

Briefing Summary of the Analyst / Investor Meeting
for the 4th quarter and full year financial results for the fiscal year ended March 31, 2010
Tokyo, May 7, 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.

Overview of financial results provided by Mr. Ema, CFO

<Consolidated financial results on a full-year basis rather than a 4th quarter over 4th quarter basis (January - March)>

- Although we have previously always provided our financial results on a 4th quarter over 4th quarter basis, this time we will do so on a full-year basis, because the 4th quarter of the fiscal year ended March 2009 (hereafter “the previous fiscal year”) is not appropriate for comparison as it recorded very poor performance due to the Lehman crisis.
- Our annual dividend will amount to 65 yen per share, combining the interim dividend of 30 yen per share, which has already been paid out, and the year-end dividend of 35 yen per share.
- The fiscal year ended March 2010 (hereafter “this fiscal year”) commenced six months after the Lehman crisis, which occurred in the fall of 2008. From the 4th quarter of the previous fiscal year, which made little profit, we began to recover gradually from the 1st quarter of the fiscal year ended March 2010 onward, though not quite to the level we had achieved before the Lehman crisis.
- During this fiscal year, we were affected by currency exchange rates, with a strong tendency of reduced quantities, declines in unit prices and strong pressure for discount pricing in each segment.
- With respect to the impact of foreign exchange rates, the appreciation of the Japanese yen fluctuated between 6-9% against both the dollar and euro for this fiscal year compared with the previous fiscal year. Most of our subsidiaries are located overseas, but their financial results are consolidated by converting the local currency into Japanese yen. For that reason, the impact of rate fluctuations on conversion has been outlined (see p.16 of the Quarterly Report). The amounts negatively affected by currency exchange rates were 15.5 billion yen in net sales, 3.6 billion yen in both operating income and ordinary income, and 3.3 billion yen in net income.
- Total consolidated net sales were 413.5 billion yen (a decrease of 40.6 billion yen, down 9.0% year on year). Of the decrease, 3.4% (15.5 billion yen) was attributed to foreign currency rates; total consolidated net sales on a constant currency basis were down 5.5% (25 billion yen) year on

year. On a per-operation basis, net sales decreased by 18 billion yen (down 4%) in the Electro-Optics (EO) segment, decreased by 10.3 billion yen (down 2.3%) in the Pentax segment, and increased by 4.2 billion yen (up 0.9%) in the Health Care (HC) segment.

- Operating income was 64.3 billion yen, which is an increase of 5.2 billion yen (up 8.9%). Foreign currency rates contributed to the decrease of 6.1%, while there was an increase of 8.8 billion yen (up 15%) on a constant currency basis. On a per-operation basis, operating income decreased by 9.6 billion yen (down 16.2%) in the EO segment; increased by 14.8 billion yen (up 25.1%) in the Pentax, which ended in a deficit in the previous fiscal year but recorded a surplus of more than 2.0 billion yen for this fiscal year; increased by 2.3 billion yen (up 3.9%) in the Vision Care segment; and increased by 0.9 billion yen (up 1.5%) in the HC segment.
- Ordinary income was 57.8 billion yen (down 18.7% year on year), which is a decrease in income of 13.6 billion yen, with a foreign exchange loss of 6.5 billion yen in this fiscal year and a foreign exchange gain of 7.1 billion yen in the previous fiscal year. With respect to extraordinary gains or losses, in the previous fiscal year there was non-operating income of 13 billion yen, which was the sum of 9.7 billion yen from the gain on sales of investment securities (partial sales of the shares of AvanStrate, which is our equity method affiliate) and 3.2 billion yen from commission received for previous years. In this fiscal year, commission received was around 1.0 billion yen, which also contributed to the fall in income. In contrast, the loss on impairment was 30.4 billion yen in the previous fiscal year, while it was 833 million yen in this fiscal year, resulting in an increase of 29.6 billion yen. As a result, income before income taxes for this fiscal year was 49.7 billion yen, an increase of 5.7 billion yen year on year (up 12.9%); and net income was 37.8 billion yen, an increase of 12.7 billion yen year on year (up 50.8%).
- The sales growth rate by product (see p.23 of the Quarterly Report) shows negative growth on a full-year basis for all markets for eyeglass lenses except Asia, which is attributed to foreign exchange rates, a decrease in quantity and a drop in unit prices. The full-year sales growth rate of Memory Disks (MD) is down 2.7%. That of glass substrates declined due to strong pressure for discount pricing, despite an increase in quantity.
- The segment information (see p.18 of the Quarterly Report) shows an operating income decrease of around 10 billion yen in the EO segment. The Pentax segment moved into the black and recorded an income increase of 14.3 billion yen. HC segment recorded increases in both sales and profits. This business division provides contact lenses and intraocular lenses, and is showing steady growth against a backdrop of economic fluctuations. Vision Care also recorded an increase in profits as it maintained an operating margin of over 20%.
- As a subsequent event, on p.23 of the Quarterly Report we have outlined the conclusion of an agreement to transfer hard disk-use glass media manufacturing operations to Western Digital Corporation, as we announced the other day. The sale of the operations is scheduled to take place on May 31, 2010.

Overview of operations provided by Mr. Suzuki, CEO

Overall, the financial results for the 4th quarter of this fiscal year resulted in indigestion. While other companies strived to improve their figures from the 3rd quarter to the 4th quarter, our company's 4th quarter figures did not reach those achieved in the 3rd quarter, probably because we started to pick up earlier. Aside from the fact that production capacity reached its maximum level, the fact that unit prices have not returned to their original level is considered to have been a contributing factor.

< Mask Blanks and Photomasks for Semiconductor Manufacturing >

- There has been no significant change. Although the quantity of developed products increased, it was not to a sufficient level to increase overall unit prices. We have previously announced that the quantity had become stable, whereas the product mix as well as average prices were tending to fall, but the situation has now improved. However, things have not improved to the level of increased average prices. There has been no change in terms of quantity in the last six months.
- EUV has become more likely as a 4th quarter topic. Companies appear to be trying to settle into EUV development after 22nm. I believe that there are only two companies, including ours, which are currently developing mask blanks.
- The quantity of products for research and development increased for photomasks as well. For our company, which sells products to outside customers (merchant manufacturers), there has been a progressive reduction in the number of customers and number of manufacturers that procure masks from manufacturers that sell products to outside customers. Since there is a certain number of manufacturers undertaking low-end production, the split between the number of merchant manufacturers and the number of captive manufacturers appears to be fifty-fifty in the mask market. The area of leading-edge technology is tending to reduce in scale with few orders. And as our mask business has a smaller share, the performance fluctuates according to the number of orders: it performs well when we receive orders and poorly when orders cease. In the 4th quarter, we received some orders for this area, which led to fairly good results.

<Photomasks for Liquid-Crystal Displays (LCD)>

- The quantity of products for research and development has been increasing. Competition for panel performance appears to have become increasingly intense. The customer side seemed less excited about it during the 4th quarter, partly due to the Chinese New Year; but overall, there is an increasing number of development products, which appears to be boosting the markets.
- Prices are still dropping. Mask manufacturers have been forced to a level where they can barely afford to reinvest in facilities, but the price decline shows no sign of slowing.
- My personal opinion is that it is not yet certain at this point as to which method to use for 3D photomasks, shutter or polarization.

<Glass Memory Disks (MD) for Hard Disk Drives (HDD)>

- The balance between substrate supply and demand was tight, but it now seems to have settled. Nonetheless, this does not mean that our company's production capacity has increased. PCs are not accumulating in number, probably due to the tight DRAM supply. Since a good supply of drives has gradually become available, we are no longer in a situation where we are chased by our customers due to short supply of our products.
- Prices have not dropped in the 4th quarter compared to the 3rd quarter. But since the production base is located in Asia, sales declined due to the reduced number of operating days in the 4th quarter because of the Chinese New Year.
- With respect to disk media, ever since there was talk of a merger with Showa Denko K.K. a year ago, we have not changed our belief that it would be very difficult for us, a company with the smallest market share of all media manufacturers that sell products to outside customers, to compete with two others for two customer companies, and that it would take a long time for a drive to increase its recording capacity, given the fact that it has become increasingly difficult to advance disk technologies. Because we thought it would be difficult to earn profits in the long term in the position we are in now, we decided to sell the assets, despite the fact that we have caught up with the leading-edge technology and that performance has been improving.
- Please also note that the sale of the disk media operations and the supply of substrates are two separate matters, although they have been reported on press together. I hope you understand that these matters involve two separate agreements.

<Eyeglass Lenses>

- Although the market for eyeglass lenses is shrinking in Japan, price competition between retailers looks to be ending soon. Since there are still a quite number of retail stores, however, the market is likely to remain sluggish until it is reduced to a certain extent.
- The market in Europe is worrisome. It will experience a downturn in foreign exchange rates and consumption, which will be hard on us because our company has a high sales composition ratio in Europe.
- The market in Asia is moving forward with a high growth rate. But since eyeglass lenses for the elderly, which are extremely profitable, do not sell well in Asia, the contribution of the market in Asia to our earnings is not as large as it may seem. In the long term, however, we believe that its contribution will increase.
- Overall, both sales and profits have continued strongly, so I believe that our company will be able to maintain its current position in the competitive market for some time.

Overview of performance provided by Mr. Hamada, COO

<Digital Cameras and Optical Lenses, etc.>

- We cannot expect much unit growth for compact cameras; prices have also become lower and lower. Prices are still dropping in Japan, but seem to be coming to a standstill in North America and Europe. We expect to sell a total of 110 million cameras in this fiscal year; the sales quantity for this year (2010) is expected to be equivalent to that for two years ago (2008).
- We expect that sales of single-lens reflex cameras will grow. From 2008 to 2010, sales have grown at an annual rate of 5-10%, despite the impact of the recession.
- With respect to mirrorless cameras, market penetration rate in Japan is around 17%. It is about 10% or more in Great Britain, whereas in North America it is only around 1%, and in Germany and France it is around 2-3%. So this is a new, niche market from a global perspective. It is growing bigger and bigger, and is expected to represent around 20% of those single-lens reflex cameras sooner or later. Prices are expected to become lower and lower for both single-lens reflex cameras and mirrorless cameras. And the digital camera market is expected to consist of three categories: compact cameras, single-lens reflex cameras and mirrorless cameras.
- The Pentax segment has not moved into the black yet, despite taking some measures including a factory closing down last year. Last year, it released a new single-lens reflex camera that carved out a clear position in the market; this year, it will strive to expand the market, as well as devoting to compact cameras. We plan to expand the compact camera business this year by increasing quantities and enhancing advertising.
- The lens unit segment achieved solid results by focusing on “thin, light and inexpensive” without increasing quantities.
- The sales quantity of optical glass has returned to the level it was at before the Lehman crisis, but we are having a hard time in terms of the unit price. We reduced the price by 20-30% compared to two years ago, due to strong pressure to discount prices as well as strategic adjustments. As higher power lenses are expected to be used more for mirrorless and compact cameras, there will be increased demand for a lens that is extremely difficult to manufacture. Not all manufacturers can make such a difficult lens easily, so we hope to use it to differentiate our company from other manufacturers.

<Medical Endoscopes>

- Europe and the United States account for over 80% of our net sales; sales in Europe (including the Middle and Near East) remained at the same level as the previous fiscal year, while those in North America did not reach the level of the previous fiscal year due to the recession and the healthcare reform. The good news was that sales of our key products, endoscopes used to examine the large intestine and stomach, remained at the same level as the previous fiscal year.
- Since our company is not as large as our competitors in terms of scale, we plan to strengthen our

foundations to further expand our regional strategies and product portfolio. In addition to scopes, we would like to add medical equipment for treatment, which will be in demand, to our product portfolio. There will be an increasing number of endoscopic procedures, which are expected to use rigid scopes in combination with surgical instruments. As a result, we would like to push our strategies forward with a broad view.

- This year, we plan to focus on emerging nations as well, such as Asia, the Middle and Near East and South America.
- As announced in the news release the other day, we have appointed an external personnel called Chris Japp, who has long experience and a proven track record in global health care firms, as the Head of the Lifecare Division. With his leadership, we will be focusing on expanding our presence around the world.

<Contact Lenses>

- Sales showed a steady increase. The number of stores totals approximately 170 in Japan and seven in Shanghai, China. We will be opening eyecity stores this year as well. The contact lenses segment achieved close to double-digit growth, while the industry recorded negative growth of 3%.

<Intraocular Lenses (IOL)>

- Eight months have passed since we entered the North American market, which is said to be the largest in the world. We have begun to gradually nibble away at the market, and we will now gear up for the increased presence of our company in North America.
- I will now provide a general overview of the medical markets in Europe and the United States. In North America, hospitals and doctors have finally begun to think optimistically. However, the criteria for approving leases and financing still appear to be stringent. An increasing number of hospitals have created CFO positions, although doctors appear to have mixed feelings about having CFOs in hospitals, I believe that market sentiment has begun to improve. When the Obama administration's healthcare reform is implemented, it is said that 32 million more citizens will be insured. The problem is that endoscopic doctors are in short supply; there are only 10,000-15,000 of them throughout the U.S. The progress of aging also indicates that queues for medicare will be longer in the future. We plan to take all this into account when establishing our strategies.
- Dark clouds have started to loom over the European market in the past week. There are more public than private hospitals in Europe; in France, public hospitals account for 50-60% of all hospitals. As a result, we expect to be in a difficult situation. A little while ago, I mentioned that market sentiment in Europe had entered the "buying" stage. But now, we will carefully assess the real economic situation to push forward with regional strategies.

Q&A

Q: With regard to the Pentax segment, whose profits have improved significantly, please tell us the sales composition ratio, as well as the degree of profit improvement compared to the previous fiscal year, and the reasons for this.

A: (Mr. Ema, CFO) The camera segment suffered a deficit of more than 10 billion yen in the previous fiscal year, which has improved to several billion yen this fiscal year. Although sales have decreased, the reduction of fixed costs, such as labor costs and depreciation costs, has contributed substantially to the improvement.

Q: Operating income exceeded the forecasts announced in the financial results of the 3rd quarter by three billion yen. Which segments performed better or worse than the forecasts?

A: (Mr. Suzuki, CEO) On a full-year basis, the results did not deviate much from the forecasts. With respect to Memory Disks (MD) in the EO segment, glass media performed better than expected, whereas optical lenses performed rather poorly. The Pentax segment performed well on cameras but poorly on endoscopes. The camera segment had expected to be in a difficult position in the 4th quarter, which fortunately turned out not to be the case.

Q: You have announced that Mr. Chris Japp has been appointed to head the endoscope division. Please tell us what the problems have been, and how you will be addressing them. Please also tell us how you will formulate your research and development budget, which seems smaller than that of other companies.

A: (Mr. Hamada, COO) I believe that our company was lacking a process for developing a roadmap for customer-driven product development, undertaking marketing for the manufactured products and having them used by doctors. I became aware of this problem in the past two years, but I have to admit that they always had the attitude that “good products sell themselves.” However, it is clear that operative procedures will be changing, and that the eight new endoscope manufacturers in China will bring an end to the dominance of the market by the three Japanese manufacturers. As a result, we must strive to manufacture products that will further meet the future needs of doctors and patients. With respect to the research and development budget, a large machine is not necessary for undertaking the research and development of our products, whether they are cameras or endoscopes. In most cases, we procure molds, materials and components. It is rare for us to construct a particularly large factory. We would like to use the budget for improving our current products to offer better usability by manufacturing unbreakable, strong and easy-to-use products. In addition, we would like to use the budget for developing new devices (accessories). We would also like to invest in the development of electric appliances, because there is room for improvement in the image quality of processors in the electronics field. When we launch on the Asian markets, we would like to place a Pentax endoscope center at the heart of emerging nations. With this center, we

will provide Pentax scopes and processors at reasonable prices by way of joint research, and we will invest in fields where we can expect greater sales, profits and market shares.

Q: Please provide us with the outlook for sales of Memory Disk for Fiscal Year ending March 31, 2011 on a quarterly basis. What do you see happening in terms of the price trend? You have mentioned that the sales of disk media operations and the supply of subassemblies are contained in two separate agreements. What do you think the market share will be like as a result?

A: (Mr. Suzuki, CEO) Based on the assumption that demand will continue, it is unlikely that prices will be lower than they are now. There only remains the issue of production capacity. From the 2nd quarter (Jul - Sep 2010) onward, the production capacity of the current factories will increase by 7-8%. In addition, a new factory in the Philippines will begin operating in October or November 2010. The production capacity of this new factory will be equivalent to that of one of the existing three factories; when in full operation, the total production capacity will increase by 25%. This does not mean, however, that the total production capacity will increase by 25% in November; the increase will be quite gradual. We have already started to think about 2011, and we will make a decision in a timely manner, as we will be increasingly unable to meet the possible upsurge in demand in 2011 unless we construct another factory.

The substrates market is virtually dominated by two manufacturers. I believe our company currently accounts for 70% of the total. As another company has announced that it will increase its production capacity from this summer onward, the outcomes will depend on the increased production capacity of the two companies, as well as demand at the time. As of now, substrates are unlikely to be in excess in terms of volume for the Jan-Mar period of 2011. This will be more likely in Fiscal Year starting in April 2011, when we will have sufficient stocks.

Q: How will capital investment, depreciation, and the sale of disk media operations affect the forecasts for FY2010?

A: (Mr. Ema, CFO) We plan to make capital investments of 43 billion yen, 63% of which will be allocated to the EO segment, with 41% in substrates and about 20% in the others. 12% will be allocated to eyeglass lenses. Depreciation is projected to be 33.5 billion yen. We will lose net sales of 16.4 billion yen by selling the disk media operations.

(Mr. Suzuki, CEO) Since current sales of disk media include some of the (internal) sales of substrates, this does not necessarily mean that we will lose all 16.4 billion yen.

(Mr. Ema, CFO) As we will be performing due diligence, we have not yet finalized how the amount involved in the sale of the disk media operations will be recorded in the financial statements.

Q: How are you proceeding with the camera operations? Please also tell us about the M&A status of eyeglass lenses and others.

A: (Mr. Suzuki, CEO) We have not changed our policy with regard to cameras. As we still think it will be difficult to compete on our own, we would like to explore the possibility of a business alliance, merger, etc. We have examined several possibilities for M&A in an area of eyeglass lenses, however this has become less likely to occur anytime soon, given that the financial market has been changing and the economic environment in Europe has not improved as much as we had expected.

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