

Status of the Business

Outline of the Operating Results

1. Operating Results

During the consolidated fiscal year ended March 31, 2011, market conditions in the Japanese economy continued to be generally severe amid concerns over the impact of the accelerated appreciation of the yen and fluctuations of stock prices in spite of the signs of recovery seen in corporate earnings and capital investment. Furthermore, the Great East Japan Earthquake, which occurred on March 11, 2011, led to increasing uncertainties about the future of the economy.

Under these circumstances, the Group implemented business improvement measures such as a total cost reduction program, review of the personnel structure, etc. in order to ensure profitability even under the current economic situation.

As a result, this consolidated fiscal year resulted in net sales of ¥54,158 million (a 3.3% increase from ¥52,432 million in the previous term), operating income of ¥2,981 million (an improvement of ¥3,394 million compared to an operating loss of ¥412 million in the previous term), and ordinary income of ¥2,585 million (an improvement of ¥3,235 million compared to an ordinary loss of ¥649 million in the previous term). Net income stood at ¥1,731 million (an improvement of ¥9,763 million compared to a net loss of ¥8,031 million in the previous term), reflecting extraordinary income of ¥504 million as proceeds from the sale of plant, property and equipment and an extraordinary loss relating to special retirement expenses of ¥520 million as a result of the implementation of a voluntary early retirement program, disaster-related losses of ¥349 million from the Great East Japan Earthquake and a loss on valuation of investment securities of ¥154 million, etc.

Operating results by business segment are described below:

<Lighting Sector>

In the Lighting Sector, the Group focused on product development and sales activities for high intensity discharge (HID) and light emitting diode (LED) products concentrating on high energy efficiency and replacement market demand. Public-work related orders saw an increase in tunnel and park-related orders despite a decrease in road-related orders. Meanwhile, there was an increase in orders from the private sector including orders for factories and commercial facilities, etc., as well as lamp maintenance orders, etc., backed by a recovery of the sector. In addition, sales of LED illumination products increased significantly in and after the third quarter of the consolidated fiscal year, boosted by the introduction of new products.

As a result, sales and operating income for this sector amounted to ¥34,297 million (a 3.5% increase from ¥33,123 million in the previous term) and ¥2,047 million (a 144.8% increase from ¥835 million in the previous term), respectively.

<Applied Optics Sector>

The Group continued to concentrate its management resources on the Applied Optics Sector as a growth area. Although the market environment remained extremely severe as a result of sluggish capital investment among other factors during the first half of the fiscal year, a clear recovery trend was evident from the second half of the year. Sales and operating income from projector light source products were below those of the previous fiscal year, which reflected significant price erosion despite an increase in volume. Meanwhile, orders for optics devices including liquid crystal, semiconductor and solar cell-related products, etc., picked up with an increase in sales. Operating income for these products also increased significantly as a result of the effect of cost reduction efforts.

As a result, sales and operating income for this sector totaled ¥19,861 million (a 2.9% increase from ¥19,308 million in the previous term) and ¥2,551 million (a 336.6% increase from ¥584 million in the previous term), respectively.

2. Cash Flows

Cash and cash equivalents as of the end of the consolidated fiscal year increased by ¥1,761 million compared to the previous term, to ¥12,929 million.

(1) Cash flows from operating activities

Operating activities in this consolidated fiscal year resulted in a net inflow of ¥2,911 million (a net outflow of ¥515 million in the previous term).

Major inflow items included ¥1,874 million in depreciation and amortization and a ¥353 million increase in provision for retirement benefits. Major outflow items included a ¥948 million increase in inventories and a ¥865 million decrease in trade notes and accounts payable.

(2) Cash flows from investing activities

Investment activities in this consolidated fiscal year resulted in a net outflow of ¥169 million (a net inflow of ¥1,225 million in the previous term).

The main inflow item was the proceeds of the sale of plant, property and equipment of ¥574 million. The main outflow item was the ¥848 million spent on purchases of plant, property and equipment.

(3) Cash flows from financing activities

Financing activities in this consolidated fiscal year resulted in a net outflow of ¥830 million (a net inflow of ¥272 million in the previous term).

The major outflow item was a net decrease of ¥754 million in short-term bank loans.

3. Challenges Facing the Company

Although the global economy is forecast to benefit from the continuing high growth in emerging countries, the domestic operating environment surrounding the Company is expected to be severe in light of concerns over sluggish economic activity as a result of the various impacts of the Great East Japan Earthquake.

Amid this environment, the Company has set “reinforcement of overseas business,” “restructuring of corporate earnings structure,” “strengthening and expanding the LED business” and “further evolution of HID light sources” as four key policies for the Group to focus on for the next two years.

In the Lighting Business, we expect that LED illumination products, which recorded a significant increase in sales during the previous fiscal year, will achieve full-scale growth on the back of increasing demand. With the aim of securing a position as a top LED supplier as the market expands, the Company will concentrate on the development of new LED products as well as the cultivation of the market. Moreover, in order to address the issue of LED illumination products which have a short product life cycle, the Company will make concerted efforts to achieve vertical start-up of new products on a continuous basis, as well as to develop “unique products” drawing on our strengths as a specialized manufacturer of lighting products, setting these as corporate objectives. The Company will also implement organizational reforms to introduce new sales methods and structures. With regard to HID light sources, we will continue to develop new-generation light source products by further evolving the advantages and characteristics of HID light sources.

In order to ensure that the Applied Optics Sector will become a growth area for the Company, we have clarified our targets, enhanced our core technologies and worked on the reform and reinforcement of our sales, design and maintenance systems with the aim of establishing a business model to increase the ratio of standard products. Furthermore, we will accelerate our efforts to develop an overseas sales structure, responding to the fact that major markets for many products are located overseas, particularly in other Asian countries. We will also aim to speed up the commercialization of new items by integrating the product development, sales and marketing functions.

In order to address these issues, we will continue to strengthen our intellectual property strategy and focus on distributing our management resources on research and development and marketing from a global perspective. Moreover, as cost is a basis of our corporate competitiveness, we will aim to enhance our financial position by increasing operational efficiency and implementing thorough cost reduction efforts, accelerate the progress of these management measures and increase our corporate value.

4. Important Business Agreements, etc.

Not applicable.