

Briefing Summary of the Analyst / Investor Meeting  
for the 4<sup>th</sup> quarter and full year financial results for the fiscal year ended March 31, 2011  
Tokyo, May 10, 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 provided by Mr. Ema, CFO**

**<Overview of financial results>**

- We have prepared materials showing the full year results and quarterly results. The quarterly results shown in the *Financial Report (English version)* are based on the generally accepted accounting principles in Japan (Japanese GAAP).
- I would like to outline just the key points of the 4<sup>th</sup> quarter's results for you, starting from page 24 of the *Financial Report*. Net sales were 101 billion yen, down 3.6% year on year. Operating income was 15.6 billion yen, down 9.9% year on year, while ordinary income declined 10.7% from the 4<sup>th</sup> quarter of the previous fiscal year, to 15.1 billion yen. Net income for the 4<sup>th</sup> quarter was 10.3 billion yen, down 13.0% year on year.
- With respect to the "Effects of Exchange Rate Changes," the US dollar, euro, and Thai baht were all weak against the yen during the quarter under review. The amounts that were negatively affected by the currency exchange rates were 3.38 billion yen in net sales, 300 million yen in both operating income and ordinary income, and 100 million yen in net income. I will provide you with the details of these exchange rate effects. The negatively affected amount of 3.38 billion yen in net sales is equivalent to 3.2% out of the 3.6% year-on-year decrease. This means that the rate of decline in net sales due to actual business activities, or without the influence of the currency exchange rates, is 0.4%, which equates to 370 million yen. To give you a breakdown of the decrease by segment, net sales in Information Technology decreased by 3.4 billion yen, a drop of 3.2% year on year. In contrast, net sales in the Life Care segment increased by 3 billion yen, making a positive contribution of 2.9% to overall net sales.
- With regard to operating income, the amount negatively affected by the currency exchange rates was 300 million yen, equivalent to a 1.8% year-on-year decrease. When this rate is subtracted from the 9.9% decrease in overall operating income, the negative effect of the actual business activities was 8%, or 1.4 billion yen. By segment, the reduction in operating income was approx. 2.5 billion yen in the Information Technology segment, down 14.6% year on year. Operating income in the Life Care segment increased by 1.2 billion yen, up 6.9% year on year.
- The figures in the balance sheet are the same as those for the full year results. You will see these in the tables showing the differences between the Designated International Financial

Reporting Standards (IFRSs) and the generally accepted accounting principles in Japan (Japanese GAAP).

- With respect to the cash flows from operating activities on page 25, net cash generated from operating activities was 21.6 billion yen, while net cash used in investing activities was 6.48 billion yen, which was used mainly for capital expenditure. Net cash used in financing activities was 560 million yen, which was used repayment of debt. The net increase in cash and cash equivalents was 23 billion yen, and the amount of cash and cash equivalents at the end of the year was 185 billion yen.
- Page 26 shows the segment information. In the Information Technology segment, net sales decreased by 4.5 billion yen, down 8.5% year on year, while operating income declined 26.7%, or 2.59 billion yen. Contributions to this negative growth included the impact of the earthquake on the semiconductor-related business and the sellout of the hard disk glass media manufacturing operation to Western Digital Corporation, which took place in June last year. In the Life Care segment, net sales increased by 700 million yen, up 1.5% year on year, and operating income grew 9.7%, or 900 million yen. Eyeglass lenses, contact lenses, intraocular lenses, and medical endoscopes either remained flat or made a positive contribution. With respect to operating income, all products made a positive contribution.
- The differences between the Japanese GAAP and the IFRSs for the fiscal year ended March 2011 are shown on pages 12 to 17. The differences for the previous fiscal year are shown on pages 18 to 23. I would like to explain the results for the fiscal year ended March 2011. Please look at the table of assets on page 12 comparing the Japanese GAAP and the IFRSs. The table shows the reclassifications and figures for the individual items. The leftmost column in the table shows the items under the Japanese GAAP, and the figures for the items under the IFRSs are shown in the second column from the left. The details of the main differences are shown in the table on page 13. The “Adjustments” amounts in the columns on its right are the differences due to the differences in calculation standards. For example, goodwill is not amortized in the IFRSs. Depreciation of non-current assets is basically calculated by applying the straight-line method in the IFRSs. It was calculated using the declining-balance method under the Japanese GAAP, which generates high costs in the first fiscal year of investment. This meant that the Company applied a conservative method. But the straight-line method will be applied hereafter, and the difference appears in the statements of income. In addition, the order of the information will be based on fixed arrangements. The balance sheets we used first show current assets, starting from cash and deposits, followed by non-current assets. This will be the other way round hereafter. The table on page 14 shows equity and liabilities. The order is reversed here, too, with net assets followed by liabilities. Fixed arrangements are also applied for the items of liabilities. Substantial differences are shown in the figures in the “Reclassifications” and “Adjustments” columns.
- With respect to the statement of comprehensive income on page 16, substantial differences in income appear due to the reclassification of items and adjustments of the differences in recognition and measurement. In addition, only the results of continuing operations are

presented as final figures, which means that the figures for discontinued operations are eliminated. The amounts of intracompany transactions eliminated between continuing operations and discontinued operations are shown in the “Eliminations” column. The rightmost IFRSs column shows the results of the continuing operations. This is because you will undertake analyses in future, and you will be confused if the figures for the discontinued operations are also included. If the figures are limited to those for the continuing operations, the calculations will be more straightforward. I believe that this is why the results of the discontinued operations have been excluded. However, this makes it impossible to understand the Company’s total results. Accordingly, to make it easier to understand the Company’s results, we have included a consolidated statement of comprehensive income for all the operations on page 6. This is normally not necessary because the results of the continuing operations, or the upper table on page 7, are all we need to present. However, because the balance sheet and statement of cash flows show the results of all the operations, it would be confusing if the figures were limited to those for the continuing operations only in the consolidated statement of comprehensive income. That is why we show this table on page 6.

#### **Overview of operations provided by Mr. Suzuki, CEO**

##### **<IFRSs>**

- These will be the last financial statements to which we will apply both the Japanese GAAP and the IFRSs. From the next fiscal year, we will apply the IFRSs only. As a result, I recommend that you keep the materials we have made this time for a while. In my opinion, the IFRSs are quite good for showing the status of a manufacturer, because the expense items are presented more clearly than they were previously. The use of material that is different from what is familiar may cause inconvenience, partly because of the lack of consistency. However, I believe that the international standards will be beneficial for observing changes in operations as they continue to be used. The IFRSs include elements that come from the balance sheets, including comprehensive income, for which explanations will be provided in the notes. We will ask you to assess HOYA based on the IFRSs going forward. We appreciate your understanding.

##### **<Overall>**

- Compared with the previous term, operations related to electronics dragged down our results, due in large part to the March 11 earthquake. Direct damage was minor for us because most of our plants have been moved overseas and we have only a small number of plants in Japan. The extraordinary loss was not significant either. Rather, we were affected because our customers were affected.

##### **<Mask Blanks/Photomasks for Semiconductor Manufacturing>**

- We entered the 4<sup>th</sup> quarter while our customers were carrying inventories. It appears that those inventories were not cleared because production had halted since the middle of March due to the earthquake, where inventory adjustment would normally have been undertaken. The impact also remained in April. This was not a problem for blanks for overseas markets, but we failed to meet a delivery date for masks because of the blackouts. Japanese mask manufacturers were avoided for a while. As a result, all mask manufacturers including the Company were affected, but the situation normalized again in May.

#### **<Photomasks for Liquid Crystal Displays (LCD)>**

- We posted favorable results. We have started to utilize new designs aimed at process improvement (cost reductions) in both Taiwan and South Korea. I believe this trend will continue for some time. On the contrary, we are facing an extremely tough situation with regard to masks for the domestic market, excluding small and medium-sized ones for smartphones. We have had no work to do for domestic customers. This situation is still continuing in May. Overall, however, we were not affected because we receive the majority of our orders from Taiwan and South Korea.

#### **<Optical Lenses>**

- In Japan, we have furnaces for melting glass. We could not operate these furnaces at all in March due to the rolling blackouts. However, we had inventories, and glass for SLR cameras sold well in the 4<sup>th</sup> quarter. As a result, the 4<sup>th</sup> quarter result was better than expected, although our performance is normally poor at this time of year. But we expect sales of glass to reduce hereafter because production at major camera manufacturers has been declining since the earthquake. Those manufacturers have reduced their operating rates, so we are more concerned about the current 1<sup>st</sup> quarter result.

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

- The results have been poor since the 4<sup>th</sup> quarter. We believe that this can be attributed to the poor results of netbooks due to the appearance of tablets and a certain level of inventories carried by PC manufacturers. In addition, there is news of a merger between Seagate and HDDs section of Samsung. Due to the progress of such mergers in the HDD industry, the number of players has been decreasing.
- HDD production had been adjusted up until last week, but manufacturers have been stepping up production since the end of last week.
- The other factor that dragged down our revenue was the soaring price of cerium. We told you previously that we would reach a conclusion by May, and we have decided to use an alternative material. This will reduce our dependency on cerium, but the alternative material is not as effective as cerium for polishing. This will make the processing time longer, resulting in a cost increase. We will have to ask our customers to help us compensate for losses due to the cost increase to some extent.

### **<Eyeglass Lenses>**

- Our business in the domestic market struggled for a while after the earthquake, but the ratio of our sales in the domestic market to our total sales is small. In our businesses as a whole, we achieved growth of around 5% in local currency terms. Markets in Europe continue to struggle. Prices are also falling. Prices fell in some regions such as Canada and Australia, which was compensated for by rises in Brazil and India, for example. As a result, we believe that the market as a whole remained flat, but the Company continued growing by 10% in terms of quantity and 5% in monetary terms.

### **Overview of performance provided by Mr. Hamada, COO**

#### **<Digital Cameras>**

- I would like to start with good news. The camera business of PENTAX has moved into the black. We suffered from deficits for two years and expected a tough situation due to the triple setback of the financial crisis, the appreciation of the yen, and the earthquake. But we were able to end the fiscal year in the black. In the last few years, price competition has been growing fiercer since mirrorless cameras appeared on the market. We focused our efforts on creating distinctive cameras and determinedly pursued profits instead of market share. Thanks to these efforts, we moved into the black and the result remained favorable in April. This reminded us of the importance of focusing on the distinctiveness of the products we create, which should naturally be done by a manufacturer. While new cameras are not seen on store shelves, many stores are demanding PENTAX products. We aim to continue producing and delivering products diligently unless the parts supply is interrupted.
- The problem is parts supply. A camera consists of thousands of parts. We are looking for alternative supply chains and will make other efforts. I believe that an electronic parts shortage will become evident in the entire market between May and July. I feel that the supply will stabilize again in September or October. The coming summer will be a challenging period for the camera industry. Now that ongoing profits of PENTAX have come into view, we will continue our determined efforts this fiscal year.

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

- The result for the 4<sup>th</sup> quarter was the same as the same quarter of the previous fiscal year due to forex. In local currency terms, however, we achieved double-digit growth in the Americas, and in South America, in particular, we grew by more than 100%. We also achieved double-digit growth in Asia, but the growth rate in Europe was less than 10% due to the financial uncertainty in PIIGS. We also enjoyed growth in the Middle and Near East, but sales did not increase in March in countries experiencing unstable situations. We have continued to grow steadily in Germany, France, and other countries. In Japan, we have two plants in the Tohoku area, but they were barely damaged in the earthquake. We were able to

purchase molds and components from other sources, so the impact of the earthquake was minimal. Sales in Japan are relatively minor, so the impact was small.

#### <Contact Lenses>

- We have 181 Eye City stores in Japan, and only one of them was closed due to the earthquake. Since the earthquake, sales of one-day disposable lenses have been growing, probably because people have started to stock up on contact lenses. We do not foresee a decline in demand.

#### <Intraocular Lenses (IOL)>

- We produce 100% of our IOLs overseas, so the earthquake had no impact on their production. The procurement of materials has not been significantly affected to date, either. In Japan, cataract surgeries, which are not urgent, have been postponed in the Tohoku area. As a whole, however, the impact has been relatively minor.

#### <Optical Devices>

- Blu-ray products did not gain much popularity during the fiscal year under review. However, we expect our Blue-ray pickup lenses to grow this fiscal year because inventories have been cleared and demand for Blu-ray products will grow.

#### Q&A

*Q: Please advise us of the temporary factors, including the earthquake, that you have assumed for the respective main business segments, if any. Please advise us of the direction of each segment along with the temporary factors. Have there been any changes to the sales and operating income targets since the earthquake?*

A: (Suzuki,CEO) I believe that, from a macroscopic point of view, the earthquake has not had a significant impact on our businesses. Our domestic production is low and the ratio of overseas sales is high. Electronics-related businesses were affected by the earthquake, but we believe the impact will remain until around May. We are yet to fully predict the impact on the camera business, but we assume that the overall impact will disappear around May.

The direction of the Company has not changed significantly. Basically, our business segments are the Life Care segment and the Information Technology segment. In the Information Technology segment, it is important to secure a structure that generates profits reliably, despite sluggish growth in demand. Our growth is secured by our Life Care segment, particularly its overseas sales. The profit structure is firm, so we intend to increase our profits by increasing sales.

The impact of the earthquake was seen in April, but we will not change our position at this moment with regard to the full-year revenues.

*Q: Please provide us with a breakdown of the changes in profits or losses by product.*

A: (Ema, CFO) We abolished the SBUs, the frameworks we used for each segment, and now use the new frameworks of Information Technology and Life Care. I would therefore like you to apply these two frameworks. I would ask that you undertake analyses based on the explanations provided earlier by the president and COO.

*Q: In the last Investors' meeting, you told us that your technical edge in HDDs would give you an advantage in terms of market share and other aspects in the short term. How is the situation now? You told us today that the situation has been better since the start of May. What sort of increase in terms of quantity do you anticipate on a calendar year basis?*

A: (Suzuki, CEO) Our main product is a 2.5-inch HDD disks for mobile devices. It will take some time before we can commence commercial production of 500GB HDDs. I think we will enter the production period of 500GB HDDs in the coming summer or thereafter. I believe that the industry wishes to shift to 500GB and 1TB (terabyte) HDDs as soon as possible. With respect to the growth of HDDs in terms of quantity, we are assuming an 8% increase in 2.5-inch HDDs on a calendar year basis. We have built a plant in Vietnam. We have yet to install any equipment there, but once installation is completed, a production capacity that will allow an 8% increase will be achieved in time. Considering that the production of 250GB HDDs will cease, however, the growth rate of disks in terms of quantity is expected to decline.

*Q: Please outline the current situation of the glass melting pots that were shut down in March, and the impact of the power shortage anticipated in the coming summer and thereafter. Please also tell us what the related costs will be.*

A: (Suzuki, CEO) We are now operating them fully again because the use of electricity is not restricted. Pots cannot be turned on or off quickly. We therefore recovered them in sequence, and have now almost completely resumed full operations. I believe that in-house power generation is the only countermeasure against the power shortage that is anticipated in the coming summer, and we have already implemented this. The glass-melting process requires a considerable amount of electricity, but we are able to supply all of it with in-house power generators. The cost of installation was hundreds of millions of yen. The cost of energy will increase because the light oil used for the in-house power generators is more expensive than the electricity. However, I consider the costs to be quite low from the viewpoint of the entire company. There is concern that reduced production by our customers will lead to a decrease in our sales in the 1<sup>st</sup> quarter.

*Q: Please tell us what the levels of capital expenditure and depreciation and amortization will be for the current fiscal year due to the application of the IFRSs. Please also tell us your thoughts regarding the segment profits before tax.*

A: (Ema, CFO) We began to create budgets based on the IFRSs several years ago. The figures, though we formulated before the earthquake, were 40 billion yen for capital expenditure and around 35 billion yen for depreciation and amortization.

With respect to the second question, we have four holding companies in the United States, Europe, Singapore, and Japan. These companies are included in the head office sectors. Above all, we deal with numerous currencies, and more than 60% of our sales are from outside Japan. We also have some contracts in Japan that are based on the US dollar. We are forced to have other countries' currencies in each country for reasons of liquidity, which leads to the exchange conversion problem. Consequently, we have posted a year-on-year gain of around 4 billion yen as "Adjustments." This means that the degree of the negative contributions of the exchange conversions decreased by this amount. Accordingly, you will understand the segment profits before tax better if you look at the figures for the main businesses as continuing operations.

*Q: Please tell us what businesses you intend to grow from the viewpoint of human resources.*

A: (Suzuki, CEO) In terms of segment, we will start with the Life Care segment, in principle. With respect to Information Technology, we will aim for efficiency improvements, but employee benefits expense has continued to increase as a whole.

(Ema, CFO) You will understand this if you look at the consolidated statement of comprehensive income on page 6. If revenue from sales is rounded down to 423 billion yen and employee benefits expense is rounded down to 94.7 billion yen, the ratio of the latter to the former is a little more than 20%. The increase in employee benefits expense is smaller than the increase in revenue. This is because the number of Asians increased. We constantly monitor these details, so you don't need to worry about them.

*Certain statements contained in this report constitute forward-looking statements regarding the Company's future performance and environment of the industry in which the Company is involved. Forward-looking statements are based on the judgments of the Company and corporate group obtained based on information obtainable at the time the statements are made and they also contain risks and uncertainties. The Company does not guarantee the completeness or accuracy of the content. Consequently, you are advised to refrain from making investment judgments relying entirely on these forecasts. Actual performance and the industry environment may differ materially from those expressed by the forward-looking statements for a number of reasons. You are requested to make final decisions regarding investment, etc., on your own. Please be aware that we cannot take responsibility for the outcome of investments.*