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 aquire 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.