

**Briefing Summary of the Analyst / Investor Meeting for the Consolidated Financial  
Results for the 3<sup>rd</sup> Quarter : Three Months ended December 31, 2009**

Tokyo, February 9, 2010

**Note: This memo is posted for reference purposes for the convenience of those who were unable to attend the meeting and is not a verbatim record of all statements made at the meeting. Please be aware that it has been compiled in a concise form at the judgment of the Company's Corporate Communications Group. Please also refer to the cautionary notes on the final page.**

**Quarterly Financial Highlights by Mr. Ema, CFO**

**<Consolidated Financial Results for the Third Quarter (October to December)>**

- In the Quarterly Consolidated Balance Sheets (page 4 of Quarterly Report), “Other assets” under “Investments and other assets” as of December 31, 2009 is 17,628 million yen (up 10,287 million yen from the immediately preceding quarter). This includes 10,000 million yen that we pooled in the third quarter under review as funds for redemption, because the period of redemption of the five-year corporate bonds (approximately 40,000 million yen), which we issued together with the seven-year and ten-year corporate bonds at the time of our merger with Pentax, will take place in 2012.
- The notes under the Quarterly Consolidated Statements of Income (page 6) describe the effect of foreign exchange rates. In the third quarter under review, the yen appreciated 5.1% against the US dollar, depreciated 5.5% against the euro, and remained almost unchanged against the Thai baht on a year-on-year basis. Most of our consolidated subsidiaries are located overseas, and we undertake consolidation by translating the local currencies into yen. These notes show the effects of foreign exchange rates on the consolidation. Net sales increased by 646 million yen, while operating income, ordinary income, and quarterly net income fell by approximately 100 million yen each. This means that the influence of foreign exchange rates was not as great in the third quarter under review.
- On a consolidated basis, net sales were 106,878 million yen (down 5.2% year on year). Within this category, excluding the effect of foreign exchange rates, net sales dropped by 4.5 billion yen (down 4%) in the Electro-Optics (EO) division and fell by 3.1 billion yen (down 2.8%) in the Pentax division.
- Operating income increased by 13.8% on a year-on-year basis, to 18,995 million yen, and the operating income margin was 17.8%. The effect of foreign exchange rates on operating income amounted to approximately 100 million yen. On an actual business activity basis, operating income fell by 1.8 billion yen in the EO division, accounting for 10.7% of the overall rate of decline. The Pentax division posted a loss in the same quarter of previous year but moved into the

black in the third quarter under review, contributing to an increase of 2.6 billion yen in operating income.

- We experienced foreign exchange gains last year, but not this year. This contributed to a decrease of 2.3 billion yen in operating income. Interest income declined by 0.8 billion yen due to the impact of the decline of interest rates in each country. Equity in loss of affiliates was 278 million yen. The amount of the loss decreased by 1.3 billion yen on a year-on-year basis. Consequently, ordinary income increased 7.9% year on year, to 19,724 million yen, with an ordinary income margin of 18.5%.
- As for extraordinary losses, the loss from maintenance of the environment was 1,770 million yen, and that from others was 1,784 million yen, of which approximately 1 billion yen was the finalized surcharge from the Bundeskartellamt of Germany in relation to the eyeglass business.
- Net income was 11,791 million yen (down 6.5% on a year-on-year basis).
- As for segment information (page 8), on a consolidated basis, net sales decreased by 5,862 million yen, while operating income increased by 2,308 million yen. In the EO division, operating income declined by 1.9 billion yen, while that in the others increased slightly and the Pentax division moved into the black.
- Please look at the sales growth rate by product on page 24. The third quarter of the last fiscal year was immediately after the Lehman shock, which caused the sales growth rate to make a downturn from the third to the fourth quarter. Although the footing had changed from the same quarter of the previous year, the price downturn of our products continued to be sharp in the third quarter under review. The unit prices of glass memory disks (MDs) used for HDDs and optical lenses also declined sharply. Sales of both mask blanks and photomasks used for manufacture of LSI decreased due to the effects of the industry trend. Large-sized photomasks used for manufacture of LCDs increased in volume, and sales grew by 12%.
- As for the prospects for the current fourth quarter, the fourth quarter of last year was the bottom, and sales for the current fourth quarter are expected to recover compared with that period. Compared with the immediately preceding quarter (third quarter), sales of LSI photomasks are expected to increase by 18%, and those of LCD photomasks will remain relatively flat. Sales of Pentax for the third quarter under review declined 9.7% on a year-on-year basis. This was due to the negative growth of cameras and scopes for medical endoscopes attributed to decreased volume. As for the camera business, while the K-x (100 color combinations) increased in volume by 27%, compact cameras decreased in volume, which resulted in lower-than-expected camera sales.
- As for income and losses in the nine-month period (page 16), exchange rates had a major impact in the first half of the year, but the impact was small in the third quarter under review. Consolidated net sales for the nine-month period decreased by 62,584 million yen (down 16.9% year on year). Operating income for the same period fell by 12,156 million yen (down 20.6% year on year), which was largely due to the fall in unit prices of products from the EO division.

Regarding interest income, as I explained earlier, there have been virtually no interest rates due to the interest rate decline in each country. We posted foreign exchange gains for the same period of the previous year, but we experienced foreign exchange losses this year, which contributed to a decrease of 11.1 billion yen in operating income.

- In the last fiscal year, there were extraordinary gains of 12.9 billion yen, which included sales of the company's shareholding in AvanStrate Inc. and the receipt of patent fees. We did not experience such gains this year, which contributed negatively to our income.
- The loss from maintenance of the environment was 2,246 million yen, and other losses included the surcharge from the Bundeskartellamt of Germany. Consequently, net income was 25,993 million yen (down 50.9% year on year).
- As for the projected results for the full year (page 23), net sales will be 411,000 million yen (down 9.5% year on year), operating income will be 61,000 million yen (up 3.2% year on year), ordinary income will be 55,500 million yen (down 21.9% year on year), net income will be 35,000 million yen (up 39.4% year on year), and net income per share will be 80.86 yen.

#### **Segment Overview by Mr. Suzuki, CEO**

##### **< Mask Blanks and Photomasks Used in the Manufacture of Semiconductors >**

- As to semiconductors as a whole, our results for the third quarter under review were not as strong as we had expected. The semiconductor industry itself seemed to be booming, but from the viewpoint of the mask industry, only foundries were brisk. As a result, in terms of product mix, there appeared to be more mass production products than advanced products. Some Japanese manufacturers have given up investing in advanced product development and are leaving it to foundries. There appears to be a decreasing trend toward doing research and development with self-created masks. There is also a consolidation taking place in terms of mask production. I think that, in this sense, the mask industry is undergoing a structural recession.
- Because no advanced developments have taken place, some manufacturers produce 60nm products by making good use of masks for 90nm products, rather than using masks for 60nm products as they did previously. Manufacturers have managed to resolve difficult issues by manipulating masks, but because they are getting more skillful than before, I think that the product mix of masks is deteriorating. The volume has not changed.
- The situation has not changed significantly to date. Advanced development appears to be moving little by little. Both memory manufacturers and flash manufacturers have begun investing, so movement has gradually begun to be seen for masks as well. The activity level of fabrication appears to differ according to the device, however. As a result, from the viewpoint of developments, revisions, and design changes of masks, mid- and low-end products may suffer. Although foundries have been moving, they basically manufacture mass production products, so their movement does not lead to demand for masks. Besides, Japanese manufacturers are taking

time with the development of mid- and low-end products. The current situation surrounding our mask blanks and photomasks for semiconductors is therefore expected to remain unchanged for the time being.

**<Photomasks Used for LCDs >**

- The situation was favorable in the third quarter under review, and it continues to be favorable now. There have been development demands in anticipation of 3D. Developments for 3D images, or for operating at 240kHz and increasing the number of pixels, have commenced. In addition, panel makers no longer have to concentrate their efforts on mass production to overcome the shortage of panels. They currently have some leeway and have started to diversify in terms of product types. They also appear to have commenced quality competition, and demand for masks was reasonable in Taiwan and South Korea.
- As for the current fourth quarter, the numerical results will not be good because operations will be reduced in both Taiwan and South Korea in February due to the Chinese New Year. The results will not be bad in terms of fundamental activities, however.

**<Glass Memory Disks (MDs) Used for HDDs>**

- Production capacity is insufficient for both media and substrates. Consequently, although the results for the third quarter under review should have been much better, the shipments in the third quarter were the same as those in the second quarter because we could not ship any more. As for substrates, we will have new production capacity in September this year. The capacity will be increased in stages from around June, and will be even greater in September. They continue to be in full production at present, and we are shipping all we produce. I think this will remain unchanged.
- Usually, the fourth quarter is a period when adjustments start to be made. Currently, however, drive makers are not being seen to make adjustments. We do not hear that the inventory of drives has been accumulated, so I believe the tight situation will continue through the fourth quarter into the first quarter of next fiscal year. Substrates have been in full production, however, so I believe it is impossible to exceed the current level.
- Media have also been in full production. Production of 320GB media began in late December. Although its proportion is still around 10%, the standard capacity will shift from the current 250GB to 320GB between the fourth quarter and the beginning of the first quarter of next fiscal year, so the unit price will increase then. The quantity will not increase, but the unit price will. As a result, sales will increase accordingly.

**<Eyeglass Lenses>**

- The figures for the third quarter under review did not provide any surprises and there were no

events of note. At present, we believe that the unit prices in Japan have finally stopped declining. In Japan, negative double-digit year-on-year growth has continued for the last three years or so. This seems to be due to the fact that consumers are no longer responding to any further decrease in unit prices. Now that the price decline in Japan has been stabilized to a certain degree, we will be able to escape from the trend whereby growth overseas is dragged down by poor performance in Japan.

- The figures for January show that the results in Europe are not good. It appears that there has been a downturn in overall consumption in Europe that has been particularly evident during the last month. The market in the United States has also been weakening.
- Our prospects for the fourth quarter are based on our expectation that the market will be poor. The figures for the third quarter were not as strong as we had anticipated. We expect that the figures for the fourth quarter will not be as strong, either.

**<Projected results for the full year >**

- We were not being conservative in estimating net sales of 411 billion yen and operating income of 61 billion yen. These figures are based on the overall impression that the environment is not particularly sound at present.

**Segment Overview by Mr. Hamada, COO**

**<Digital Cameras and Optical Lenses, etc.>**

- Compact cameras have grown little from the previous year and are expected to remain at the 2007 level. This means that they have not grown at all in the last two years. The economy has not recovered yet, and there have been far fewer technological innovations and no more pixel count competition for compact cameras. While there are some new features such as slim dimensions, telescopic functions, 5x optical zoom instead of 3x zoom, and Smile Capture, there are no fundamental innovations whatsoever. As a result, we do not expect much growth in the future.
- Digital SLR cameras have been growing since last year. I think they have grown by several percentage points. Other companies have released various SLR cameras after trial and error, such as mirrorless cameras and those highlighting video camera functions. We are also striving to expand the user base from middle-aged and older males, the current main users of SLR cameras. For example, we have released a camera that is available in a choice of 100 color combinations. Such efforts for expanding the user base have proven effective, and partly because of this, digital SLR cameras are expected to continue growing this year.
- As for SLRs, the K-7 (midsize camera), which was released in summer, has been highly acclaimed, and so has the K-x (100 color combinations). Compact cameras are having a tough time, however. This is partly because of our lack of product planning ability. In addition, compact cameras require brand awareness to be raised through increasing the product's presence, because we need to ensure

high volume, win a lot of selling space, and capture mass retailers. I believe that Pentax is a low-ranked maker and is still weak in this area. In the new fiscal year, we will release compact, high-quality products by stepping up our efforts with regard to product planning. We have already released two models since the start of the year. Both the new cameras are highly acclaimed, so we are looking forward to the results to follow.

- Optical lenses and materials suffered last year, so they are growing this year in comparison. Unit prices have not recovered well from the decline during last year's tough times. Especially, the unit prices of polished lenses fell rapidly. As for molded lenses, the unit prices have not gone down as far as those of polished lenses, but we have yet to secure sufficient orders from in-house manufacturers.
- Optical lens materials are growing compared to last year, but unit prices have declined to a certain degree. The overall volume is recovering, and there is no sign of a significant decline for the fourth quarter and beyond.
- Lens units have grown compared to last year.
- Plastic objective lenses (for DVD and Blu-ray) are favorable at the moment because both TVs and Blu-rays are continuing to grow.

#### **<Medical Endoscopes>**

- Medical endoscopes overall lost steam for the third quarter compared to the first and second quarters. I believe we can expect a slight recovery toward the fourth quarter. I feel that the third quarter was the bottom. Budget freezes are being seen in many large and public hospitals. On the other hand, individually managed colonoscopy centers and other facilities, which manage their own budgets, seem to have been restraining themselves from buying while waiting to see the results of the medical reform and its impact on medical treatment fees.
- There are wild fluctuations from month to month in the United States, probably because they make decisions quickly. In Europe, there have not been many significant fluctuations since the Lehman shock, and the market has been stable. Because the economic circumstances have not been good, the market will either fall slowly or remain flat.
- In Asia, the Chinese market appears to be growing in double digits (10% to 15%), and our Company has been doing well. The markets in emerging countries such as India and those in South America and Southeast Asia have also been growing, however, and we have yet to enter those markets. As a result, we would like to focus our efforts on entering emerging countries this year and next.

#### **<Contact Lenses>**

- We have 161 stores in Japan and seven stores in China. While the Japanese market has dropped by about 5%, our Company has achieved growth of almost 10%. We are proceeding with plans to

open 20 new stores this fiscal year, and the operations in each store have also been improved. Consequently, we have been enjoying overall growth.

#### <Intraocular Lenses>

- The second and third quarters did not see high growth. While the Japanese market has grown negatively by 3% on a year-on-year basis, our Company achieved positive year-on-year growth. Europe saw double-digit growth, and we are aiming for further growth. As for the United States, we entered the market only ten months ago and the ratio of sales remains low, but we have been achieving growth every quarter. Because we have been recruiting people in charge of sales and service, however, the costs are greater than the benefits at present.

#### **Questions and answers**

*Q: You have bearish opinions on photomasks and maskblanks for manufacture of LSI. It seems that the immersion exposure device for double patterning will finally come out, however, and I think that will be an advantage for blanks. What do you think about this?*

A: (Mr. Suzuki, CEO) Plans for capital investment have come into play, and moves have begun to be seen in masks as well. The number of makers has dropped compared with previously, however, and the number of mask designs has also been decreasing. As a result, although moves have commenced for masks for advanced 32nm and 22nm devices, it will not be a very large market, all things considered. I don't believe that the volume will grow so large as to change the entire product mix. It is true that, if steppers are purchased, positive growth will result accordingly. However, it is unlikely that the product mix will change, the unit price will increase, or that there will be steady growth.

*Q: With regard to the table showing the sales growth rate by product, please tell us about the backgrounds for the actual growth rates of mask blanks and LSI photomasks for the third quarter compared with the immediately preceding (second) quarter, and also the background for the expected growth rates of the same products in the fourth quarter compared with the immediately preceding (third) quarter. Is it because of the customer mix that blanks have grown positively while LSI photomasks have grown negatively? How would the increase of memory LSI influence blanks and masks?*

A: (Mr. Suzuki, CEO) Blanks remained flat because the decrease in advanced products was supplemented by the increased volume for foundries. Masks grew negatively because the number of customers is small, and these products are influenced by the performance of individual companies. So I believe that masks were greatly affected by the customer mix. The number of sets of masks has been decreasing, and the unit prices have been increasing accordingly. As a result, whether or not we can sell sets greatly influences our performance. It appears that, in the third quarter under review,

there happened to be some makers that attempted to curb research and development costs, and others that were too busy with mass production to pump masks for advanced products. They will basically remain flat in the future. Even if the amount of capital investment for memory LSI increases, it is unlikely that the product mix will change or that sales will grow significantly, because the number of sets to be shipped is limited.

*Q: You mentioned that you are benefiting from 3D, but how does 3D change large-sized photo masks for LCD?*

A: (Mr. Suzuki, CEO) 3D televisions are still in the research and development phase. Basically, for 3D pictures to be displayed, images on an LCD screen need to be changed twice as quickly as in the case of 2D pictures showing the same images with the same pixel count. This means that the liquid crystal needs to be driven at double the speed. The structure of conventional transistors does not work. If transistors are made smaller and thinner, the driving speed will be increased, and the shutter speed will also be increased accordingly. Masks themselves will also be halved in terms of specifications, including the line width. The specifications of drivers and ICs will be a step higher as well. Even the mechanisms of the drivers and ICs may need to be changed.

*Q: Please give us a breakdown of Pentax's 9.7% year-on-year decrease in sales in the third quarter. How much of the extraordinary losses of 5 billion yen is related to Pentax?*

A: (Mr. Ema, CFO) Pentax' deficit in cameras has been reduced. Pentax posted a further slight deficit in cameras in the third quarter under review.

(Mr. Suzuki, CEO) Compact cameras did not perform well. We have switched compact camera production to OEM production. Product planning did not go well, which affected business operations. Endoscopes should have performed far better, but the endoscope business is greatly influenced by foreign exchange rates because costs are incurred in Japanese yen, while sales are made in dollars or euro. In addition, because they are medical products, cost reductions are made difficult by approval and license matters. We need to reduce the cost structure while changing the designs.

(Mr. Ema, CFO) Of the extraordinary losses, 1.7 billion yen for the maintenance of the environment is related to Pentax. Other than this, several hundred million yen in write-downs included in "Others" and 457 million yen in impairment losses are also related to Pentax.

*Q: What is the estimated operating income margin of Pentax for the fourth quarter? What are the prospects for the first half of the next fiscal year?*

A: (Mr. Suzuki, CEO) There is no impression that the endoscope market will perform favorably, because medical institutions as a whole have been reducing their capital investments. We would like to improve the income of Pentax soon, but structural changes are required in some parts, and we also need to make design changes regarding the product cost itself. We need to improve sales efficiency



as well. I believe that, in the short term, we need to make every possible effort to work on these two aspects.

*Q: You mentioned that sales of glass memory disks in the third quarter decreased 2% compared to the second quarter, and that they are in full production. What about the reduction in sales of substrates and media?*

A: (Mr. Suzuki, CEO) The reduction in sales was larger for substrates, and sales of media decreased slightly. We talked about substrates on a production basis three months ago. In fact, however, we cleared a substantial amount of inventory in the second quarter. In the beginning of the fiscal year, or in April and May, we received few orders, but we operated one of the four factories and were building inventory there. We cleared the inventory in the second quarter, which contributed to sales for the quarter. There was no inventory in the third quarter, however, and we can therefore say that the figure shows the typical value in full operation in the true sense of the term. The operating rate for the quarter from January to March is the same as that of the third quarter, but sales will decrease by about 8% because the number of operating days is smaller. The media unit price will increase because the memory capacity will grow larger. The prices of substrates will not decrease under the current situation.

*Q: Is there any change for the fiscal year in the depreciation and amortization and amount of capital investment from the figures announced last time? What are the prospects for the next fiscal year? By how much do you think the costs will be reduced?*

A: (Mr. Suzuki, CEO) The capital investment has been increased for MD substrates.

(Mr. Ema, CFO) The amount of capital investment for the fiscal year under review has not been changed from the figure we announced in the interim period (28 billion yen). For the next fiscal year, we will be setting the amount after formulating the annual budget. Because the amount of investment in the factory in the Philippines will be included, there may be a sense that the amount will increase accordingly.

(Mr. Suzuki, CEO) In terms of cost reductions, we mentioned at the time of the Lehman shock that we would reduce personnel expenses to reduce annual costs by around 20 billion yen, and that this would enable us to post an annual operating income of more than 60 billion yen. I believe that the actual result is close to what we mentioned at that time. Our operating income of more than 60 billion yen includes these cost reductions. We would like to continue with them in the next fiscal year, because, considering the environment, some of our businesses need to be downsized a step further to establish a profit structure.

**Certain statements contained in this report constitute forward-looking statements regarding the company's future performance and environment of the industry in which**

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