

Briefing Summary of the Analyst / Investor Meeting
for the 2nd quarter financial results for the fiscal year ending March 31, 2011
Tokyo, November 5, 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

- We normally show photographs of endoscopic devices on the Quarterly Report. This time we are also showing photos of our new digital cameras, the 645D and K-5, because they are very good products.
- Our dividend for the current interim period will amount to 30 yen per share. The dividend ratio on a consolidated basis is 38.2%. We will announce the year-end dividend after we obtain the year-end financial results.

Overview of operations provided by Mr. Suzuki, CEO

- Overall, we did well early in the 2nd quarter. However, the situation started to change at the end of August, and we saw a slight decline in results in September.
- Figures for October are not showing an upward momentum, and neither are those for November at the moment. It seems to have become clear that electronics and optical products will not rise in the 3rd quarter.
- Opinions about the 4th quarter are divided in the market at the moment. There seems to be an equal split between those who believe that inventory adjustment will be completed in the 3rd quarter and growth will be seen in the 4th quarter, and those who think that inventory adjustment will not proceed as expected after Christmas because of weak consumption, and some indigestion will be evident in the 4th quarter.
- My personal view is that demand will neither rise nor fall. I think inventory levels have not risen as much as expected as of November, because companies stopped accumulating inventory at an early stage. Stocks will be reduced modestly after Christmas, and consumer behavior will gradually change in the period from January to March. The influence of the Chinese New Year will start to be seen, and seasonality will be lost. Personally, I don't think we will see an upward trend in the 3rd quarter, but I don't foresee a major decline in the 4th quarter, either.

< Mask Blanks/Photomasks for Semiconductor Manufacturing >

- The product mix has improved thanks to leading-edge development. We are influenced by the appreciation of the yen, because 80% of our shipments are dollar-based. Consequently, the figures

are unfavorable compared to those in the year-ago quarter and the last quarter. But overall they are not so bad. Since foundries have been running at full production, they would be too busy to manufacture new devices. New devices developed by fabless companies would not go into production smoothly. But it seems that the situation has eased off a little and new devices are moving. It seems that manufacturing of new chips has started to be done little by little.

- With regard to the semiconductor photomask industry, companies such as TSMC, Intel, and others who manufacture their own photomask in-house have been good. However, the overall trend of merchant manufacturers is not that good. I think the industry continues to be experiencing a kind of structural recession.
- The result of our mask business was not good in the second quarter. Because the scale of our mask business is small, it is susceptible to customer movements.

<Photomasks for Liquid-Crystal Displays (LCD)>

- It was not good. Normally, the second quarter should be a strong season, with demand for masks for models to be released in the next spring. However, LCD manufacturers have slowed production and TVs are not selling well. A variety of features including compatibility with 3D vision have been highlighted and reflected in storefront displays, but they are not selling well. So TV manufacturers have yet to decide what kind of models to release in the spring next year. It seems, therefore, that they cannot start designing ones for the next spring.
- The point is that manufacturers in Japan and South Korea are still wondering what kind of TVs they should produce for the next year, and this problem is more serious than the falling unit prices. They have made drawings but cannot make business decisions, resulting in poor demand for masks. This is what happened in the second quarter.

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

- The HDD market entered an adjustment phase in late August. Drive manufacturers are seeing inventory increases in both drives and disks. It seems that inventories are not decreasing, despite adjustment. Makers are continuing to control production in November, but their inventory levels are not going down. Nor are there many inquiries. Some component manufacturers say that conditions will improve in January, but we are not so sure. It seems that manufacturers have three weeks' excess inventories.
- Our disks showed a year-on-year increase in terms of quantity. However, the figures are not favorable because they are dollar-based, and so have been shrinking with the appreciation of the yen.
- We are scrambling for rare earth supplies. We are trying to secure the materials by ignoring prices to a certain degree. We have procured a reasonable quantity and our production will not be affected in the short run. However, costs have increased and it looks difficult to pass the added costs onto customers. China will not change its policy, so the quantity of materials available will remain limited for a considerable time. It looks likely to be a while before rare earths will be

available from other sources, so the material will be in short supply for a period. Before that period arrives, we have to achieve a technical innovation that will enable us to reduce the use of rare earth while continuing to manufacture the same quality products. We have some ideas and are engaged in a number of tests. The difficulty is with cerium, because it is hard to polish glass substrate properly with other substances. We must complete in six months a development that will enable us to reduce our use of cerium. The cost did not increase until the second quarter, but it will rise in the third and fourth quarters, putting pressure on profits.

<Eyeglass Lenses>

- Demand is not bad, and demand in Japan has bottomed out. In the past, we were seeing growing demand overseas and declines in Japan, but it is nearly flat in Japan now.
- In local currency terms, we have a double-digit increase in sales in countries other than Japan. In yen terms, however, our sales remained flat or increased only slightly in the 2nd quarter.
- We produce most of our eyeglass lenses in Thailand. The Thai baht has been appreciating against the euro and the US dollar. This trend is unfavorable in the short run. Thai baht used to be linked with US dollar, but the situation has changed in recent years. Although we produce the products in Thailand, it somehow seems as if we were producing them in Japan, because we are facing a situation that would have been caused by the appreciation of the yen. Costs generated in Thailand are labor costs, which are not very high. However, costs have been rising partly because the conversion to the Thai baht is made before the conversion to the yen.
- Apart from foreign currency exchange, approaches to the market are not so bad in Europe, Asia, and the Americas. Although unit prices have fallen, we are maintaining sales quantities.
- Overall, it seems that the third quarter will not see an upward trend. It won't be so different from the second quarter. But the fourth quarter will not see a big decline, either.

Overview of operations provided by Mr. Hamada, COO

<Digital Cameras>

- We cannot expect a very good result for the third quarter. Cameras are not selling well, and this will continue. It seems that SLR cameras will grow by 20% over the previous year in terms of both production and sales. However, compact cameras will continue to experience sluggish growth and will return to the level of 2008. I think growth of 3-4% over the previous year would be all we can reasonably expect. While the economic slowdown and other trends have been cited, the problem with compact cameras lies in the market structure. Compact cameras will not grow significantly hereafter because the performance of cameras incorporated in smartphones and mobile phones will continue to improve. Compact cameras have become ubiquitous, so perhaps this is no longer a growth industry.
- Manufacturers created a variety of products this year again, but some production adjustment began to be seen around August. It seems that winners and losers are being clearly divided this year.

Production adjustment was made in the industry in August and September, which resulted in lower-than-expected growth of our optical lenses. We hope that manufacturers will not produce too much for the Christmas season and will not build up inventories, so that there will be no damage in the first and second quarters of next year. However, channel inventories of compact cameras are likely to be accumulated in Europe, and there is no growth evident in North America. So it seems the camera industry will not be particularly favorable.

- SLR cameras have been growing in terms of quantity, but their share of the overall market is only slightly over 10%, so the benefits are limited.
- Pentax cameras delivered some profit in the first quarter, but we were not very optimistic about the second quarter because it is a bad season. The result was a modest loss, almost in line with our expectations. In the third quarter, which is our peak season, we will release a significant number of new products: two SLR camera models and three or four compact cameras. We have already delivered them to stores in each region. We do not yet know how well they will sell, but the K-5, a middle-grade product, has been strong partly because of limited quantity. The 645D medium format digital cameras, for which we made bullish projections, have been selling as well as we expected, attracting customers all over the world. At the moment, we are delivering the K-r, an entry model SLR camera offered in 100 different color combinations, and compact cameras. So we have yet to see how well they sell. However, we cannot permit ourselves to fail with these models, so we will focus our efforts on sales promotion.

<Medical Endoscopes>

- The second quarter was not good. In the United States, a medical reform bill introduced by the Obama administration will take effect and colorectal examinations will be free next year. So we are not enjoying any positive effect from the reforms yet this year. Doctors and hospitals are not buying our products at the moment.
- As for Europe, Southern European countries including Greece, Spain, and Portugal are struggling. The United Kingdom has just adopted a budget freeze and will spend little money until the end of the year. Despite this background, however, Pentax did not see a significant year-on-year decline.
- We enjoyed growth in Asia, but the overall results proved unfavorable because of the big decline in the United States.
- With respect to the market, the United Kingdom is due for a recovery. It may take place early in 2011. We have been expanding sales in Asia, resulting in double-digit growth. As for the United States, colorectal examinations will be free next year as I mentioned. So there will be a recovery eventually, although there may be a time lag. Conditions should improve little by little toward the second half.

<Intraocular Lenses (IOL)>

- We have made inroads into Europe and the United States and we are expanding sales worldwide. Growth has been consistently in the double digits.

<Contact Lenses>

- We have more than 170 stores in Japan and growth is consistently in the double digits.

<Microlenses>

- Demand for pickup lenses has declined slightly because TVs and DVD players are not selling well. Demand will recover in the medium and long terms.

Q&A

Q: Please tell us about your plan to increase production capacity for glass substrates for HDD.

A: (CEO Suzuki) Basically, we have not changed the plan significantly. It seems at the moment that our competitor has postponed their plans to increase their production capacity. We will go ahead with our plan and commence full production in the spring of next year. We are not sure if the production lines will be filled with orders soon, but anyway we will start full operation of the plant.

Q: I think your photomask division will encounter a number of business opportunities for EUV, 11G, chromeless, and organic EL in the near future, or in the long run. Please tell us how they will change and are linked to business opportunities for HOYA in the future.

A: (CEO Suzuki) Speaking generally, in the real leading-edge domain, photomasks may be subject to captive manufacturing by semiconductor manufacturers. A good example is EUV. Most semiconductor manufacturers committed to EUV assume that they produce photomasks on their own. In the past, merchant manufacturers of photomasks like us tended to lead the way, but I think the business environment for photomasks will change. But mask blanks are the exception, because no semiconductor manufacturer does captive manufacturing of mask blanks. I think the business opportunities for EUV will not emerge on the schedule currently anticipated. Companies have yet to start working on the required bridging technology. It will be some time before they start discussing what is required for the bridging technology. It is at this point that we merchant mask manufacturers will have to strive again. It is at this point that we will have a chance to win, that is, a business opportunity. In the long run, merchant mask manufacturers will have a difficult time. Anyway, it seems that the semiconductor industry will remain weak for a while.

With regard to 11G, companies in South Korea seem to be proactive, but manufacturers of production equipment have ceased development. So I personally think that 11G will not appear in the near future. I think things have not gone that far actually.

Organic EL will need a little more time. But anyway, organic EL is the one it should be in the end.

Q: Please give us your comments about lanthanum, the rare earth used as an additive for optical lenses. Also, you mentioned that you are trying to secure a certain amount of cerium used as a polishing material. Will you have enough of it for the whole of next year? Is lanthanum costly?

A: (CEO Suzuki) For optical glass, we use a variety of rare earth elements such as lanthanum and neodymium, but the amount we use is not that much. We add them to silica-based optical glass to

improve performance. So we don't need hundreds of tons and we are not that concerned about it in the short run. Regarding the cost of lanthanum we use for optical glass, I think its impact is relatively small in terms of cost because the amount we use is small. As for cerium as a polishing material, the Chinese government will determine the quantity for the export license in December. We cannot judge how much more we can secure until we know the quantity.

Q: Please tell us how you see the changes in the amount of production and price of glass substrates from the third quarter of this year to the first quarter of next year. And what is your medium-term prospect for demand for glass substrates?

A: (CEO Suzuki) In terms of quantity, demand for glass substrates has grown by around 15% this year. Demand will grow at this rate even if it is high in the first half of the year and low in the second half, and even if we remain as pessimistic as we are now. Someone has to supply glass substrates. So there will be a supply shortage in the first half of next year unless we open a new plant or unless our market share decreases greatly. I don't think it is reckless to start operating a new plant based on this thinking. Above all, major HDDs are now switching to those with 500GB capacity. New products will have quality if they are manufactured at a new plant. If we have excess capacity in the new plant, we should cut the operating rates of old plants. I believe that is more reasonable. This is why we would like to start operating the new plant.

The price increase of cerium will increase the cost by 6-9%. We are now discussing how to share the burden with our customers.

Q: In the second quarter, profit of the Information Technology segment increased by approx. one billion yen and that of the Lifecare segment decreased by one billion yen. Could you analyze the profits?

A: (CFO Ema) Net sales of the Information Technology segment increased by 223 million yen over the same period in the previous year. Since foreign currency rates resulted in a decrease of 1.4 billion yen, net sales increased by slightly more than 1.6 billion yen in local currency terms. Above all, the impact of the euro rate greatly diminishes sales. With optical lenses and optical materials combined, the net sales increased by about 20% year on year, and the profit rose by approximately 50%, although there was a special factor in the same period in the previous year. With respect to glass substrates, net sales increased by a few percent year on year and operating income increased by tens of percents. We sold media production to Western Digital (WD), and no longer have the media business. However we still have a supply obligation. It means we purchase the products and sell them when we receive an order. What is contributing to the higher profits in the Information Technology segment is the increase in profits from optical products and glass memory disk substrates. Net sales of the Lifecare segment increased by 263 million yen, but since foreign currency rates resulted in a decrease of 3.4 billion yen, net sales increased by about 3.7 billion yen in local currency terms. Profit decreased by one billion yen in this segment. To give a breakdown, both sales and profits increased for contact lenses and intraocular lenses, while profits from eyeglass lenses and endoscopes were down. Profits from eyeglass lenses decreased by one billion yen from

the same period in the previous year. We do not have to be oversensitive about these trends because there are seasonal factors. In this way, however, when consolidated within the segment, sales have increased slightly while profits have decreased somewhat.

Q: You said "EUV will not emerge on the schedule currently expected." However, you said in the last meeting that "EUV is perhaps emerging sooner than we thought." Was there any change?

A: (CEO Suzuki) I think I told you last time that, apart from the question of whether EUV comes or not, semiconductor manufacturers have decided to go for it. I told you that they have decided to start low-volume production of EUV by 2013, and that they also tried double exposure but it turned out to be difficult because cost is too high and there are many problems, so they decided to go for EUV because it was the only remaining option. However, "deciding" to do something is one thing and actually "succeeding" in doing it is another. It seems that, as they proceeded with what they had decided to do, they found it was not easy, and they are facing some insoluble problems. I believe they want to overcome constraints and move forward, but it is clear that they won't be able to overcome the constraints within the expected time frame. It seems that they are twisting and turning trying to find a way to work it out. I think that the EUV will not emerge on the anticipated schedule because there are a number of problems that cannot be solved easily.

Q: Inventory has increased although net sales are almost on a par with the same period in the last year. What is the breakdown of your inventory? What about the operating rate for glass substrates? Please also tell us your depreciation plans.

A: (CFO Ema) Our inventory for the second quarter is about 62 billion yen (see page 4 of the Quarterly Report). As for whether this level is high or low, page 12 of the Fact Book 2011 shows the "inventory turnover/month," which was 3.1 months for the second quarter. The fewer the number of months, the better, and the figure is normally 3.1 or 3.2 months. Judging from this, the turnover trend does not seem to be bad. The Quarterly Report also shows that the amount of "raw materials and supplies" as of the end of September was very large, at 22.3 billion yen. This is due to the issue of rare earth. Use of rare earth will increase the cost. However, we have been trying to secure as much of it as we can, believing that accepting a high cost would be much better than shutting down operations at the plant.

When we announced the financial results for the first quarter, we told you that the amount of our capital expenditure would be 46 billion yen and that depreciation cost would be 34 billion yen. The figures have not changed, but the depreciation cost may be delayed because it is based on acceptance inspections. So we guess it will be somewhere between 33.5 billion and 34 billion yen.

(CEO Suzuki) I think in absolute terms, our inventory is not large. We have special factors. In addition to the rare earth problem, we have a supply obligation in the media business. This means that, even after selling the business, we have to continue to supply media products for a specified period. So we purchase the products and sell them when we receive an order. For this reason, we build up inventory a little ahead of schedule. In addition, partly because we have slightly shifted the

period for manufacturing products for the Christmas shopping season this year, we put the products into the pipeline in a period that includes the end of the second quarter. It is probable that our inventory tends to increase due to these three factors. We have no substrate inventory. Camera inventory is slightly large as of the end of the second quarter, as we put new products into the pipeline and clear the inventory of old products at the same time. However, the inventory level is not too high.

(CFO Ema) With respect to the component business, much of our work is based on orders. On the contrary, we have inventory of consumable goods (eyeglass lenses, contact lenses, and cameras). The amount of sales is almost identical between the Information Technology and Life care segments. The Information Technology segment has a small inventory of products, and consists mostly of raw materials and supplies, while in the Life care segment the inventory of products is larger than that of raw materials and supplies. Viewed in this way, our inventory is easier to understand.

Q: What do you think now about the chances of achieving the profit level you targeted in the current period, changes in your thinking, and your comments “We want to do four digits next year?”

A: (CEO Suzuki) I think you are talking about the comment “We would like to aim for operating income of 80 billion yen.” At the time of the comment, the foreign exchange rate was nearly 90 yen to the dollar. I said that would make it possible to achieve 80 billion yen. But it will be impossible at the current rate of 80 yen to the dollar. However, this does not mean that our business structure is much worse than expected. Rather, the target is impossible because of the foreign exchange rate. We are not sure about next year yet.

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