



# ANNUAL REPORT 2015

Year ended March 31, 2015

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### **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.

## PRESIDENT'S MESSAGE

I was appointed President and Chief Executive Officer of USHIO INC. on October 1, 2014.

Having taken over leadership of USHIO, I will utilize the 24 years of management experience I acquired in North America and use "light" as an opening to focus on cutting-edge domains to develop innovations. Furthermore, with a global outlook and high degree of transparency in management, I intend to meet your expectations and devote all my power toward further development of the USHIO Group.

July 2015  
Kenji Hamashima



President and Chief Executive Officer



### Sales Were Up, but Income Was Down in the Fiscal Year Ended March 31, 2015

In the fiscal year ended March 31, 2015, net sales were up 1.0% to ¥159.3 billion; however, operating income decreased 14.5% to ¥10.3 billion. By segment, the equipment business was down in sales and income, but in the light sources business, both sales and income increased.

Within the equipment business, the imaging equipment sector has already seen penetration of about 95% in the digital cinema projector global market, rendering digitalization effectively complete, and sales of digital cinema projectors decreased by half year on year. However, sales increased in general imaging equipment due to opportunities for using USHIO's imaging systems around the world, including virtual reality systems used for development assessment of production processes (design reviews, etc.) and simulation systems for training; however, the increase was not enough to cover the reduced sales of digital cinema projectors.

In the optical equipment sector, meanwhile, demand for smartphones continued to be strong, resulting in increased sales of optical equipment for electronic components, but this was countered by the effects of contraction of the EUV light sources business and reduced sales of the main lithography equipment for packaging and the impact on results of an unexpected delay in acceptance inspection of optical alignment equipment for LCD panels.

In the light sources business, discharge lamps and halogen lamps performed strongly. Sales of lamps for cinema projectors expanded as new digital cinema screens continued to be set up, mainly in developing countries. In the solid-state light sources business, which includes the discharge lamp segment, sales grew significantly due to the new consolidation in October 2014 of USHIO OPTO SEMICONDUCTORS, INC.

### Financial Results

	2013	2014	2015
Net sales	¥143.4 billion	¥157.8 billion	¥159.3 billion
Operating income	¥7.5 billion	¥12.1 billion	¥10.3 billion
Operating income ratio	5.3%	7.7%	6.5%
Net income	¥7.1 billion	¥10.7 billion	¥11.2 billion
Capital to asset ratio	75.9%	73.5%	73.3%
ROE	4.3%	6.0%	5.6%

\* All numbers are rounded down to the figures shown.

## USHIO's Medium-Term Management Plan (Announced May 11, 2015)

The USHIO Group announces a medium-term management plan every year as a rolling plan. The Group is aware that its results have not obtained a standard the market expects, especially in the aftermath of the collapse of Lehman Brothers, and sees the need to enhance profitability by improving investment efficiency through development investment and with the early creation of growth drivers. Against this background, we set targets for the end of the fiscal year ending March 31, 2018, three years away, of ROE of at least 8.0%, net sales of ¥220.0 billion and operating income of ¥18.0 billion (with an operating income ratio of 8.2%), while also aiming for ROE of 10% by the year ending March 31, 2020.

To achieve these targets, we need to move ahead while prioritizing three important measures: the "expand business earnings," "enhance capital efficiency" and "bolster shareholder returns."

### Medium-Term Management Plan Numerical Targets

	2015 (Actual)	2016 (Plan)	2018 (Plan)	2020 Target
Net sales	¥159.3 billion	¥180.0 billion	¥220.0 billion	
Operating income	¥10.3 billion	¥13.0 billion	¥18.0 billion	
Operating income ratio	6.5%	7.2%	8.2%	
ROE	5.6%	5.7%	More than 8.0%	10%

### Expand Business Earnings

Boldly and strategically undertaking the following measures will improve business structure and expand business profits.

We will firstly be bolder in implementing "resource distribution reviews and reallocations." We will focus on raising investment efficiency by reviewing development themes in R&D, in particular with tighter standards. Resource allocation in terms of personnel will be carried out more proactively on a Group-wide basis.

Next, we will move to "convert to being a solutions business." USHIO has operated with its business centered on OEM until now, but going forward, it will actively move into new markets and new domains while acquiring the ability to propose solutions and develop into a proposal-style business. This will accelerate entry into new markets.

Furthermore, we will newly create a marketing innovations department and strengthen business strategies so that each business has a firm understanding of its roadmap.

Finally, we will increase the amount spent on M&A, as well as the number of projects, not only to acquire technologies and sales channels, but also to acquire outstanding human resources.

These measures will leverage existing resources to their maximum extent and control the increase of cash outflow, improving operating efficiency and speeding up the rate of new products and creation of new businesses for the future.

### Enhance Capital Efficiency

Currently, USHIO's financial assets make up about half of the total assets, which is a factor in worsening capital efficiency. Going forward, we aim to increase capital efficiency and enhance ROE by accelerating conversion from financial assets to business assets. We will move toward reviewing our policy on shareholding, and cash obtained from selling these shares will be used for business investments such as M&A, moving away in the future from reliance on financial profits from financial assets to true business profits that will maintain a stable ROE.

### Bolster Shareholder Returns

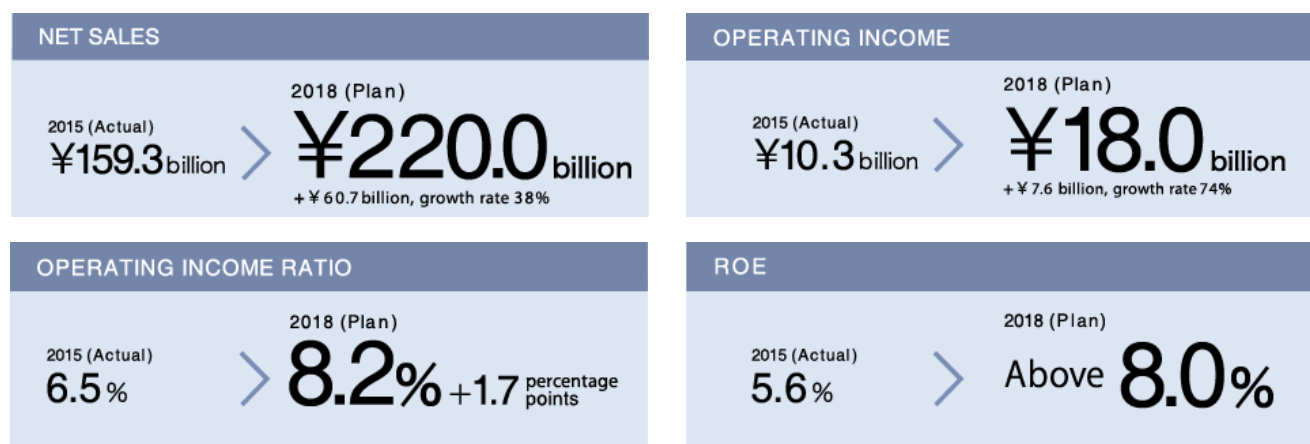
To achieve ROE targets, we must make growth investments in businesses and strengthen shareholder returns to achieve balanced capital operations. Specifically, this means a policy of greater proactivity and activity by maintaining the current policy of stable payments of dividends, repurchasing shares after taking into account projected free cash flows to be gained going forward and share price trends, as well as active engagement in business growth investment.

As one aspect of management prioritizing shareholders, we have decided to introduce a stock-based compensation plan for executives, linking to consolidated operating income and ROE.

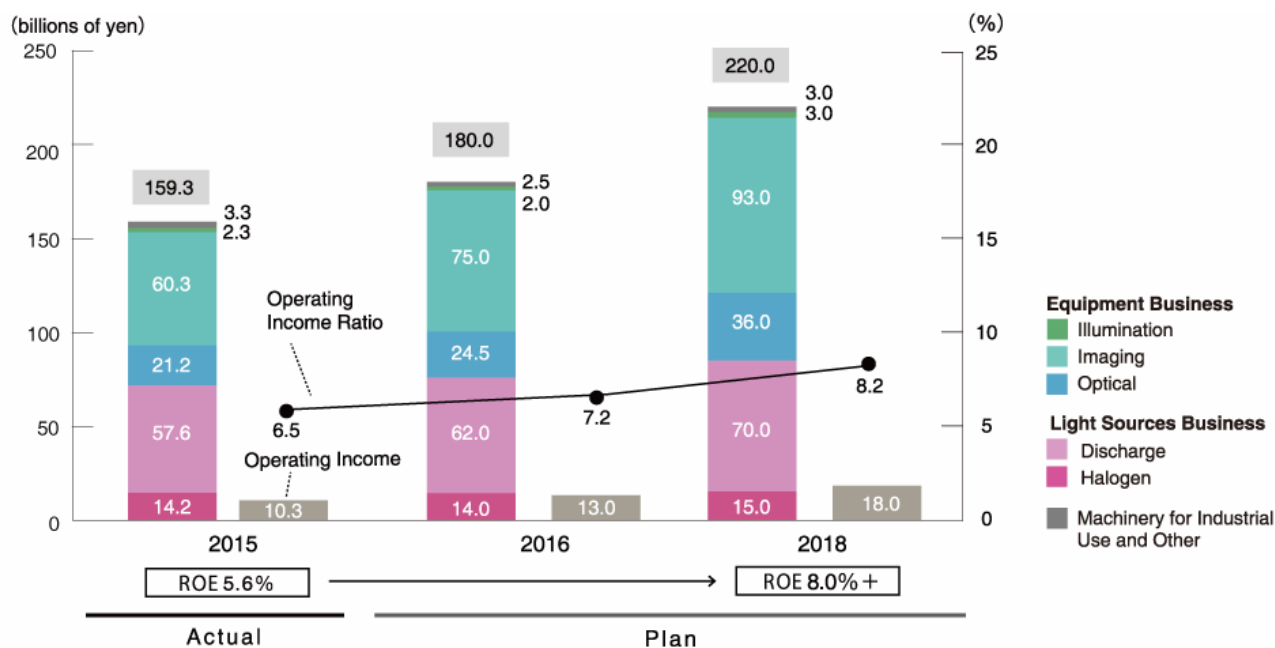
## STRATEGY [ Medium-Term Management Plan ]



### Objectives for the Year Ending March 31, 2018

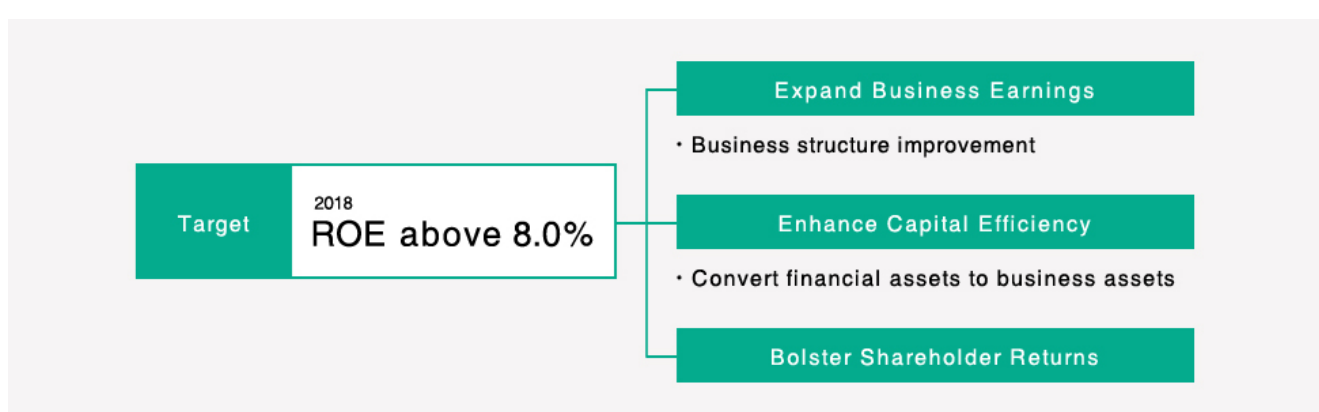


### Sales (by sub-segments) and Operating Income

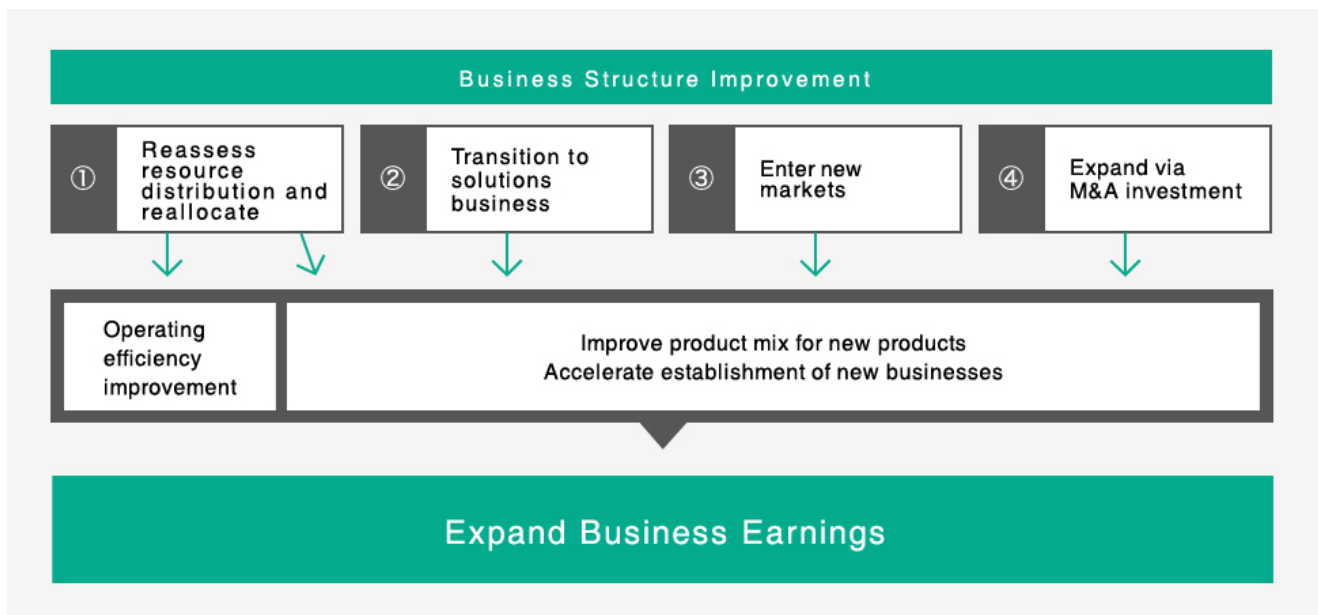


Segments	Sub-Segments	March 2018 (Plan) (Billions of Yen)	For the Next 3 Years		CAGR (%)
			Amount of Increase (Billions of Yen)	Growth Rates (%)	
Equipment Business	Imaging	93.0	+32.7	54	16
	Optical	36.0	+14.8	70	19
	Illumination and Related Facilities	3.0	+0.7	30	9
	<b>Sub-total</b>	<b>132.0</b>	<b>+48.0</b>	<b>57</b>	<b>16</b>
Light Sources Business	Discharge	70.0	+12.4	22	7
	Halogen	15.0	+0.8	6	2
	<b>Sub-total</b>	<b>85.0</b>	<b>+13.1</b>	<b>18</b>	<b>6</b>
Others	Machinery for Industrial Use and Other Business	3.0	-0.3	-9	-
<b>Total</b>		<b>220.0</b>	<b>+60.7</b>	<b>38</b>	<b>11</b>

## Overview of the Medium-Term Management Plan



## Business Structure Improvement



We will improve business structure mainly from the following four viewpoints for the expansion of business earnings. These measures will leverage existing resources to their maximum extent and control the increase of cash outflow, improving operating efficiency and speeding up the rate of new products and creation of new businesses for the future.

### 1) Reassess resource distribution and reallocate

On a Group-wide basis, actively allocate management resources from existing businesses to new and growth businesses.

### 2) Transition to solutions business

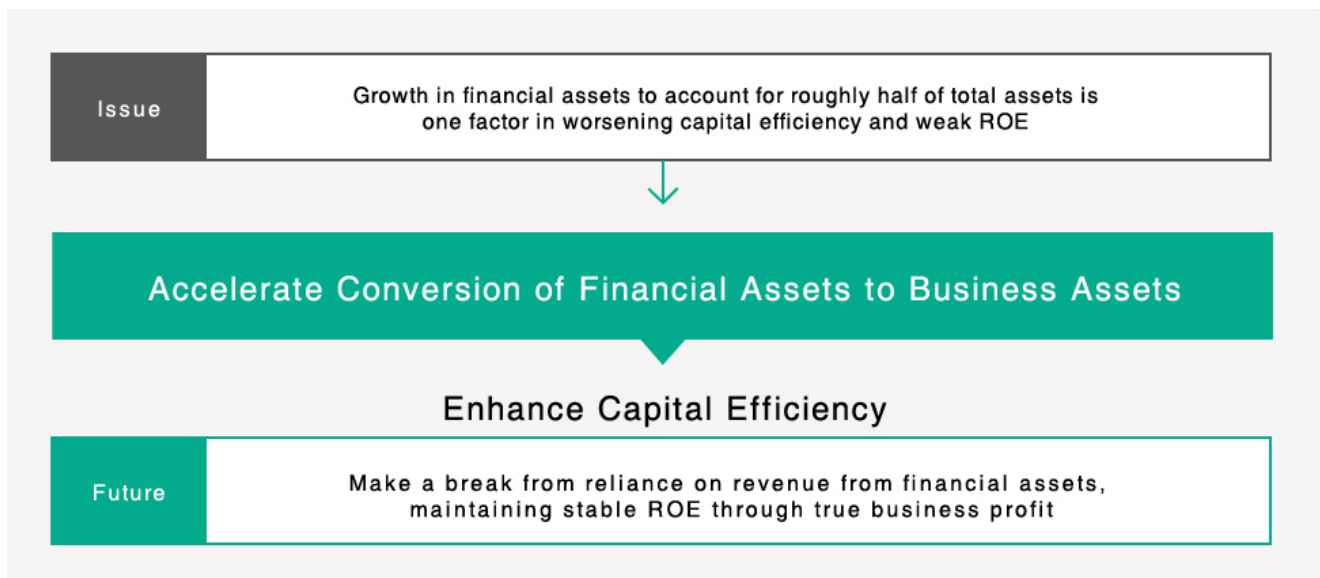
To be able to respond to increasingly diverse needs, we must develop the ability to enter new markets and domains from development through sales and move from the OEM-centered style followed until now to convert into a proposal-style solutions business.

### 3) Enter new markets

We will advance aggressively into new markets by creating a marketing innovations department and strengthening business strategies so that each business has a firm understanding of its roadmap.

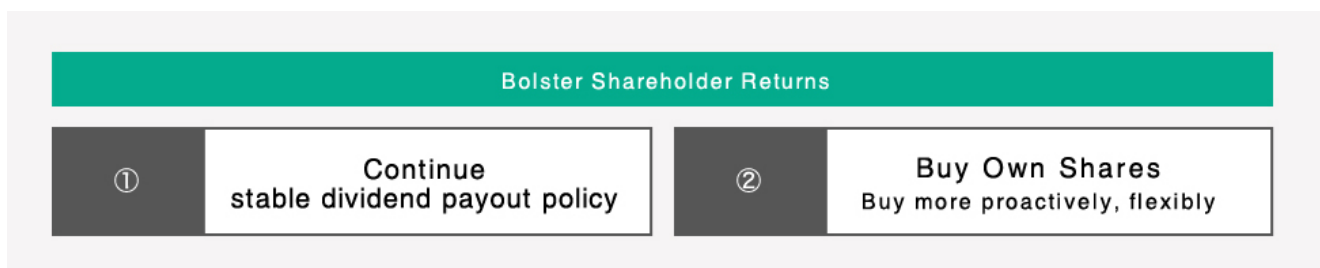
### 4) Expand M&A investment

Increase the amount spent on M&A, as well as the number of M&A projects, not only to acquire technologies and sales channels, but also to acquire outstanding human resources.



Currently, financial assets account for half of total assets. Going forward, accelerate conversion from financial assets to business assets and review policy shareholding. Cash obtained from selling policy shareholdings can be used for business investments such as M&A, moving away in the future from reliance on financial profits from financial assets to true business profits that will help maintain a stable ROE.

#### Bolster Shareholder Returns



To achieve ROE targets we must make growth investments in businesses and strengthen shareholder returns to achieve balanced capital operations. Specifically, this means a policy of greater proactivity and activity by maintaining the current policy of stable payments of dividends, and for a certain period until we have increased the certainty of achieving sustainable business growth for the future, more proactively and flexibly repurchasing shares after taking into account projected free cash flows to be gained going forward and share price trends, as well as active engagement in business growth investment.



## STRATEGY [ EQUIPMENT BUSINESS ]



### Medium-Term Management Plan for Equipment Business

(billions of yen)

	2015 (actual)	2016 (plan)	2018 (plan)
Imaging equipment	60.3	75.0	93.0
Optical equipment	21.2	24.5	36.0
Illumination and related facilities	2.3	2.0	3.0

### Imaging Equipment Business Measures Expand Total Solutions

#### BUSINESS MEASURES

##### General Imaging

<b>Objective</b>	Annual growth of at least 10%
<b>Measures</b>	<p><b>Increase investment opportunities in growth fields</b></p> <p><b>Further global business development</b></p> <ul style="list-style-type: none"> <li>• Leverage advanced imaging technology strengths nurtured up to the present and expand their deployment into growth areas such as the entertainment domain for events and theme parks</li> <li>• Further develop on a global scale the 3D imaging systems increasingly deployed in design reviews at manufacturing sites and research institutions</li> <li>• Commit to expanding “communications systems” and “imaging technologies” with the increasing spread of the Internet of Things and expand in areas such as control room systems to meet projected needs for surveillance and control</li> <li>• Secure continued profits through the expansion of service maintenance operations (including NOC service and system updates)</li> </ul>

## Cinema Business

<b>Objective</b>	<b>Shift from maintaining profits to returning to stellar performance</b>
<b>Measures</b>	<p><b>Expand the solutions business</b></p> <p><b>Firmly secure replacement demand</b></p> <ul style="list-style-type: none"> <li>• Leverage the Christie brand, work together with Dolby to develop a premium theater and Vive Audio and engage in total solutions such as lobby advertisements</li> <li>• Maintain profitability in digital cinema projectors but securely expand sales to meet demand in developing countries, especially in the growing Chinese and Indian markets</li> <li>• Firmly secure replacement demand anticipated within the coming few years by strengthening the lineup with products like laser-type projectors</li> </ul>

## Optical Equipment Business Measures Structural Reform for Constant Profit

### Optical Equipment Business Measures

<b>Objective</b>	<b>Structural reform for constant profit</b>
<b>Measures</b>	<p><b>Strengthen the relationship with wholly owned subsidiary ADTEC Engineering Co., Ltd. to maximize profits for the entire Group</b></p> <ul style="list-style-type: none"> <li>• Rebuild production site standard modules (shared platforms) to reduce manufacturing costs</li> <li>• Maximize each sales channel and increase sales opportunities to enhance marginal profit</li> <li>• Secure more stable earnings by standardizing and strengthening the CS division</li> </ul>

## STRATEGY [ LIGHT SOURCES BUSINESS ]



### Medium-Term Management Plan for Light Sources Business

(billions of yen)

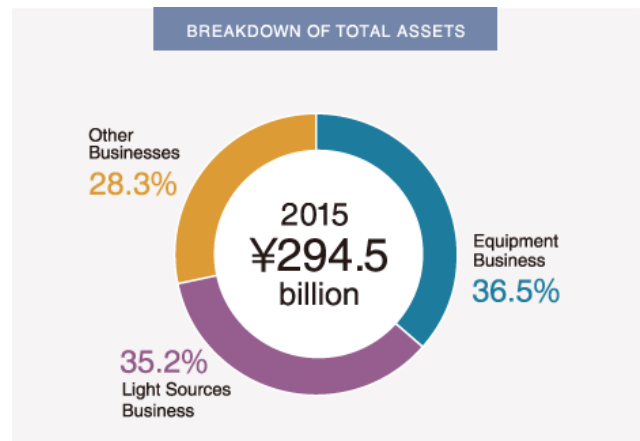
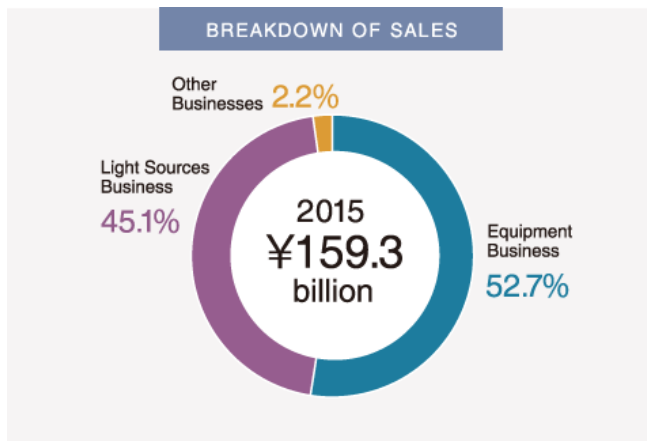
	2015 (actual)	2016 (plan)	2018 (plan)
Discharge lamps ( including solid-state light sources )	57.6	62.0	70.0
Halogen lamps	14.2	14.0	15.0

### Light Sources Business Measures “Sustainable Growth” and “Maintaining Profitability”

#### Light Sources Business Measures

<b>Objectives</b>	<p><b>Increase the ratio of new light sources, centering on new markets and solid-state light sources (3-year target: About 20% to 30%; 5-year target: About 40%)</b></p> <p><b>Secure operating income ratio of at least 15%</b></p>
<b>Measures</b>	<ul style="list-style-type: none"> <li>• Actively enter into growth markets such as life science field and automotive field</li> <li>• Expand the light sources lineup by developing and commercializing new light sources such as solid-state light sources</li> <li>• Maintain existing market share</li> </ul>

**BUSINESS OVERVIEW** [ AT A GLANCE ]



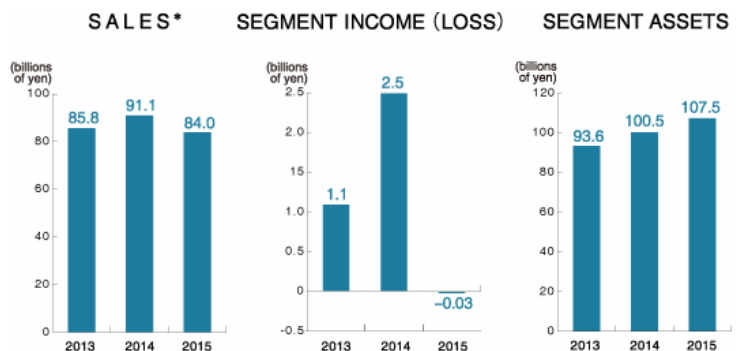
**EQUIPMENT BUSINESS**

**Imaging equipment**

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

**Optical equipment**

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



\*Sales indicates sales to unaffiliated customers



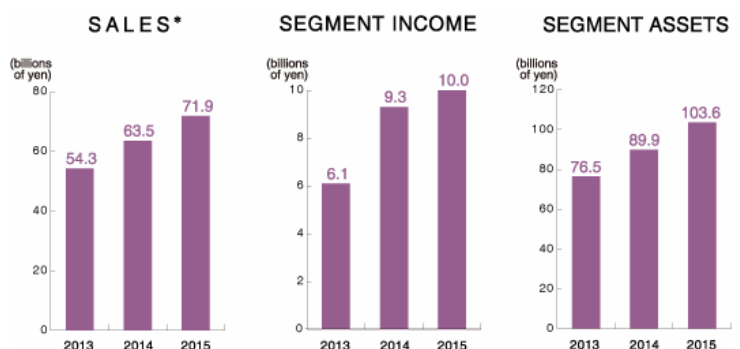
**LIGHT SOURCES BUSINESS**

**Discharge lamps/LED · LD**

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

**Halogen lamps**

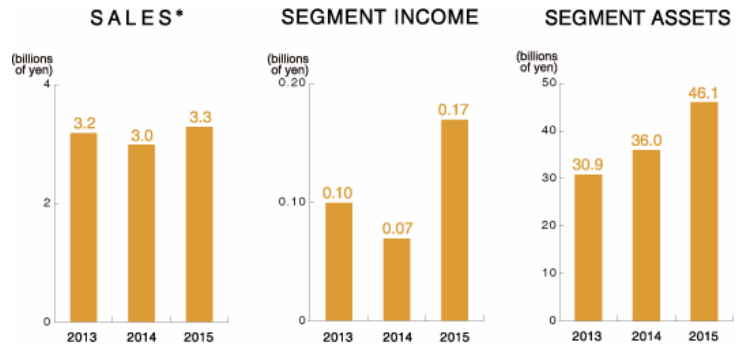
- For use in office automation equipment
- For illumination applications (commercial facilities, stage and studio lighting, specialized lighting and others)
- Industrial halogen heaters



\*Sales indicates sales to unaffiliated customers



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



\*Sales indicates sales to unaffiliated customers

**BUSINESS OVERVIEW** [ EQUIPMENT BUSINESS ]



**MAIN PRODUCTS**

**Imaging equipment**

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

**Optical equipment**

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

**KEY STRENGTHS**

**Imaging equipment**

- Global market share for digital cinema projectors: 40 %

**Optical equipment**

- Global market share for ODF UV Curing equipment for bonding LCD panels: 70 %
- Global market share for step & repeat projection lithography tool for high resolution printed circuit boards: 95 %
- Global market share for surface cleaning equipment for LCD panels: 90 %

\*Share is based on USHIO data as of March 31, 2015

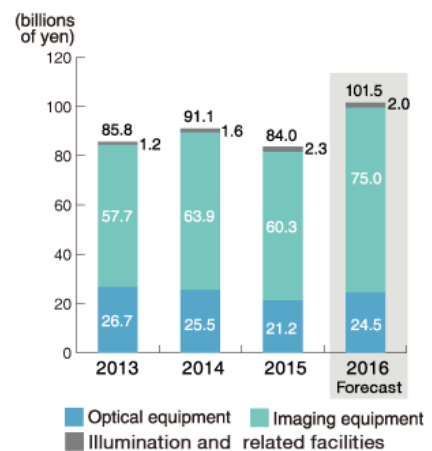
**Financial Results**

In the cinema sub-segment of the imaging equipment business, digital cinema projectors have achieved a high rate of penetration centered on developed markets, resulting in a decrease in shipments year on year. In general imaging equipment, performance was steady for various types of imaging equipment for entertainment, including various events, large halls and amusement parks, as well as for industrial uses with simulation, virtual reality systems, and control rooms.

In optical equipment, supported by brisk demand for smartphones and tablets, demand was firm for lithography equipment, optical alignment equipment for high-definition LCD panels and some lithography equipment for PCBs. However, demand for PCB lithography equipment for PC packaging was sluggish and the effects of an acceptance inspection caused delays longer than envisaged and resulted in a reduction of equipment sold.

As a result, equipment business sales were ¥84,033 million, a decrease of 7.9% year on year. Segment loss was ¥36 million.

**BREAKDOWN OF SALES**



## Outlook for the Fiscal Year Ending March 31, 2016

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In the cinema sub-segment, a slight increase in sales of digital cinema projectors is expected due to the expansion of digital cinema screens in developing countries, centered on China. We also plan to expand sales in the total solution business including sound systems, lobby advertisements and service maintenance. In the general imaging sub-segment, we forecast continued expansion of demand for imaging equipment for uses such as entertainment, virtual reality, and simulation systems, and have planned for increased sales overall in this field.

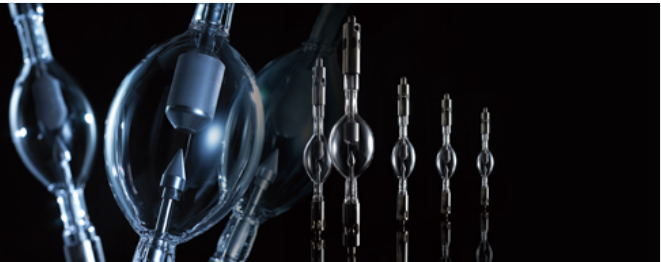
In optical equipment, support from continued demand for smartphones and tablet PCs is expected to increase sales of optical alignment equipment for high-definition LCD panels, lithography equipment for various devices and MEMS, as well as direct imaging lithography equipment for PCBs, while we also forecast new demand to rise for lithography equipment for 3D stacked packing used as an organic substrate support.

As a result of these factors, we plan increased sales and profits in the equipment business in the year ending March 31, 2016.

**BUSINESS OVERVIEW** [ LIGHT SOURCES BUSINESS ]



**LIGHT SOURCES BUSINESS**



**MAIN PRODUCTS**

**Discharge lamps/LED · LD**

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

**Halogen lamps**

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

**KEY STRENGTHS/LED · LD**

**Discharge lamps**

- Global market share for UV lamps for manufacturing semiconductors, electric components and lithography: 80%
- Global market share for lamps for digital cinema projectors: 65%
- Global market share for LED modules for reading manuscripts: 20%

**Halogen lamps**

- Global market share for halogen heaters for fixing toners: 80%

\*Share is based on USHIO data, as of March 31, 2015

**Financial Results**

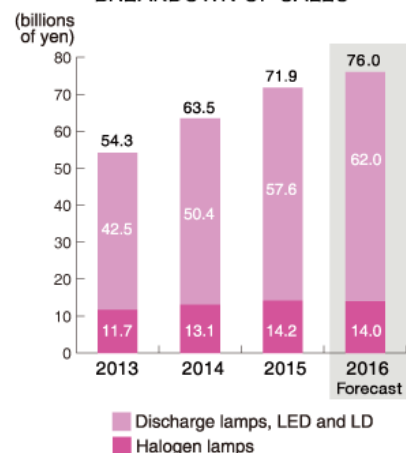
The light sources business overall recorded strong results, aided by the influence of a weak yen.

UV lamps for lithography had strong replacement demand mainly from the semiconductor field, which maintained high capacity utilization rates, but sales were basically flat due to the continued increased use of long-life types. Xenon lamps for cinema projectors face a downward trend in shipments of digital cinema projectors, but sales remained robust with an overall increase in units shipped, centered on developing markets. Lamps for data projectors were steady, both for high-end and halogen lamps. In solid-state light sources, sales expanded due to increased demand for laser light sources for projectors and the addition to the USHIO Group of USHIO OPTO SEMICONDUCTORS, INC. As a result, sales of discharge lamps were brisk.

Halogen lamps performed strongly due to brisk demand from office automation equipment set manufacturers.

As a result, sales in the light sources business increased by 13.2% year on year to ¥71,948 million. Segment profit was up by 7.3% year on year to ¥10,074 million.

**BREAKDOWN OF SALES**





## **Outlook for the Fiscal Year Ending March 31, 2016**

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Among discharge lamps, UV lamps for both semiconductor and LCD equipment maintained high capacity utilization rates while use of long-life types is expected to continue. Sales of cinema lamps are projected to increase due to a rising number of digital cinema screens in newly developing markets, centered on China, but anxieties remain about the influence of reduced prices due to fierce competition. In solid-state light sources, demand is expected to continue expanding for laser light sources for projectors.

Halogen lamps are expected to move forward due to brisk demand from office automation equipment set manufacturers.

As a result, we are planning for increased sales and profits in the light sources business during the year ending March 31, 2016.

## GOVERNANCE [ 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, makes decisions about other matters of the highest importance, and oversees 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.

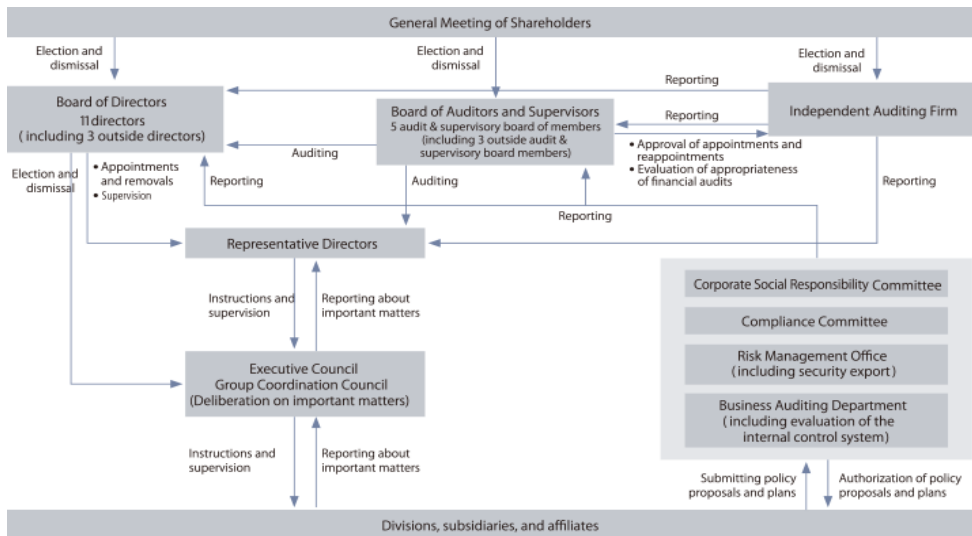
To assist the Board of Directors in reaching decisions, the USHIO Group has three advisory units that examine and discuss management strategies and medium and long-term management policies with respect to the entire Group. The units are the Executive Council, and Group Coordination Council. In addition, 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.

The company's Board of Directors comprises a total of 11 directors: 8 internal directors and 3 independent outside directors. Internal directors familiar with the company's businesses enable decisions to be made swiftly, while outside directors not involved in the day-to-day running of the company enable USHIO to ensure that its management is robustly supervised and maintains objectivity.

USHIO has a Board of Auditors and Supervisors with five members that include three outside audit and supervisory board members who are independent of the USHIO Group. The outside audit and supervisory board members are professionals in fields such as finance and auditing and their inclusion makes it possible to perform audits from an objective and neutral perspective.

The independent auditor submits an annual auditing plan to the Board of Corporate Auditors and Supervisors 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 and Supervisors.

## USHIO's Internal Control Framework



### 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 Supervisors and explains its specific auditing objectives to the corporate auditors and supervisors. The department also submits reports to the Board of Corporate Auditors and Supervisors about the results of internal audits. As required, members of the Business Auditing Department hold meetings with the corporate auditors and supervisors and cooperate in other ways as necessary.

### Compliance

USHIO has established "10 Action Guidelines" in order to define standards for behavior that require everyone at the Group to comply with laws, regulations, the Articles of Incorporation, and management philosophy. The Compliance Committee is responsible for ensuring that employees observe these guidelines. The Business Auditing Department and Compliance Committee jointly perform audits to monitor the status of compliance and submit audit reports as necessary to the Board of Directors and Board of Corporate Auditors and Supervisors. Furthermore, the directors and corporate auditors and supervisors can view information involving the performance of the directors at any time which allows them 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 the Group companies.

### Risk Management

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

### Information Security and Protection of Personal Information

USHIO acquires and holds a variety of information in the course of conducting its business operations. We are well aware of the importance of safeguarding information about customers and suppliers, personal information, confidential business information and other important information, and have established rules for the proper handling of this information. There are stringent requirements concerning the protection of confidential information, whether the information is internal or 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, which helps prevent unauthorized access to important information. Using servers for the centralized oversight of computer software assets and computer virus protection is another measure that protects information, which upgrades our ability to manage information while

reducing the amount of time and resources needed. For confidential information received from customers and business partners, we have regulations covering every step from the receipt and storage of information to its ultimate disposal and perform periodic checks of the system. Customers and business partners perform on-site confirmations of our information security measures. We study the results of these confirmations to reexamine and reinforce information security measures and how they are used.

## GOVERNANCE

BOARD OF DIRECTORS AND AUDIT AND SUPERVISORY BOARD MEMBERS



### Directors (As of June 26, 2015)



**Jiro Ushio**

Chairman and USHIO Group Representative



**Kenji Hamashima**

President and Chief Executive Officer



**Keizo Tokuhira**

Director  
Chairman, ADTEC Engineering Co., Ltd.



**Shiro Ushio**

Director  
Chairman, USHIO LIGHTING, INC.



**Hiroaki Banno**

Director  
General Manager, Solid-State Light Sources Division



**Yoneta Tanaka**

Director  
General Manager, System Solution Division



**Nobuyuki Kobayashi**

Director  
General Manager, Corporate Management Division



**Shiro Sugata**

Director and Corporate Advisor



**Tadashi Nakamae**

Outside Director



**Yoshinari Hara**

Outside Director



**Yasufumi Kanemaru**

Outside Director

**Audit and Supervisory Board Members** (As of June 26, 2015)

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**Tadashi Taki**

Full-Time Audit & Supervisory  
Board Member



**Seiji Oshima**

Full-Time Audit & Supervisory  
Board Member



**Shuichi Hattori**

Outside Audit & Supervisory  
Board Member



**Masanori Yoneda**

Outside Audit & Supervisory  
Board Member



**Shojiro Nozaki**

Outside Audit & Supervisory  
Board Member

## GOVERNANCE [ NEWLY-APPOINTED CORPORATE OFFICERS ]



### Yasufumi Kanemaru, Outside Director

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For 25 years, I have managed a consultant service company that promotes management reform and operational reform with effective use of IT. Based on that experience, I can sense that in the global society of the future, innovation responding to the needs for diversity and speed is going to become more important than ever before.

The USHIO Group is a global company with highly dependable leadership and has created a number of either world-first or top-share products in a number of different fields. The Company must build further on this tradition and create new high value added products to continue to grow.

As an outside director for the USHIO Group, I want to utilize my management and IT expertise and use these standpoints in the pursuit of the ideal to contribute to the growth of the USHIO Group and its corporate governance.

### Shojiro Nozaki, Outside Audit & Supervisory Board Member

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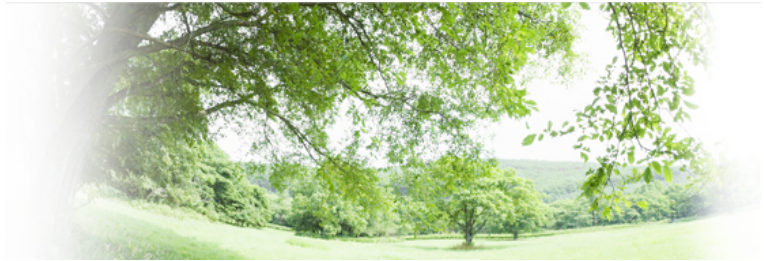


I have worked for financial institutions or in related operations for 35 years. In that time, I have seen many transaction partners grow, develop and sometimes struggle, and have witnessed the vicissitudes of corporate life. At the same time, I twice personally experienced mergers, which reinforced the extreme importance of corporate governance for me. On the other hand, there are limits to legal coverage of systems and frameworks, and for companies to grow in a sustainable manner, I always believe that an important element is improvement in the essence of the people who contribute to the company.

We live in rapidly changing times and I will do my utmost from a medium- to long-term outlook and broad perspective to contribute to the increase in corporate value of the highly active USHIO Group.

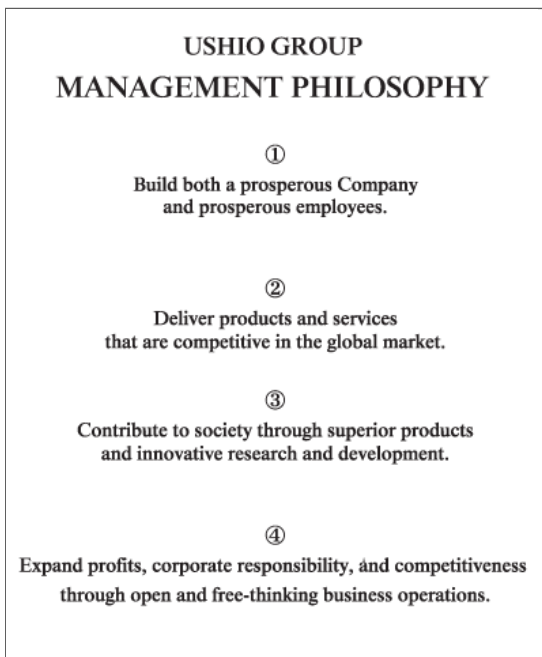


# SUSTAINABILITY



## Fundamental Concept

The USHIO Group's management philosophy, which underpins all its employees' activities, is following its revision, and the philosophy retained the spirit of the Basic Policy formulated when the company was first founded, whilst also reflecting the new social concerns that had emerged with a new era. Thus, the requirement to fulfill our corporate social responsibility became a core tenet.



## 10 Action Guidelines

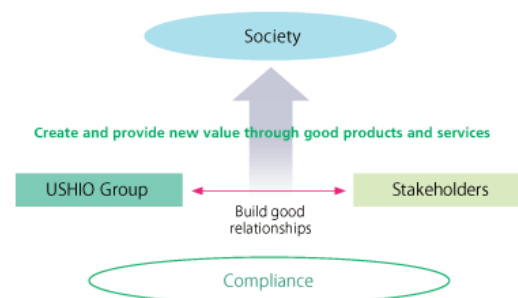
The 10 Action Guidelines listed below presents guidelines that shape the goals and behavior of every USHIO employee to translate Group's vision into concrete action.

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 a 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 compliance practices, 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)

Five Pillars	Issues	Fiscal 2015 Action Plans
<p><b>Governance</b> 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</p>	<ul style="list-style-type: none"> <li>Promulgation throughout the Company</li> <li>Internal control*</li> <li>Global measures</li> <li>Formulation of BCP</li> <li>Compliance and ethics</li> <li>Strengthen information security</li> <li>Fair and impartial business activities</li> <li>Protecting property rights</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of risk management</li> <li>Take steps to promote observance of laws and regulations</li> <li>Strengthen information security</li> <li>Protect and make strategic use of intellectual property rights</li> <li>Formulate a business continuity plan (BCP)</li> </ul>
<p><b>People</b> Consider workplace environments, human rights, and diversity of values in hiring and using human resources</p>	<ul style="list-style-type: none"> <li>Human rights</li> <li>Promotion of diversity</li> <li>Promotion of work-life balance</li> <li>Health and safety</li> <li>Human resource development</li> </ul>	<ul style="list-style-type: none"> <li>Promote formulation and implementation of human resource development plans based on a long-term perspective</li> <li>Promote diversity (development and utilization of local human resources, development and utilization without regard to gender or race)</li> <li>Total work hour reduction to promote work-life balance</li> <li>Promote health and safety measures</li> <li>Conduct human rights education (avoid contributing to human rights issues, conduct due diligence)</li> </ul>
<p><b>Quality</b> Initiatives to meet the needs of customers, shareholders, and business partners based on observance of market rules and regulations</p>	<ul style="list-style-type: none"> <li>CSR procurement</li> <li>Quality</li> <li>Creation of solutions to meet new social needs</li> </ul>	<ul style="list-style-type: none"> <li>Increase customer satisfaction through quality improvement</li> <li>Strengthen supply chain (promote green procurement and CSR procurement)</li> <li>Promote business in emerging countries based on social priorities and needs, pioneer new applications and develop new products</li> <li>Product safety assessment</li> </ul>
<p><b>Environment</b> Engage in corporate activities to protect the environment. Strive to meet both environmental and business needs, including addressing global environmental problems affecting biotopes</p>	<ul style="list-style-type: none"> <li>Expanding sales of environmentally conscious products</li> <li>Global warming countermeasures</li> <li>Chemical substance management</li> <li>Resource conservation — Biodiversity preservation</li> </ul>	<p>Targets and Proposals Based on Phase Four of the Environmental Action Plan</p> <ul style="list-style-type: none"> <li>Implement initiatives to conserve energy and resources</li> <li>In product development, use substitute technologies and gather information in anticipation of environmental regulation trends</li> <li>In product development, use designs that reduce the number of components and the amount of labor in manufacturing</li> <li>Use environmentally responsible products when selecting components and materials</li> <li>Construct systems that support efficient operations</li> <li>Strengthen chemical substance management</li> </ul>
<p><b>Society</b> 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</p>	<ul style="list-style-type: none"> <li>Social contribution activities</li> </ul>	<ul style="list-style-type: none"> <li>Increase corporate value by proactively contributing to society <ul style="list-style-type: none"> <li>Implement community interaction and volunteer activities</li> <li>Promote business that contributes to social issues through links with NPOs and NGOs</li> </ul> </li> <li>Promote business in emerging countries</li> </ul>



### Supporting the United Nations Global Compact's Ten Principles

USHIO has declared its support for the United Nations Global Compact's Ten 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 are working to promote all facets of CSR among the many other participating companies and NGOs. To this end, we have taken an active role in sectional activities for sharing information on necessary specific measures, and enhancing the activities of each company.

### United Nations Global Compact's Ten Principles

<b>Human Rights</b>	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.
<b>Labor Standards</b>	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.
<b>Environment</b>	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.
<b>Anti-Corruption</b>	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Details of the USHIO Group's CSR initiatives can be found on the company's website at:

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

Sustainability report 2015 (PDF) update schedule:

Japanese version: End of October

English version: End of November

## INVESTOR INFORMATION



### Total Number of Shares Issued (As of March 31, 2015)

139,628,721

### Number of Shareholders

13,242

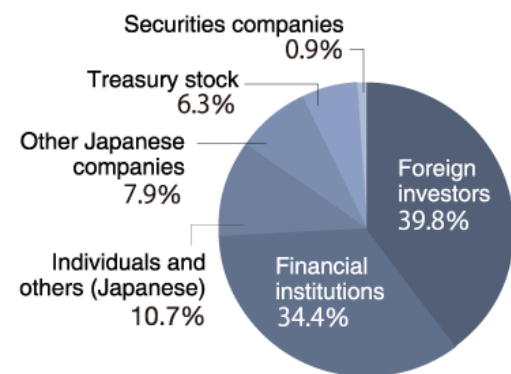
### Major Shareholders (Holding 2 million shares or more)

Name	Number of shares (1,000 shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,947	6.40
Japan Trustee Services Bank, Ltd. (Trust Account)	5,752	4.12
STATE STREET BANK CLIENT OMNIBUS OM04	5,293	3.79
Aioi Nissay Dowa Insurance Co., Ltd.	4,274	3.06
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,248	3.04
JP MORGAN CHASE BANK 385174	4,180	2.99
Resona Bank, Limited.	3,616	2.58
Asahi Mutual Life Insurance Co.	3,305	2.36
Jiro Ushio	3,226	2.31
STATE STREET BANK AND TRUST COMPANY 505001	2,949	2.11
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited retrust portion/Resona Bank, Limited. Retirement Allowance Trust Account)	2,911	2.08
RBC IST 15 PCT LENDING ACCOUNT-CLIENT ACCOUNT	2,676	1.91
THE USHIO FOUNDATION	2,400	1.71
STATE STREET BANK AND TRUST COMPANY 505103	2,308	1.65

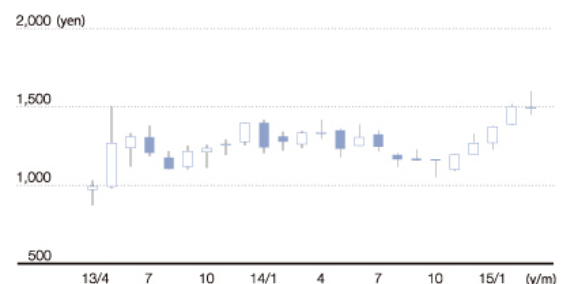
※ In addition to the above, the Company owns 8,819 thousand shares of treasury stock.

※ Each of the investment banks listed in the upper portion of the major shareholders table manages securities held primarily by Japanese institutional investors and is also the nominee for these investors. Trust accounts denote accounts that receive trusts such as pension trusts, investment trusts, and designated moneys in trust from the institutional investors concerned.

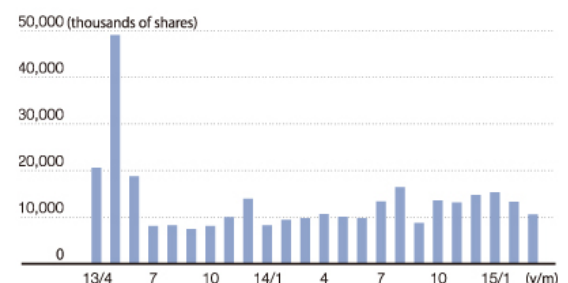
### Composition of Shareholders



### Stock Price Movement



### Stock Turnover



# FINANCIAL INFORMATION



## Financial Review

USHIO INC. and Consolidated Subsidiaries  
Year ended March 31, 2015

The USHIO Group—comprising the parent company and its 54 consolidated subsidiaries and 2 equity-method affiliates—engages mainly in manufacturing and marketing light sources, equipment, and machinery for industrial uses. The Group also engages in research and development and provides other services related to its businesses.

## Economic Trends and USHIO's Response

In the fiscal year ended March 31, 2015, the global economy saw moves toward revival in Europe, centering on Germany and the UK, and the U.S. economy recovery was steady, even as the tempo of expansion in the Chinese economy went down a notch. In Japan, a gradual recovery continued with signs of brisk demand in personal spending and improvements in the corporate sector.

In the cinema-related markets, which are key markets for the USHIO Group's imaging equipment and light sources, of 140,000 screens worldwide, about 95% already use digital projectors; however, in developing markets, including China, the number of movie theaters and screens continues to increase. In the general imaging market outside of cinemas, growth is steady in the industrial and entertainment fields in developed countries such as the U.S.

In the electronics market, a key market for the USHIO Group's optical equipment and light sources, robust demand for smartphones led to maintenance of high production line capacity utilization rates among our customers, but demand continued to be sluggish for high-priced devices such as for packaging with top-end PCs.

Under these economic conditions, the USHIO Group continued to actively execute R&D investments in new technologies and products for the future. At the same time, 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 production and sales systems, and promoting production in optimal locations.

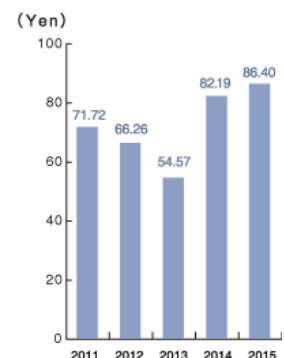
## Earnings

During the fiscal year ended March 31, 2015, sales increased while income decreased.

### Net sales

Consolidated net sales increased 1.0% year on year to ¥159,365 million. In the equipment business, general imaging was firm for all types of uses, but this was not enough to make up for the reduced sales of digital cinema projectors. In optical equipment, sales were down as a result of contraction in the EUV light sources business and sluggish sales of lithography equipment for electronic component manufacturing, and delays caused by acceptance inspections for some optical alignment equipment. In the light sources business, xenon lamps for cinema projectors, data projector lamps and halogen lamps for office automation equipment performed strongly, in addition to increased sales of solid-state light sources, which contributed to increased profits.

Net Income per Share



## Operating income

Operating income declined by 14.5% year on year to ¥10,357 million. In the equipment business, the Group recorded a segment loss, due to the contraction of the EUV business and a slump in sales of optical equipment, although it recorded income of ¥10,000 million from brisk sales of discharge lamps and halogen lamps in the light sources business.

## Net income

Net income increased 4.7% year on year to ¥11,279 million. The improvement was attributable to extraordinary income of ¥3,600 million from sales of stock held, offsetting the decrease in ordinary income.

## Results by Business Segment

### Equipment Business

The equipment business saw sales decrease 7.7% year on year to ¥84,188 million, recording a segment loss of ¥36 million.

In the imaging equipment sub-segment of the business, digital cinema projectors have achieved a high rate of penetration centered on developed markets, resulting in a recent decrease in shipments year on year and a slump in demand. In general imaging equipment, demand was firm for various types of imaging equipment for entertainment, including various events, large halls and amusement parks, as well as for industrial uses with simulation and virtual reality systems, and control rooms.

In the optical equipment sub-segment, supported by brisk demand for smartphones and tablets, demand was firm for lithography for various types of devices, optical alignment equipment for high-definition LCD panels and some lithography devices for PCBs. But in addition to the contraction of the EUV light source business, demand for PCB lithography equipment for packaging PCs was sluggish and the effects of an acceptance inspection, which caused delays longer than envisaged, resulted in a reduction of devices sold.

### Light Sources Business

Sales in the light sources business increased by 13.7% year on year to ¥73,014 million. Segment profit was up by 7.3% year on year to ¥10,074 million.

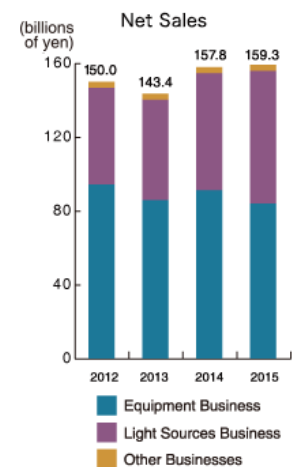
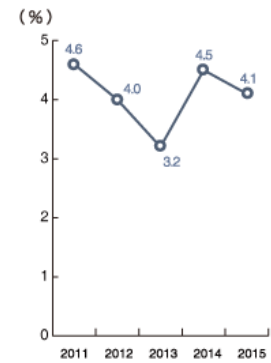
The light sources business overall performed strongly, aided by the impact of the weak yen. UV lamps for lithography held firm as capacity utilization rates at semiconductor manufacturers remained high and replacement demand went well, but longer replacement cycles resulted in flat sales. Shipments of xenon lamps for digital cinema projectors are decreasing, but the total number installed has continued to increase mainly in developing countries. Steady sales continued for both high-end and low-end lamps for data projectors. In solid-state light sources, sales increased as demand for laser light sources for projectors expanded and USHIO OPTO SEMICONDUCTORS, INC., an operator of businesses for semiconductor lasers for industrial and consumer use and LEDs, joined the USHIO Group. Halogen lamps sold strongly, backed by brisk demand for lamps from office automation equipment set manufacturers.

### Other Businesses

Sales in other businesses increased by 11.9% year on year to ¥3,411 million and segment profit increased by 126.1% year on year to ¥175 million.

Demand was strong for plastic molding machines and image inspection apparatus for plastic molding machines.

## Return On Assets (ROA)



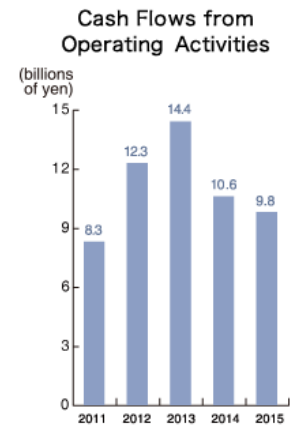
## Sources of Funds and Liquidity

### Cash Flows

Cash and cash equivalents on March 31, 2015 totaled ¥56,989 million, up ¥11,646 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, 2015 provided net cash of ¥9,876 million (compared with net cash of ¥10,622 million provided in the previous year). The main positive contributions to this result were ¥15,545 million in income before income taxes and minority interests, a ¥5,919 million adjustment for depreciation and amortization, and a decrease in in notes and accounts receivable – trade of ¥3,412 million. Meanwhile, factors reducing cash included a ¥3,296 million gain on sales of investment securities, a ¥6,574 million increase in inventories and income taxes paid of ¥5,271 million.



#### Cash Flows from Investing Activities

Investing activities provided net cash of ¥3,701 million (compared with net cash used of ¥4,476 million in the previous fiscal year). The main factors increasing cash were proceeds from withdrawal of time deposits of ¥13,005 million, proceeds from sales and redemption of securities of ¥4,063 million and proceeds from sales and redemption of investment securities of ¥4,931 million. The main factors decreasing cash were an increase in time deposits of ¥12,975 million, purchase of securities of ¥1,240 million, purchase of property, plant and equipment of ¥4,092 million, purchase of investment securities of ¥2,619 million, purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥1,815 million and payments for transfer of business of ¥2,588 million.

#### Cash Flows from Financing Activities

Financing activities provided net cash of ¥1,210 million (compared with ¥6,670 million used in the previous fiscal year). The main factors increasing cash were a net increase in short-term loans payable of ¥2,600 million and proceeds from long-term debt of ¥5,941 million. Against this, factors decreasing cash included repayment of long-term debt of ¥3,482 million, and cash dividends paid totaling ¥3,388 million.

## Financial Position

### Assets

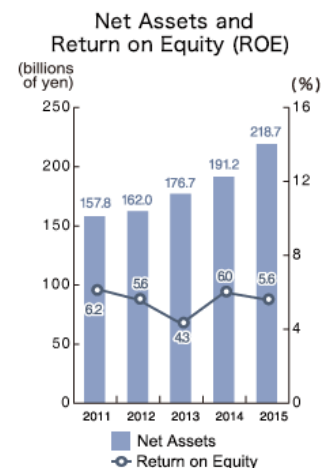
At the fiscal year-end, assets totaled ¥294,542 million, an increase of ¥39,203 million from the previous fiscal year-end. The main factors behind this increase were increases in cash and deposits, due to an increase in notes payable to banks, and investment securities, due to unrealized gains on holdings of investment securities.

### Liabilities

At the fiscal year-end, liabilities totaled ¥75,818 million, an increase of ¥11,726 million from the previous fiscal year-end. The main factors behind this increase were increases in short-term loans payable and in current portion of long-term loans payable and increased deferred tax liabilities due to increased unrealized gains on holdings of investment securities.

### Net assets

At the fiscal year-end, net assets totaled ¥218,723 million, an increase of ¥27,476 million from the previous fiscal year-end. The main factors behind this increase were increases in foreign currency translation adjustments due to a weaker yen, valuation difference on available-for-sale securities due to increased unrealized gains on holdings of investment securities, and retained earnings due to a revision of accounting standards related to retirement payments.

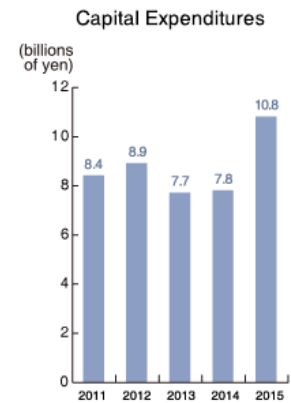


### Capital Expenditures

The USHIO Group's capital expenditures for the fiscal year ended March 31, 2015 were ¥10,898 million. The bulk of this expenditure was for capital investment in the light sources and equipment businesses, with investments focused on building up existing facilities, as well as on businesses promising growth in future, and research and development. A breakdown of capital expenditures for the fiscal year was as

follows. (Figures are calculated on an acceptance basis for property, plant and equipment, intangible fixed assets, and long-term prepaid expenses. Amounts do not include consumption tax or other levies.)

	2015	Y-o-Y Change
Light sources business	¥3,560 million	172.3%
Equipment business	¥6,753 million	121.7%
Other business	¥584 million	216.2%
Total capital expenditures	¥10,898 million	138.2%



Capital expenditures increased in the fiscal year ended March 31, 2015. This reflected the fact that in every segment the Group continued to make key investments aimed at strengthening the Group's operational competitiveness in potential growth fields, while selecting investments rigorously and focusing on capital efficiency.

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

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

Loss on retirement of non-current assets was ¥69 million, due to the disposal of plant facilities such as buildings and machinery in the light sources and equipment businesses.

## Research and Development

Group-wide R&D expenses totaled ¥10,880 million. Most of this was spent in the light sources and equipment businesses. The main targets of the Group's R&D were light sources for industrial applications for development and production, which included work use and application of optical applications in electronic and electromechanical equipment, moving ahead with development of indispensable peripheral technologies and development for commercialization of optical units, optical equipment and systemization. The Company stepped up its efforts to keep abreast of the latest developments in markets and technology and conducted strategic R&D activities. It is organized in a way that enables interaction among the R&D teams from different product groups to encourage development of new kinds of light sources and equipment.

The USHIO Group's key achievements during the fiscal year ended March 31, 2015 were as follows:

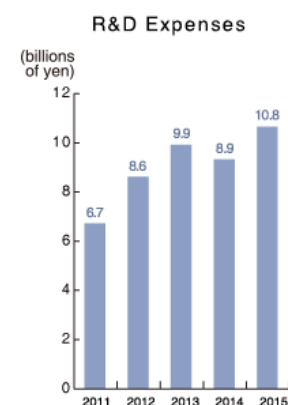
### Light Sources Business

Development of an Wirelessly Controlled LED Bar Unit for Crop Raising, Offering Wireless Control of Light Variation and Illumination Times

USHIO LIGHTING, INC., a subsidiary that develops wireless control LED bar units for plant growth developed Japan's first wireless controlled LED bar unit for plant growth applications.

Many horticultural factories have been either unable to control scheduling of light variation or illumination times, or need to install wired devices to control these factors.

However, with a variety of plants to grow and being unable to grow them with a set light source, existing wired controls have the problem of costing time and money due to complicated wiring and control panels required for each shelf and setting changes.



Utilizing technologies and expertise cultivated in LED heat radiation, LED element applications and optical design, and fusing these with wireless technology from ROHM semiconductors enabled production of a wireless-controlled LED bar unit for plant growth application.

This development enabled easy wireless light variation and schedule control, while simple wiring construction charges cut costs, and with all layout and schedule changes possible through computer operation, the task has become easier and more flexible.

### Equipment Business

#### 1) Temperature measurement module for halogen heaters measuring accurately while adjusting for ambient light

---

The USHIO Group has developed the world's first temperature measurement module for halogen heaters that measures the temperature of heated objects while correcting the impact of ambient light to provide accurate, non-contact measurements.

Halogen heaters are used for numerous purposes including heating, drying, property modification and water removal. Managing the temperatures of these items has emphasized avoiding damaging heated objects and therefore measurements are often made surrounding the heated objects rather than the heated object itself, which presents a challenge.

A temperature measurement module has been developed that adjusts for the impact of ambient light shone from the halogen heater on the radiation thermometer to enable accurate measurement of the temperature of the heated object in a non-contact, real-time manner. Measured data is fed back and enables real-time temperature control of heated objects.

Not only quality of temperature control enhancements has been made, but halogen heaters can now be used where once their application had not been possible with convention radiation thermometers because of inaccurate measurements.

#### 2) High luminescence, lightweight 4K30 projector developed for rental staging

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CHRISTIE DIGITAL SYSTEMS CANADA INC., a wholly owned subsidiary, developed the Christie® Boxer 4K30 with high luminescence, 3DLP picture quality in a compact, lightweight yet robustly housed design. This projector for rental stages, such as those used at concerts, theme parks and projection mapping, is of the highest performance level in the industry. Illumination using six 450W mercury lamps enables center brightness of 30,000 lumens.

For a 30,000-lumens-class projector, this is extremely compact and lightweight, cutting transport costs and simplifying on-site installation. The projector not only provides the ultimate in compact formation and outstanding luminescence, but it also has highly flexible, simple settings enabling horizontal, vertical or angled placement.

In addition, NFC tracking enabling users to monitor the use time and serial numbers of individual lamps has largely eliminated the labor involved in confirming lamp life, making it possible to rapidly exchange lamps on-site without having to stop shows.

### Issues to Be Addressed

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Looking ahead at the business environment for the USHIO Group, modest economic recovery and expansion is projected to continue domestically and in the global economy. In electronics field, the markets for LCD panels, semiconductors, and other electronic components are expected to benefit from continuing strong sales of smartphones and tablet PCs, however, weaker market growth is projected and future prospects is unclear. Meanwhile, the imaging equipment-related market is witnessing declining sales of digital cinema projectors. This reflects a slowdown in the number of new digital cinema screens installed annually in developed markets, where use of digital projectors is now well established, although further growth in new installations of digital cinema screens is still anticipated in China and other emerging markets.

The Group will address these developments in its business environment and markets, taking steps to expand its operations by making active strategic investments to develop new products, find new applications for its products, and launch new products and businesses. The Group will also enhance its product lineup to respond to diversifying market needs, reduce manufacturing costs throughout its operations, and improve quality and productivity. In addition, the Group will endeavor to expand and reinforce its manufacturing bases as well as its sales bases and networks both in Japan and overseas. In doing so, it aims to optimize its service structure and develop a more proposal-oriented total-solution type business to expand its sales of light sources, optical equipment, and imaging equipment to global markets. The Group will



not limit itself to in-house development, but will also seek to develop dynamic businesses by considering business partnerships, investments, or other options.

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

## Risks

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Below is a summary of risks that could affect the USHIO Group's business performance, financial position, and cash flow adversely and materially. These are the risks cited by management in the Group's Yukashoken Hokokusho (Annual Securities Report) to the Japanese government, filed on June 26, 2015. This is only a partial listing, and the Group faces risks other than those cited here that could also affect its business performance, financial position, and cash flow materially.

### **(1) Market Demand Fluctuations in Semiconductors and LCDs**

The Group's business performance is sensitive to demand fluctuations in the semiconductor and LCD industries. Currently, the USHIO Group's principal products for those industries are replacement lamps for manufacturing equipment, which is consumable, and demand for these lamps is generally steady while customer plants are operating. However, the semiconductor and LCD manufacturing equipment targeted by the Group is subject to changes in demand for products in the short-term and the medium-to-long-term, as well as to technological developments. Unexpected changes in demand or technological progress could affect the Group's business performance and financial position materially.

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

Outside of the semiconductor and LCD panel fields, the Group supplies light sources for installation in data projectors, illumination and irradiation light sources for digital cinema projectors and other equipment, and visual imaging equipment and light sources. Trends in technology and fluctuations in prices and demand for these light sources could affect the Group's business performance and financial position materially.

### **(3) Access to Raw Materials**

The Group relies on externally sourced raw materials, which it obtains from a broad range of suppliers to ensure steady supplies of high-quality materials at stable prices. Rare metals such as tungsten and molybdenum are crucial raw materials for manufacturing lamps in particular. 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 Lithography Technology for Semiconductor Manufacturing**

As semiconductor microcircuitry patterns become increasingly miniaturized, the number of semiconductor manufacturing equipment using the Group's discharge lamps remains high. However, semiconductor manufacturing is beginning to shift to other lithography technologies. The nature of future developments in lithography technology for manufacturing semiconductors 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 other Asian nations, North America, and Europe. Entry into these overseas markets is associated with potential risks in each country that include changes in various rules and regulations, instability in securing human resources, underdeveloped infrastructure, and social unrest. If realized, 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. In addition, the patent authorities could refuse patent applications submitted by the Group. Any such event that would significantly comprise the Group's protection of its intellectual property rights could affect the Group's business performance and financial position materially.

### **(7) Currency Exchange Rates**

The Group conducts its commercial and financial operations in yen and in other currencies. Profits and losses in the Group's commercial and financial operations conducted in foreign currencies 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. Fluctuations in the foreign exchange rates could therefore 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**

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USHIO INC. decided at a Board of Directors meeting held on May 9, 2014 to execute a share exchange agreement with ADTEC Engineering Co., Ltd. in which USHIO will be a wholly owning parent company and ADTEC Engineering will be a wholly owned subsidiary, effective from August 1, 2015.

For details, refer to [Note 5: Status of Accounts Notes to the Consolidated Financial Statements \(Business Combinations and Related Matters\)](#).

## CORPORATE DATA

### Established

March 1964

### Paid-in Capital

¥19,556,326,316

### Employees (as of March 31, 2015)

5,540

Parent company	1,755
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#### Subsidiaries

- |            |       |
|------------|-------|
| • Japan    | 705   |
| • Overseas | 3,080 |

### Principal Business Units (as of March 31, 2015)

#### Parent company

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 (11 companies)

USHIO LIGHTING, INC.

XEBEX INC.

NIHON DENSHI GIJUTSU CO., LTD.

ADTEC Engineering Co., Ltd.

PROTOSERA INC.

USHIO OPTO SEMICONDUCTORS, INC.

5 other companies

#### Overseas Subsidiaries (45 companies)

##### North America

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

##### Europe

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

##### Asia

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

26 other companies



**CONTACT:**

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