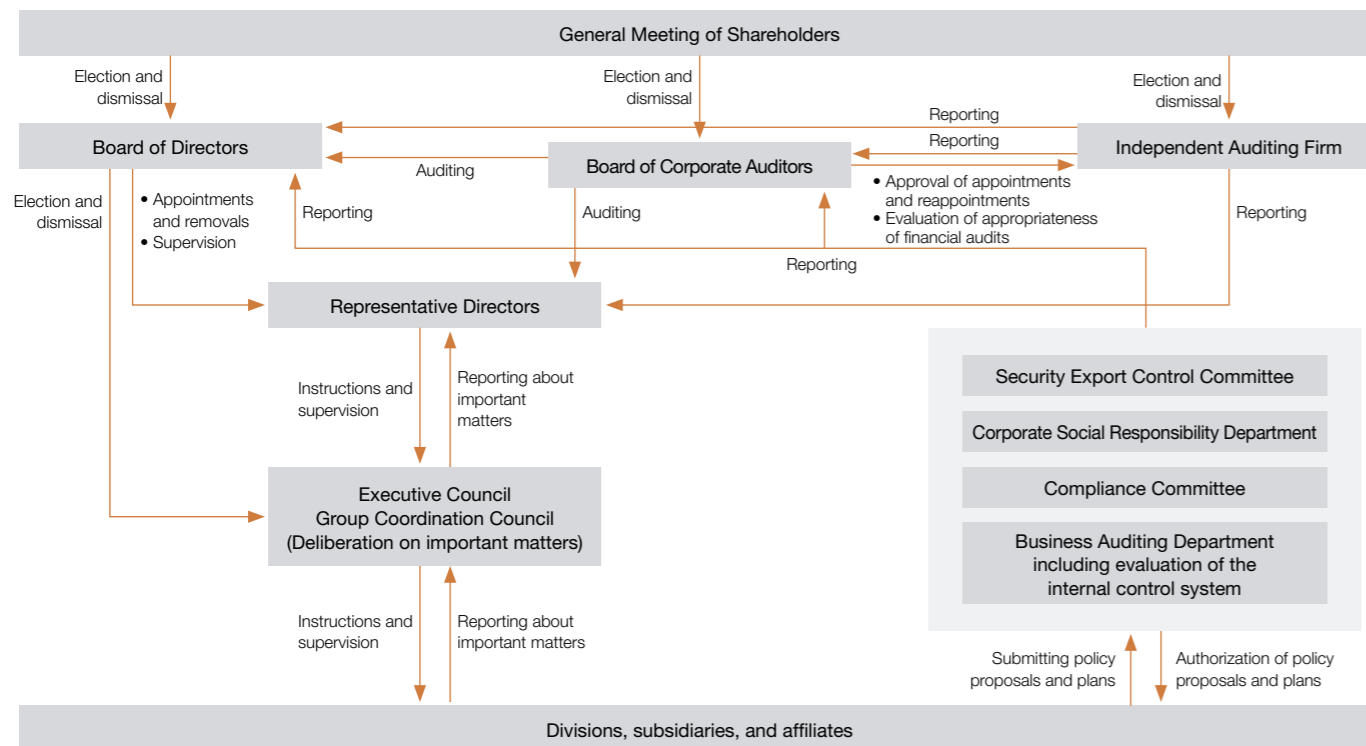
The basic policy of the USHIO Group is to ensure the transparency and efficiency of the Group's management, and increase corporate value to meet the expectations of all of the Group's stakeholders. To this end, we place the establishment and maintenance of systems of internal control, incorporating compliance with laws, regulations, social norms, corporate ethics, and J-SOX regulations, as a top management priority and make every effort to promote these systems.

Corporate Governance Framework

USHIO uses a management structure that includes a Board of Directors and 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

USHIO's Internal Control Framework



Glossary

Corporate governance: This refers to a company's mechanisms for management and supervision. Supervision refers not to monitoring for suspicious activity in management, but rather setting targets for management and evaluating performance. In other words, a mechanism for ensuring that management is managing the company for the shareholders.

[Web http://www.ushio.co.jp/en/governance](http://www.ushio.co.jp/en/governance) (Corporate Governance System)

[Web http://www.ushio.co.jp/en/compliance](http://www.ushio.co.jp/en/compliance) (Compliance)

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.

Board of Directors

The Board of Directors comprises a total of 11 directors: 10 internal directors and 1 highly independent outside director. Internal directors with complete knowledge of the Company's business details ensure prompt decision making, while the appointment of an independent outside director strengthens monitoring and helps maintain the objectivity of management. Based on the Tokyo Stock Exchange's rules for protecting general shareholders, USHIO has filed a notice stating that its outside director is an independent director who has no conflict of interest with general shareholders.

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 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.

Strengthening Business Audits

The importance of internal audits has increased along with the enactment of the Companies Act and Financial Instruments and Exchange Act of Japan, and in order to prevent corporate impropriety. Besides compliance audits of laws, regulations and so forth, and assessments of the design and operation of internal controls, internal audits must now also offer proposals for improvement, serving as a consulting function. At USHIO, we conduct various audits, including compliance audits and audits of export controls. To ensure the quality and raise the effectiveness of these audits, we work in close cooperation with the corporate auditors at all times. The theme and inspection items in our internal audits are derived from the perspectives of the Company's business aims and minimizing management risks to make sure that the audits help USHIO achieve its organizational objectives. To this end, the indications and recommendations raised by the internal audits are followed through periodically until the required improvements have been made. We will continue to have audits conducted in close observation of actual frontline business conditions with a view to issuing recommendations for streamlining management, improving busi-

ness operations, safeguarding assets, and improving the management structure while minimizing the risks.

Compliance

It is widely recognized that breaches of compliance can undermine the very foundations of the public's trust in a company or government, and carry a risk of significant losses through claims for damages, and sharp declines in sales. At USHIO we have established a Compliance Committee to address compliance-related concerns, including potential risks, across the entire Group as early as possible.

The USHIO Helpline

The USHIO Helpline has been in operation in the USHIO Group since October 2006. All Group employees in Japan can use this hotline for direct communications with individuals outside the Group to consult or report on workplace violations of laws and regulations, internal rules, ethics and other standards for behavior. The hotline allows for quick discovery and correction of improper behavior and provides access to consultations while protecting individuals who use the hotline from any negative consequences.



USHIO Helpline poster

Information Security

The use of IT is essential for business activities. On the other hand, there has been an endless stream of security issues related to IT in society. Among various others, these include leakage of confidential and personal information, infection from computer viruses, unauthorized system access, and work stoppages due to system malfunctions. 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 important information about customers and suppliers. We have established rules for the proper handling of this information and have imposed stringent requirements concerning the protection of confidential information.

Information security requires three interlocking initiatives: rules must be determined, a framework must be created for observing those rules, and awareness must be raised. We have established a function for automatically encrypting file attachments and a system for preventing email address mistakes, along with other systems and rules for program asset management and the like, but on the whole we are not 100% satisfied with these measures. The awareness of each and every employee is essential. So, in fiscal 2012, we will work to raise awareness by utilizing e-learning tools and other media and conduct information security audits linked to J-SOX audits.

Fair and Equitable Business Transactions

The USHIO Group's 10 Action Guidelines expresses our commitment to always respecting the position and rights of the other party in business dealings, to conducting transactions fairly and equitably, and to not taking advantage of a dominant position to impose inappropriate terms or conditions. We also promise to work to prevent corruption and carry out appropriate business transactions in line with socially accepted practices.

People

Working Together with Employees

By working to fulfill its responsibilities to society, the USHIO Group aims to create a company where employees can work with enthusiasm and a sense of purpose. As is clear from the first item in the Group's management philosophy: "Build both a prosperous Company and prosperous employees," this goal has remained the same since the Company's foundation.



Respecting Human Rights

The USHIO Group respects the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. USHIO also declared its support for the ten principles of the United Nations Global Compact in October 2010. The principles relate to human rights, labor, the environment, and anti-corruption. USHIO is promoting initiatives to ensure adherence to them. From fiscal 2011, we began looking into CSR procurement and checking for the usage of conflict minerals among the Group and its business partners. Going forward, we will formulate a medium-term plan and promote initiatives for working together with our business partners in raising the level of conflict mineral avoidance.

Diversity

Utilizing Global Human Resources

Overseas sales account for over 70% of the USHIO Group's total. Human resources capable of blending in to communicate and understand local needs are indispensable in promoting business overseas. We are therefore working to develop and utilize global

human resources by conducting international study programs, hiring international students, sending personnel from Group companies overseas to the parent company in Japan, and providing opportunities for interaction between Group companies.

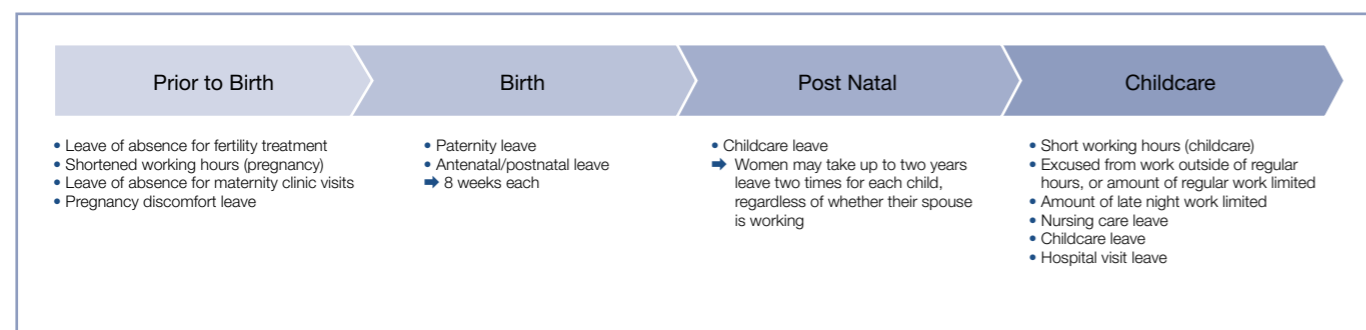


Diverse employees and customers on a visit from overseas

Support for Working Women

USHIO INC. strives to help employees balance their work responsibilities with having and raising children, which is a major reason women quit their jobs, and to create a company where women can work easily. New talent pools are needed in order to generate new business amid the matured economies of the industrialized nations. Consequently, the percentage of women employees in sales and technical positions has more than doubled compared to 2007 in our effort to recruit human resources without regard to gender.

USHIO's Work-Life Balance Support Program (Balancing Work and Parenting)



Glossary

Conflict Minerals: Conflict minerals are gold, tin, tantalum and tungsten mined in the regions around the Republic of Congo that find their way into products. Under the 2010 U.S. financial reform bill, SEC registered companies are obliged to report on their use of such minerals. This disclosure is required because of concerns that such mining products are a source of funding for armed groups that are known to commit serious human rights abuses in the Republic of Congo.

Diversity: The principle of diversity calls for the creation of organizations that allows diverse people to achieve their full potential, regardless of race, gender, age, or beliefs.

Work-Life Balance

Support Programs

We are committed to developing a working environment that enables both men and women to balance their jobs and home life without excess worry. We offer childcare leave and other support programs that go beyond legal mandates. In March 2009 we created the Work-Life Balance Handbook, which contains information on programs for balancing work. It also contains information on child-raising and maternal welfare, how managers should respond, and other tips for employees who would use the programs and for their managers. In July 2011, we revised our system for working shorter hours to extend the eligibility of choosing to work shorter hours until a child is six years old. Moreover, in an effort to build an environment conducive to supporting gender equality, we uploaded stories of male employees and their experience with childcare leave for view on our intranet portal. Consequently, in June 2012 we earned Kurumin certification under the Act for Measures to Support the Development of the Next Generation for the third time.

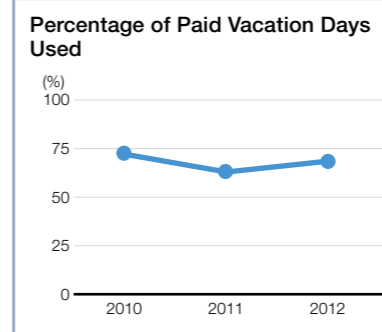


Employees Using Childcare Leave

| | 2010 | 2011 | 2012 |
|--------------|------|------|------|
| Men | 0 | 2 | 2 |
| Women | 26 | 29 | 27 |
| Total | 26 | 31 | 29 |

Paid Vacation and No-Overtime Days

Based on a commitment to work-life balance, we designate certain days as no-overtime days and prearrange paid vacation days to give employees time to spend with their friends and family or on their own pursuits and to help create a more dynamic working environment. We believe that performance improves when employees maintain their physical and mental health by taking time off to relax and rejuvenate.



Occupational Health and Safety

USHIO INC. engages in occupational health and safety initiatives to maintain a workplace that provides total peace of mind to employees. Various systems have been established to help employees maintain their health. Health-related counseling is provided to employees with health or weight issues identified by health exams, and industrial physicians consult with employees working long hours.

Work-life Balance: This refers to regulating the workplace and the social environment to allow people to enjoy full lives while working. The concept extends further than the simple reduction of overtime, calling for initiatives that improve the quality of both work and private life to achieve synergies.

Education and Training for Human Resources Development

Various training programs have been established to facilitate the development of personnel capable of acting independently and to make it possible to align the company's prosperity with enriching the lives of individual employees.

In addition, revisions were made to the skills required for each division and type of job, and a system established at each office which will facilitate training and evaluation of employees.

Regardless of the type of job, all employees are trained to develop their ability to maintain an awareness of the problem, a problem-solving approach that is not limited by past experience and the ability to independently develop and implement new proposals.

Support for Self-Development

Correspondence courses: In fiscal 2011 we had a lineup of roughly 302 courses on subjects ranging from management to computer skills, in addition to basic classes on foreign languages and technical topics and certification courses. When employees finish a course, they are paid a bonus. The courses accommodate the desire of employees to keep learning. In fiscal 2011, a total of 376 courses were taken.

TOEIC testing: TOEIC tests are given to employees who want to gauge their English ability and further improve it. The company pays a portion of the testing fees. A total of 93 employees took the test in fiscal 2011.

Tiered Employee Training

Mid-career training: Available for employees who have been with the company for five years and who want to improve their own abilities. This training focuses on developing the skills to guide and correct others when providing on-the-job training, and the ability to control or improve the motivation of others.

New management training: Available for employees who have been recently promoted to a level-2 assistant leader position. Training concentrates on developing the ability to identify or extract problems in the workplace (within a division, working group or team), mobilize resources and guide the team to a solution.

New line manager training: Available for employees who have recently been promoted to a line manager (generally, a department manager) position. Training focuses on the ability to identify organizational objectives, then lead or manage the department or team to achieve these objectives, while addressing any obstacles or problems encountered along the way.

Division manager training: Available for employees who have recently been promoted to a division (or assistant division) manager position. The training is directed at further improving organizational skills and human relations skills. At present, the content of this training program is being revised, to not only enhance organizational management skills but also to ensure that managers can keep their eye on the medium- and long-term strategic goals of their business and resolve issues in order to meet those goals.

Kurumin: The Kurumin symbol is used by companies who receive certification from Japan's Ministry of Health, Labour and Welfare after creating and implementing an action plan for supporting employees in childcare, and meeting certain standards.

Quality

Relationships with Customers and Business Partners

To accurately grasp the needs of our customers, we think from their perspective, then work as one with our business partners to improve our product development and quality. In this way we provide products and services with appealing quality that goes above and beyond the run-of-the-mill.



Quality Policy

USHIO has created unified quality policies for the entire Group and continued its efforts to improve quality.

UPS(USHIO Production System)

UPS (USHIO Production System) is the name of a new initiative aiming to establish a unique new production system at USHIO's Harima Division from fiscal 2011. Amid a rapidly changing business environment, it is important to be able to efficiently supply high quality products in any environment. To achieve this, we saw the need to think outside of the box and promote improvements from a broad-ranging perspective by integrating our ongoing UPS, TPM and TQC improvement activities, rather than repeatedly going over the same ground. The main thrust of the UPS movement is ZD (zero-defects) activities, which seek to eliminate defective work by stimulating individual autonomy and enthusiasm among employees and fostering creative thinking. It is a movement that consists of three pillar groups. Namely, 1) the Manufacturing Technology Group for promoting production based on defect-free process completion and the reduction of defects and variable quality, 2) the Quality Assurance System Reform Group for proposing rules stripped of formalities that focus on effectiveness, and 3) the Education and Enlightenment Group for implementing systematic training in cutting-edge skill sets and knowledge. Those groups are striving to promote initiatives with tangible results in fiscal 2013.

Basic Philosophy

USHIO regards product quality as an overriding priority and will promptly provide global markets with high quality, safe products and services that are highly reliable and economical in order to fulfill the requirements of customers.

Action Guidelines

1. We will act rigorously in putting the customer first and putting quality first, and will develop appealing products with cutting-edge technology to fulfill the requirements of customers and earn their trust.
2. We will strive to further improve quality by developing entity-level quality management systems and continually working to improve their effectiveness in order to meet the needs of customers.
3. We will work to share information with customers, make cost improvements, develop new products, pioneer new markets, and promptly provide global markets with high quality, safe products that are highly reliable and economical.

April 1, 2010
Shiro Sugata
President and
Chief Executive Officer
USHIO INC.

[Web http://www.ushio.co.jp/en/supplier](http://www.ushio.co.jp/en/supplier) (Working Together with Business Partners)

[Web http://www.ushio.co.jp/en/customer](http://www.ushio.co.jp/en/customer) (Working Together with Customers)

Contributing to Society with USHIO Products

For USHIO, contributing to society through the products of our main business is a particularly important initiative, among the many we are involved in. In order to contribute to the environment through innovations in product performance, USHIO has built a system for conducting environmental assessments starting at the product development stage and certifying products with exceptional environmental performance as Super Green products. As of fiscal 2012, seven products have been certified as Super Green products.

We are also working to develop products capable of addressing problems that must be solved at the global level, in areas such as medicine, health, the environment, food and energy.

Development of Super Green Products

Products eligible for certification as an SG product must be the best in their class, while offering superior environmental performance in terms of energy efficiency, extended lifetime, 3R design, materials used, applications and so forth. In addition, the product must satisfy our new USHIO environmental factor* requirement, which was established to clarify our standards following a fiscal 2009 review of certification requirements in light of recent trends in society. As of March 2011, the Group has certified five SG products, and added two during fiscal 2012.



Super Green Products Label

Medical

(treatment, diagnosis, sterilization and testing)

Light-based medical equipment is attracting great interest due to its ability to enhance the quality of life. USHIO employs the most advanced technology to develop new products used in medical treatment, diagnosis, testing and sterilization/hygiene.



UV phototherapy device for dermatological problems



Interior of the body visualization system

Energy

Light plays a central role in the development of many new energy sources including solar power. USHIO has taken a pioneering role in the development of new infrastructure and technology to promote a carbon-neutral society.



Solar simulator for testing solar batteries



Acceleration testing system

Agriculture

(cultivation and propagation)

Agriculture faces great challenges in our modern world to preserve the safety, quality and stability of our food supply. By developing and optimizing man-made light sources that can be used for cultivation, USHIO hopes to help solve global food supply issues.



Lighting system for plant cultivation



Light source unit for plant cultivation and control

Security

(hazardous chemicals, surveillance and information security)

USHIO provides products for a variety of purposes including the detection of pesticides and hazardous chemicals, nighttime surveillance and security. USHIO products are also used to prevent data theft and provide information security for computer systems.



Biotip for chemical detection system



UV LED projector

Natural environment

(air and water quality)

USHIO has developed light-based products that help improve water quality in rivers, groundwater, water supply and sewerage systems, and preserve air quality by reducing gas and particle emissions.



Mercury-free UV lamp for water disinfection



VUV light source unit for NOx and SOx degradation

USHIO Light Put to Work in Ballast Water Sterilization (USHIO EUROPE B.V.)

Ballast water is a problem because it impacts marine ecosystems. In order to eliminate this impact, the water must be sterilized, and one method for doing so uses light. This method has drawn attention for being compact, easy to handle and not producing chemical pollution. Water treatment using light is an important technology in all water-related fields. USHIO EUROPE currently supplies UV lamps and power sources for ballast water as well as control parts when they are needed. Going forward, the company intends to expand into a variety of applications, including industrial wastewater treatment, and supply them to the market as optical solutions to environmental problems.

Glossary

Evaluation Criteria of Super Green Products: The certification standard for Super Green Products is comprised of the following three requirements.

- 1) Environmentally conscious product score of 80 or more (based on environmentally conscious product assessment standards)
- 2) Environmental factor of 1.5 or more (calculated in comparison to previous products, with fiscal 2000 as the baseline year)
- 3) Attainment of transparency

Environmental Factor: A comparison of the environmental efficiency of a newly developed product and past products can be expressed numerically as an environmental factor. Higher numbers represent greater improvements.

Environmental factor is calculated by dividing the environmental efficiency of the target product by the environmental efficiency of the equivalent product in the baseline year. USHIO calculates a product's environmental efficiency by dividing product value (performance) by environmental impact. Product value is calculated by multiplying energy output by lifespan. Environmental impact is calculated with this formula:

$$\sqrt{[(\text{Energy input})^2 + (3R \text{ volume})^2 + (\text{Chemical substances content})^2]}$$

- Notes:
1. Energy output: For lamps, primarily lighting output and intensity in the necessary wavelength range
 2. Energy input: Energy consumed in using the product
 3. 3R volume: Product size and weight (quantity of resources used)
 4. Chemical substances content: Quantity of substances with environmental risk contained in the product

CSR Procurement and Checking for Conflict Minerals

Cooperation from business partners is crucial for USHIO to contribute to the world through excellent products and services. CSR procurement initiatives are intended to build relationships of sustainable coexistence between USHIO, its business partners, and society. In fiscal 2011 we conducted a CSR survey of our business partners, and requested that their initiatives be upgraded based on the survey results and feedback. As for fiscal 2012, we aim to improve our CSR procurement initiatives by examining ways of implementing activities in unison with our business partners. We have also conducted a survey to ascertain the usage of conflict minerals in components, as part of our due diligence.

Initiatives at the Gotemba Division

At the Gotemba Division, all employees involved in procurement take a seminar on the Subcontract Act in order to deepen their understanding of it. In addition, the division emphasizes thinking and acting together with suppliers, and when an issue occurs related to quality or a missed delivery deadline, it investigates the cause with the supplier and takes steps to address the problem.

As a result of these efforts, we have set targets for making progress on initiatives to improve on-time delivery by suppliers and reduce non-conformance rates. Moreover, to help us keep in step with our business partners, we undertake activities to build mutually beneficial relationships, including supporting their acquisition of Eco-Action 21 (EA21), and using meetings with suppliers to develop a common awareness.

Initiatives at the Harima Division

As overseas transactions have increased, the Harima Division has consolidated the trade operations of the materials division into its Overseas Support Office, including procurement of parts and materials from overseas and supply to overseas manufacturing sites. The division works to acquire specialized knowledge of laws and regulations pertaining to overseas transactions, which are growing increasingly diverse and include national security guarantee regulations and Export Administration Regulations, and accommodate them in an appropriate manner.

It also runs an educational program for personnel involved in procurement that covers such topics as Japan's Subcontract Act, environmental regulations and the Foreign Exchange and Foreign Trade Act. The program helps ensure that we remain in strict compliance with laws and regulations.

To help us respond quickly and appropriately to requests and inquiries from customers at overseas sites regarding the environment, joint teams have been established by the Harima Division and overseas sites and measures are being taken to raise the level of our environmental responsiveness.



Supplier briefing in progress

Society

Relationship with Society

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

Web <http://www.ushio.co.jp/en/contribution>
(Working Together with Local Communities)
Web <http://www.ushio.co.jp/en/society>
(USHIO Group Support for Culture and Learning)

Lectures at Universities

Lecture on Environmental Concepts (CHRISTIE DIGITAL SYSTEMS CANADA INC.)

Every year since 2009, CHRISTIE DIGITAL SYSTEMS CANADA has given lectures on environmental concepts at Wilfrid Laurier University in Waterloo, Ontario. The university is well known for its outstanding business and economics programs, and has taken a leading role in promoting educational quality by integrating sustainability practices in its education programs. These programs include units on ISO14001, sustainable development and environmental accounting. When students of the lecture voiced a request to see how environmental concepts were put in practice in a real-world context, CHRISTIE DIGITAL SYSTEMS CANADA responded by organizing a factory tour.

In 2011, the company invited students in MBA and BBA courses at Wilfrid Laurier University to attend an orientation lecture and tour of the company's facilities. In addition, similar presentations were given to local business leaders, at Communitech Hub.

Lecture on Optical Technologies (USHIO INC.)

USHIO conducts lectures on optical technologies each year at the University of Tokyo, as part of its involvement in CORAL, the Consortium on Education and Research on Advanced Laser Science. In fiscal 2011 we gave the lectures for the fourth time, with the lesson in June consisting of a lecture on "methods of generating light and photochemical reactions," and practical modules on "the spectroscopy and photochemical reaction of UV light." A large number of students researching light participated eagerly in both the lectures and the practical modules. As part of its contribution to society, USHIO will continue to support the development of young students who will be the optical technicians of the future.

Relief Efforts Following the Great East Japan Earthquake

(USHIO Philippines, Inc.)

The Board of Trustees of First Cavite Industrial Estate (FCIE), the industrial park where USHIO Philippines is located, manufactured patches emblazoned with the message "Gambaro Nippon—We

Support Japan" and donated 50% of the money from sales of these patches to Japanese charities. Every employee at USHIO Philippines took part in the activity.

Exhibition of Local Products from the Tohoku Region (USHIO INC.)

In March 2012, the USHIO head office and other companies located in the same office building jointly organized a "local foods market to support Great East Japan Earthquake victims in Tohoku." Donations collected at the venue, were given to NPOs involved in the recovery effort in Tohoku via the Japan Philanthropic Association.

At the USHIO Festival, held during July at the Harima Division and the Gotemba Division, an exhibition was held of local products from the earthquake-hit Tohoku region as a way to support its recovery. Donations collected at the Gotemba Division were sent to the Japanese Red Cross Society by the USHIO Festival executive committee.

The USHIO Foundation

The USHIO Foundation was established in 1994 to commemorate the 30th anniversary of the founding of USHIO. Its purpose is to contribute to the development of human resources, learning and culture. The foundation was designated as a public interest incorporated foundation by the Japanese government in April 2011 and made a new start as the USHIO Foundation. Its main projects include supporting the development of the next generation of human resources who will be responsible for leading the world in the future by providing scholarships to assist with their studies, and promoting further interaction and mutual understanding between Japan and other countries. In 2011, the foundation provided scholarships to 49 graduate students (including overseas students) and 16 students in specialized courses at colleges of technology. So far, 373 scholarship students have graduated.



Glossary

Due Diligence: Originally this was a financial term referring to general research activities relating to a company, real estate asset or financial instrument targeted for investment or an M&A. In the 2008 United Nations report on human rights issues by John Ruggie, due diligence was proposed as necessary for corporations to fulfill their responsibilities regarding human rights. Due diligence is also included in the ISO26000 international guideline on CSR activities as an item for organizations to undertake.

Glossary

Environmental Activities

The USHIO Group has defined a vision of where it wants to be in 2020, and is strengthening its initiatives to contribute to the realization of a sustainable society through its core operations.

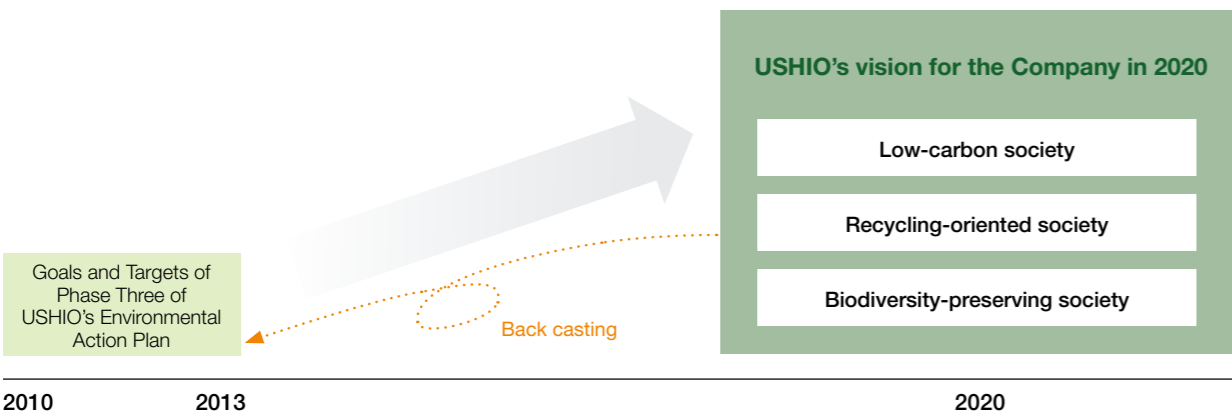
2020 Environmental Vision

The USHIO Group formulated its 2020 Environmental Vision with the goal of becoming a company able to contribute through its business activities to the realization of a low-carbon, recycling-oriented society that preserves biodiversity by the year 2020.

Under Phase Three of the Environmental Action Plan, which started in fiscal 2010, we extrapolated back in time from our vision for 2020, and broke down our vision into a set of specific goals through a process called "back casting."

2020 Environmental Vision

Through Lighting-Edge technologies, we will contribute to: creation of a low-carbon society, conservation of resources, and preservation of biodiversity.



Glossary

Low-carbon Society: A society that reduces its CO₂ emissions to prevent global warming.

Recycling-oriented Society: A society that uses resources carefully, promoting sustainable recycling through reuse and other means.

Biodiversity-preserving Society: A society that supports a rich variety of life by protecting diversity in genes, living organisms, and biotopes.

Back casting: A technique for setting targets by working backward from a future vision to the present.

[Web http://www.ushio.co.jp/en/environmental](http://www.ushio.co.jp/en/environmental) (Environmental Management System)

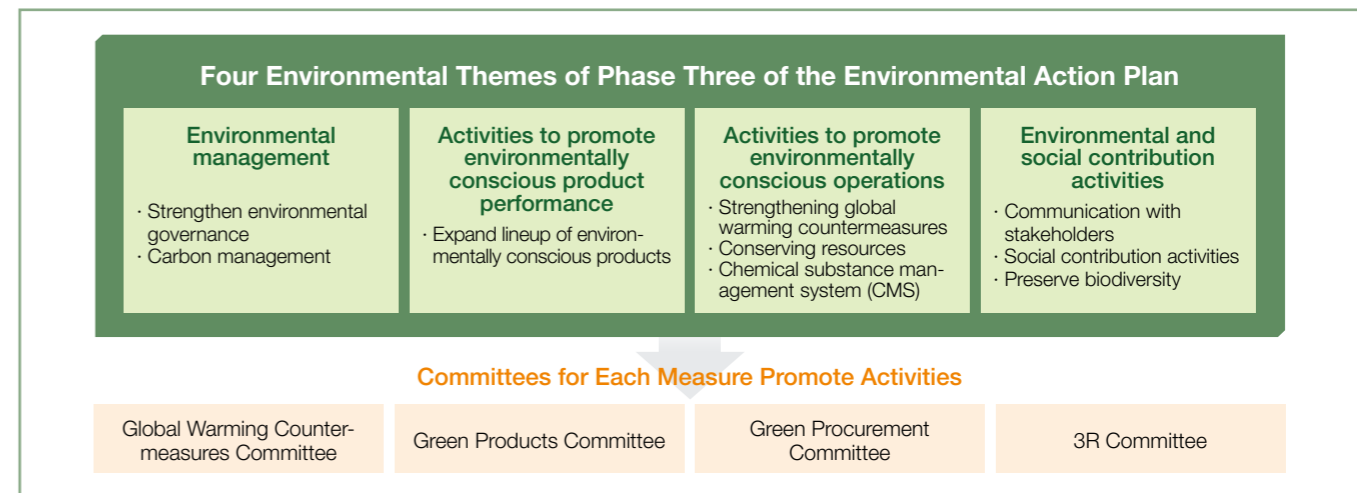
[Web http://www.ushio.co.jp/en/energy](http://www.ushio.co.jp/en/energy) (Global Warming Countermeasures)

Phase Three of the Environmental Action Plan

Phase Three of the Environmental Action Plan provides the following four environmental themes: environmental management, activities to promote environmentally conscious product performance, activities to promote environmentally conscious operations, and environmental and social contribution activities. The plan also sets out 17 specific measures and targets, and sets out four

environmental issue committees for each measure to promote activities: a Global Warming Countermeasures Committee, a Green Products Committee, a 3R Committee, and a Green Procurement Committee. Please refer to the corporate Web site for information on these activities and results for fiscal 2011.

[Web http://www.ushio.co.jp/en/csr/eco/manage/plan.html](http://www.ushio.co.jp/en/csr/eco/manage/plan.html)

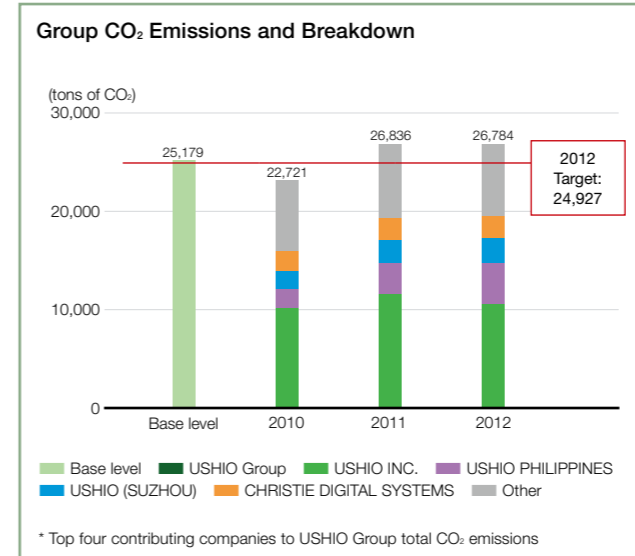


Measures to Reduce CO₂ Emissions from Energy Consumption

Despite a targeted 2% reduction in emissions from base levels, emissions increased for a consecutive year by 8.4% in fiscal 2011. The main reason once again was an increase in production activity in line with business expansion.

In particular, production increased in Asia, with every plant in the region exceeding their target by at least 100%. Although the company has adopted the stance that energy use should be

treated as a cost, with production levels rising it will be necessary to look for other ways to reduce CO₂ emissions. In the future, the company plans to adopt alternative sources of energy, and to control CO₂ emissions from supply chain activities, in recognition of the need to establish targets for reducing the CO₂ emissions related to its products. In this way, USHIO is making a concerted effort in addressing the issue of climate change. On the other hand, successful measures at each site to reduce power usage and changes in the product mix meant that emissions per unit sale decreased by 1.5% from the base level.



Introduction of Solar Power Generation Equipment (Gotemba Division)

In January 2012, the Gotemba Division introduced a solar power generation system which has a generation capacity of 100 kWh, and is capable of generating around 100,000 kWh of electric power per year. The Gotemba Division has made extensive efforts to promote environmental activities in the past, and had already introduced an electric power monitoring system and other features to reduce its power consumption. The introduction of a solar power generation system will complement past measures to analyze, manage and reduce power consumption, creating greater synergy, and helping to conserve power on a daily basis. On sunny days, the system generates around 60 kWh of electricity.



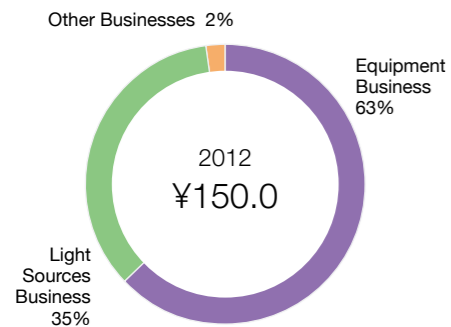
Solar Power Generation Equipment

CO₂ coefficient: CO₂ coefficients represent the amount of CO₂ emitted per 1kWh of electricity supplied. The USHIO Group uses the published figures from the respective power companies that supply each site.

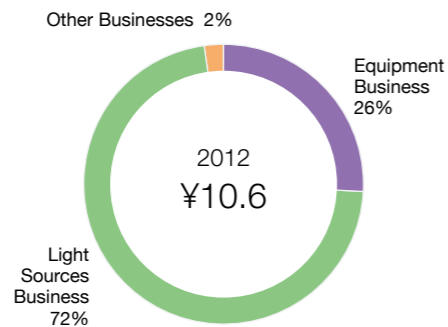
Business Overview

Years ended March 31

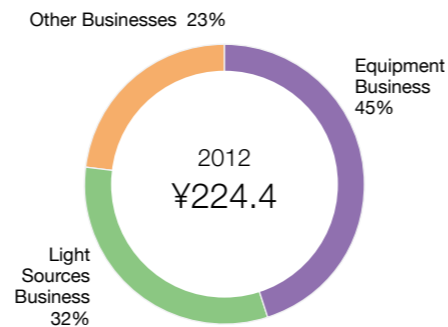
Breakdown of Sales
(Billions of yen)



Breakdown of Operating Income
(Billions of yen)



Breakdown of Assets
(Billions of yen)



Equipment Business



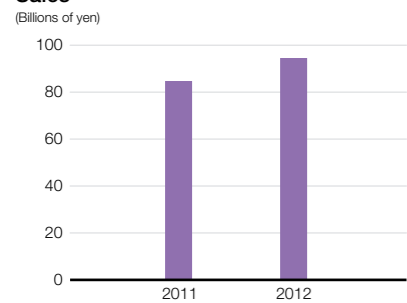
Imaging equipment

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

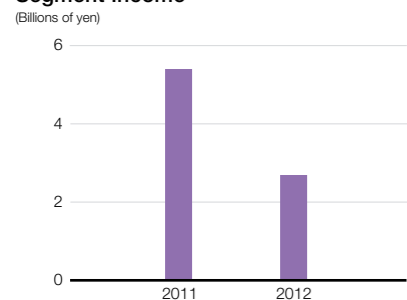
Optical equipment

- 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

Sales



Segment Income



Light Sources Business



Light Sources Business

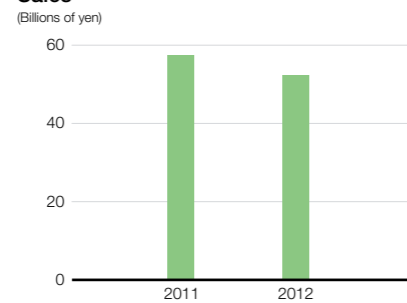
Discharge lamps

- 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

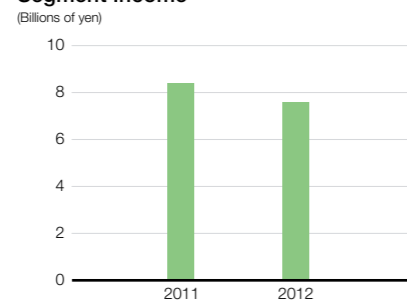
Halogen lamps

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

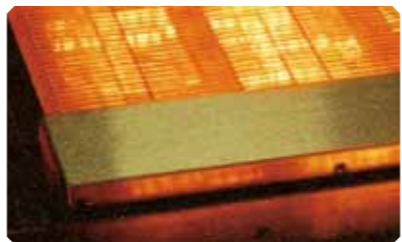
Sales



Segment Income



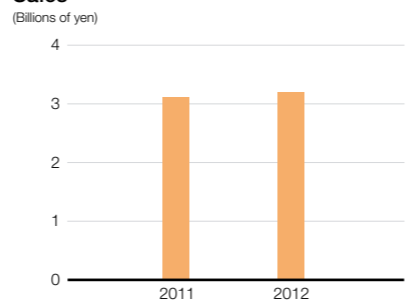
Other Businesses



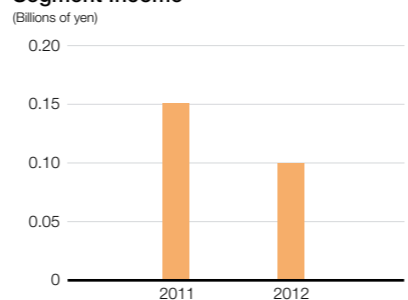
Machinery for industrial uses and others

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

Sales



Segment Income



Third-Party Opinion

For USHIO, the start of fiscal 2012 marked the transition from Phase One to Phase Two of its CSR efforts. For Phase One, the key point was to identify which issues emerged during the three-year period. For Phase Two, the emphasis is on determining which specific measures to apply and how to apply them. Put differently, this boils down to determining what the important issues are (materiality) with respect to CSR at USHIO, and the extent to which USHIO can incorporate CSR into its management activities going forward. This is the rationale given for USHIO's release of action policies for fiscal 2012 aligned with the "five pillars" of its CSR Action Plan (p. 13). I later learned that these guidelines were derived through dialogue at the supervisor level with key stakeholders. From here in, I want to take this opportunity to point out what I see as two major issues that are likely to emerge.

The first is that although USHIO formulated a Medium-Term Vision in May 2012, the connection between this vision and USHIO's related CSR issues is not entirely clear in some ways. The incorporation of CSR into management activities should be closely related to management planning of this kind, and publicizing it both within and outside the Company is significant and meaningful. The second issue is similar to one I pointed out last year. Rather than stopping at action policies within a broad framework, USHIO needs, to a certain extent, to introduce KPI and other management indicators in order to enact these policies at the top, middle and worksite levels of its organization. Outcomes then need to be measured and confirmed across the entire Company. It is important not only to drive in-house CSR promotion, but also to disclose the status and results of initiatives in ways readily accessible to outside stakeholders in order to gain their support.

In last year's report, I mentioned expectations for USHIO around the creation of solutions to meet social needs. This time around, there is a special feature in the report (p. 5) on the use of the "excimer filter" light technology in the medical field as an actual case of the therapeutic use of USHIO technology. USHIO has different products for each bandwidth of light across the spectrum, from infrared and visible light to ultraviolet. In particular, the development and success of medical systems utilizing excimer lamps in the ultraviolet band are generating strong expectations for USHIO going forward.

This business is one of several new ventures that USHIO launched in the early 2000s with the 2003 establishment of the New Business Promotion Office. Nearly a decade later, this

medical technology, proven to be both safe and highly effective, is a groundbreaking advance for patients suffering from vitiligo and atopic skin inflammation. While business development of this kind in the medical field requires enormous time and cost, the profit-side results of these efforts are often harder to realize. Given this situation, USHIO has decided to take a long-term perspective and aggressively develop business in medicine, agriculture and other socially vital fields. This strongly suggests that the concepts of CSR and sustainability run deeply through USHIO's business strategy. CSR is not limited to compliance or social contribution activities. It includes a determination to be involved in businesses that address social issues even when short-term profitability may not be feasible. If the medical equipment business featured in this year's report were presented with a clear example of its position in terms of CSR at USHIO, I think it would be even easier for readers to grasp.

Outside of the featured field of medicine, there are many more areas where USHIO's light technology can be leveraged to address social needs. Linking those needs to new innovation requires fostering human resources who are well-versed not only in optics and engineering, but also in diverse areas such as medicine and agriculture. USHIO will need to establish an HR development strategy that takes this into account as it plans for the future.

In closing, I hope that USHIO will build on the culture it has nurtured over many years with respect to CSR and sustainability to become a "Light Innovation Company" supported by a wide range of stakeholders that addresses issues like those I have mentioned.



Masaatsu Doi

Associate Professor,
Takasaki City University of Economics

Dr. Doi holds a PhD in commerce. He began his current job in 2009 after graduating from the Hitotsubashi University Department of Economics and completing post-doctoral research at the Hitotsubashi University Graduate School of Commerce and Management. He has written several books, including *CSR Keiei—Kigyō no Shakai teki Sekinin to Stakeholders* (co-author, CHUOKEIZAI-SHA, INC.) *Social Enterprise—Shakai teki Kigyō no Taitō* (co-author, CHUOKEIZAI-SHA, INC.)

Response to Third-Party Opinion

We appreciate receiving valuable feedback from Dr. Masaatsu Doi, Associate Professor of the Faculty of Regional Policy, Takasaki City University of Economics, on our Sustainability Report 2012.

In our Medium-Term Vision, USHIO is committed to becoming a "Light Innovation Company" able to propose solutions that fully satisfy customers' needs at all times. Under this policy, we have sought out growth by delivering new applications for light and light-based products. At the same time, we have also been actively engaged in fields

Tadashi Taki

Director, Officer in Charge of CSR

such as medicine, the environment and biotechnology that will help to resolve social issues. In that sense, seeing USHIO initiatives to address social needs rated so highly this year is extremely encouraging.

To better enhance our CSR Action Plan, we are setting quantitative action plan targets and will push to enact concrete measures to meet them. We also want every member of our workforce to pursue diverse initiatives under a shared sense of value.