

Briefing Summary of the Analyst / Investor Meeting
for the 3rd quarter financial results for the fiscal year ending March 31, 2011
Tokyo, January 31, 2011

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 and explanations about news releases provided by Mr. Ema, CFO

<News releases>

- I would like to explain, prior to the explanations of our operations, the two news releases we issued through the Tokyo Stock Exchange today. We issued the first one in accordance with rules of the Tokyo Stock Exchange because our net income for the fiscal year ending March 31, 2011 is expected to increase 50.5% year on year.
- The second news release announces that we will start to prepare and disclose our consolidated financial statements in accordance with the Designated International Financial Reporting Standards (IFRSs) from fiscal year ending March 31, 2011. On December 21 last year, we disclosed our consolidated financial statement for the fiscal year ended March 31, 2010, which we prepared in accordance with IFRSs.

<Overview of financial results>

- I would like to explain about the impact of the appreciation of the yen on our net sales and profits, which is described in the Notes on page 6 of the *Quarterly Report*. The higher value of the yen has had a negative impact, reducing net sales by 5.5 billion yen, operating income by 600 million yen, ordinary income by 690 million yen, and net income for the quarter by 580 million yen.
- To give you a breakdown of the 5.5 billion yen loss of net sales by currency, the amount attributed to the value of the euro is 3.8 billion yen, that to the value of the US dollar is 1.1 billion yen, and that due to the values of Asian currencies is 600 million yen. For the operating income, the amounts are 300 million yen due to the euro and another 300 million yen due to Asian currencies, with the value of the US dollar not applicable.
- By segment, the reduction in net sales is 1.8 billion yen in the Information Technology segment and 3.7 billion yen in the Life Care segment. The reduction in operating income was 200 million yen in the Information Technology segment and 400 million yen in the Life Care segment.

Overview of operations provided by Mr. Suzuki, CEO

<IFRSs>

- With regard to IFRSs, we will apply the international standards from the current fiscal year, while we will attach the appendix notes which are based on the Japanese accounting principles up to the current fiscal year. Please let me tell you in advance that starting from the next fiscal year we will apply IFRSs only. The figures for the last fiscal year based on IFRSs are disclosed on our website, so I recommend you to read it.

<Mask Blanks/Photomasks for Semiconductor Manufacturing>

- Concerning semiconductors, there are few points to note in particular. Double patterning is believed to be technologically difficult for the industry. Also, there are reports that global foundries will build a fabrication plant in Abu Dhabi.

<Photomasks for Liquid-Crystal Displays (LCD)>

- The operating rates of production facilities are high at manufacturers, including South Korean and Taiwanese firms, but they seem to be struggling with yields because they are competing on function. Taiwanese manufacturers have been stepping up production, probably because of a recovery in demand for medium-sized TVs. The organic EL market is booming with the popularity of smartphones. Taiwanese manufacturers seem to be moving on the expectation that demand for organic EL, especially for small and medium sizes, will increase.

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

- Inventory of 2.5-inch HDDs is settling at an average level of around three weeks. With respect to the volume of 2.5-inch HDDs in the fiscal year starting April 1, 2011, HDD manufacturers say that it will grow by 14% to 15% in terms of quantity because the volumes for notebook PCs and games and external HDDs will grow, and above all, external HDDs are expected to grow significantly. We expect that the glass memory disks will grow by around 20%. In the 3rd quarter, HDDs actually grew by around 6% year on year, and glass memory disks were up 12% to 13% year on year. Our customers say they want us to increase capacity by around 20%.

<Eyeglass Lenses>

- The Japanese eyeglass market is settling down. Price competition is nearing completion, and companies such as PARIS MIKI have begun to increase prices by adding value to their products. This has led us to expect that our net sales will grow year on year.
- The entire segment experienced negative growth of 3% year on year due to the appreciation of the yen. In local currency terms, we achieved double-digit growth for the US dollar and growth of around 8% for euro. The business itself has been good. Looking at markets in Europe, demand in Germany and France, for example, is steady, while Spain and other markets are struggling.

Overview of performance provided by Mr. Hamada, COO

<Medical Endoscopes>

- We have to date refrained from making specific comments on endoscopes. I think it is time to give you some specifics, partly because we have been requested to do so.
- We have been proceeding with structural reform and globalization for our endoscopes since our merger with PENTAX, and we completed a number of tasks in the 3rd quarter. With regard to sales, we achieved 20% growth (year on year) in Europe in local currency terms. While the situation in Southern Europe remains tough, we grew in Germany and France and made inroads into Eastern Europe and the Middle East. In yen terms, however, we stalled because of the foreign exchange rate. We also made inroads into South America. In Canada (where our market share would be 30%), we achieved 10% growth. Our market share is still small in Japan, and we have to increase it. We have been concentrating particularly on India and China in the last year or so. For example, we have succeeded in winning a bid to deliver hundreds of units to large hospitals. We also entered into markets in Singapore, Hong Kong, and Indonesia.
- I believe that in Europe and the United States, our major markets, we have achieved growth equivalent to the growth of the entire market in each. In some countries, we achieved growth of 150% to 300%. We will also release new products this year. We would like to sell popular, user-friendly products in large numbers, rather than small sales of state-of-the-art products. We regained lost ground in the 3rd quarter and have got off to a good start in the 4th quarter.
- With regard to healthcare reform of the United States, which is likely to influence demand for endoscopes, we are not sure if it will be introduced smoothly. We are monitoring developments, and I believe it will be resolved soon.

<Contact Lenses>

- We increased the number of specialty stores named *eyecity* by 10%, but our sales grew by a larger amount. Income has continued to rise by more than 10% year on year each quarter.
- I believe we can release bifocal lenses and lenses for aged eyes, which have room for improvement, as new in-house products. We are consequently aiming to develop our contact lens business as a manufacturer. We estimate that our market share is 18% when internet sales are included, and exceeds 30% for only specialty stores sales.

<Intraocular Lenses (IOL)>

- We achieved year-on-year growth of 10%, despite the influence of the foreign exchange rate. We have also been enjoying growth in Europe, the United States, and Asia, and we believe we will continue growing in these regions.
- These products also have room for technical innovation. We would like to be the first to market with bifocal lenses and products for aged eyes.

<Digital Cameras>

- Cameras were more profitable than we expected. It was our best quarter since the merger. We moved into the black (making profit) because we released a number of new products in the 3rd quarter; reorganized our sales channels; and kept reasonable prices of our products. We also achieved a surplus for the accumulated total for the first three quarters of the year. The 4th quarter is tough due to seasonal factors, but we aim to finish in the black for the full year. We have been rapidly improving income and moving in the direction of becoming “a small but distinct camera manufacturer”.
- We forecast that, industry-wide in the next fiscal year, SLR cameras will grow 15%, but compact cameras will not match that due to the influence of smartphones and mobile phones. Mirrorless cameras are not so common in countries outside Japan. We were not influenced by this trend because we have not entered the market for mirrorless cameras. We released two conventional SLR cameras, which worked well. We do anticipate, however, that mirrorless cameras will be prevalent in a few years, and we have started making plans accordingly. In addition, we do not offer bad inventory of cameras at cut-off prices.

<Optical Glass Materials>

- Optical glass materials have been growing steadily.

Q&A

Q: *Please give us details about the year-on-year increase in sales and income by segment (see page 8 of the Quarterly Report)*

A: (CFO Ema) To give you a breakdown of the increase of sales of 781 million yen, or 1.4%, in the Information Technology segment, sales of digital cameras increased 13.5%, that of MD substrates rose 4% (*), and sales of optical materials and lenses increased 9%. The increase in sales of cameras made a major contribution. Concerning the operating income, cameras moved into the black and contributed greatly. (*Note: Sales from MD substrates for the 3rd quarter under review do not include internal sales, while the figures for the same term in the previous year include them.)

To give you a breakdown of the increase in sales of 935 million yen, or 1.9%, of the Life Care segment, sales of contact lenses increased 11.7%, while sales of the Vision Care (VC) segment were down 3% due to the foreign exchange rate. With respect to the increase of operating income by 660 million yen, or 6.9%, the 20.6% increase in income from endoscopes was the biggest factor.

Q: *Sales from semiconductors seem to have decreased, is that true? What about the profit rate of VC?*

A: (CFO Ema) The profit rate of VC is about 20%. Sales related to semiconductors remained almost flat from the previous year, while the income decreased slightly.

Q: What is the expected direction of HDD in the 4th quarter compared with the 3rd quarter? Can we see the approximately 5-6% gap between the growth rate of drives and that of disks as being due to the yield on the customer side? If the increase of recording density slows in two or three years, will the gap between the growth rate of drives and that of disks be wider?

A: (CEO Suzuki) I estimate that the result for the 4th quarter will not differ greatly from that of the 3rd quarter, because there are fewer operating days in the 4th quarter. I believe the momentum will be maintained. As you say, the gap in the growth rate reflects the fact that the use of two disks has been increasing because the mainstream capacity of 500GB is impossible with one disk. Concerning external HDDs, a capacity of 1TB is being demanded in the market so the capacity will increase. Therefore, we expect that the number of platters will also increase.

Q: What is your business plan for the medium term? You have said that you want to achieve operating income of 100 billion yen as soon as possible, through measures including M&A, and you want to strengthen medical products to that end. Actually, what top line and bottom line do you expect for this year and next year?

A: (CEO Suzuki): I mentioned at the start of the year that I wanted to achieve 80 billion yen for operating income if the foreign exchange rate remains the same. However, it did not remain the same and we were affected by the foreign exchange rate significantly. So I currently expect 75 billion yen. I expect this level because I believe that the boom in the 3rd quarter was due to the favorable sales of cameras and that our sales will decrease in the 4th quarter. If the impact of foreign exchange rate is not taken into account, operating income would be 80 billion yen, so I don't think we are moving in a strange direction organically. However, it will be hard to achieve more than 100 billion yen if things remain unchanged.

Looking ahead, we will basically aim to maintain our market shares in semiconductors, LCD, and HDD, etc., so that they contribute to income. With regard to the Life Care segment, we would like to grow both organically and inorganically (through measures including M&A). By doing so, we would like to create a stable income structure that will ensure 100 billion yen. This would be hard to achieve in the fiscal year starting April 1, 2011, but we hope to enable our company to have this structure in the following fiscal year.

Q: Please tell us the procurement status related to rare earths and its impact on earnings.

A: (CEO Suzuki) We use rare earths mainly as an abrasive for HDD glass disks and materials for optical lenses. The impact is greater for the abrasive. We have procured enough rare earths to last until the end of September this year. However, the procurement was made while prices were still rising. We are currently using old stock, so the impact on earnings is about 25% that of the full impact. However, the actual cost will increase going forward. It will be difficult to reflect the cost increase in prices for our customers, but it will also be difficult for our company to absorb 100% of the added cost. Besides negotiating price increase, we would like to achieve a permanent solution, such as use of an alternative product or a reduction in the

quantity we use, by around June. We can see how to reduce the quantity we use, so we are studying alternative materials at the moment. I believe we will reach a conclusion in three months or so. We will continue to look for a conclusion until around June, and if we cannot absorb the cost in any way, we will consider passing it on to our customers. We believe that we must continue to try and absorb the cost by ourselves until then.

Q: Please tell us about the improvement in your earnings from digital cameras. Also, prices of compact digital cameras have been slashed in the market. Why did you outperform other companies?

A: (COO Hamada) In the 3rd quarter, we released two SLR cameras (K-5 and K-r). This means we released more products than other companies in the industry, which led directly to the increase in our earnings. We achieved 20% growth, while the industry grew by 10%. There are some sales channels that allow us to expect growth in terms of quantity but do not contribute to earnings because cameras are sold at discounted prices. We have maintained our prices by avoiding these sales channels. So we restrict sales channels in areas including Europe and the United States, and we do not sell large volumes of cameras but are enjoying growth in income. Compact cameras did not grow much in volume terms year on year. All of our cameras are OEM products, so we want to avoid chain reactions like those we saw last year, in which we self-destructed with bad inventory. For this reason, we manufactured cameras in a quantity that we can definitely sell.

Q: Please tell us about the sales of endoscopes in the 3rd quarter.

A: (COO Hamada) Sales in North America grew 10% year on year in dollar terms, while sales in Europe were up more than 20% in euro terms. Overall, sales grew by around 1% in yen terms. We believe that the entire market in Europe and North America grew by 20%. So we believe our sales expanded more than the market did and our market share increased.

Q: How was the result of HDD in the 3rd quarter? Results of other companies seem to be poor, but did you increase your market share? What is the reason for that? Did you change your policy about the HDD capacity this year? What about the competition?

A: (CEO Suzuki) I think it was due to our customer mix. In the 3rd quarter, we grew by around 12% year on year in terms of volume. The volume remained almost flat quarter on quarter. With regard to the new factory in the Philippines, it is about halfway complete. It will enable us to increase the entire production by 10-20%. We can increase production by 20%, which our customers demand. There will be a trend in favor of a volume increase in the future, and we expect a shortage of capacity to occur in 2012. So we need to decide in about three months at what point we will invest in increasing production further. The building has been completed, so the point will be when to add facilities. We believe we are the only company with a certification for 500GB units. So we think we have a technical edge to some degree.

Q: Which led to the 20% growth of endoscopes in Europe, flexible scopes or surgery tools and rigid scopes? Is the market share a reflection of cut-price sales? What contributed to the recent rapid improvement?

A: (COO Hamada) The growth is attributable entirely to flexible scopes. These are used for colons, stomachs, lungs, and bronchial tubes, for example, and for internal medicine only. We do not sell them at discounted prices because the products are not intended for general consumers. Because they will be used for at least five years, our strong ties with medical practitioners are the basis of our success. A purchase is made after three to six months of careful consideration. We have not said much about endoscopes in the past, but this does not mean our business performance was poor. In Europe, sales of these products are steady, because they do not fall below 100% of the previous year's result, being 97% at the lowest. Our market share is more than 20% in general, and is at 60% in some countries. This is a solid business and we think you can be confident in it.

Q: How is the development of reflection-type mask blanks of EUV going?

A: (CEO Suzuki) Under the present circumstances, we have yet to determine the purpose of its development. Inquiries from customers come flooding in, and we do not have the capacity. Some customers have told us they would be happy with sample products, the development of which is yet to be completed. So we will develop them by going halves with customers in development costs to manufacture and sell them. This will be our assignment for this year.

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