

Flash Report (Consolidated Basis)

Results for the fiscal year ended October 31, 2009

Company name: OHARA INC.

Stock listing: Tokyo Stock Exchange (First section)

Code number: 5218

(URL: <http://www.ohara-inc.co.jp/>)

Representative: Hirokazu Saito, President

Contact: Takashi Nakajima, Executive Director

Planned date for ordinary general meeting of shareholders: January 28, 2010

Planned date for commencement of dividend payments: January 29, 2010

Planned date for submission of securities report: January 29, 2010

(Figures less than ¥1 million have been omitted.)

1. Consolidated Financial Results (from November 1, 2008 to October 31, 2009)

(1) Operating results

(Percentage figures denote the year-on-year increase or decrease.)

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2009	19,490	(36.3)	(605)	---	(736)	---	(1,848)	---
FY2008	30,574	8.2	6,372	(9.9)	6,458	(12.8)	3,915	(18.3)

	Net income per share	Net income per share after dilution	Return on equity	Ordinary profit-to-total assets ratio	Operating income-to-net sales ratio
	Yen	Yen	%	%	%
FY2009	(75.98)	---	(4.5)	(1.3)	(3.1)
FY2008	158.19	---	9.0	11.1	20.8

Reference: Equity in earnings of affiliates: Year ended October 31, 2009: ¥---

Year ended October 31, 2008: ¥1 million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2009	52,367	39,250	74.4	1,601.91
FY2008	60,394	44,214	71.9	1,784.50

Reference: Own Capital: As of October 31, 2009: 38,967 million yen, As of October 31, 2008: 43,409 million yen

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Cash and cash equivalent at end of term
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
FY2009	3,571	(895)	364	8,572
FY2008	4,652	(4,272)	(3,243)	6,208

2. Dividends

(Base date)	Dividend per stock					Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen			
Year ended Oct. 2008	---	0.00	---	25.00	25.00	608	15.8	1.4
Year ending Oct. 2009 (result)	---	0.00	---	15.00	15.00	364	---	0.9
Year ending Oct. 2010 (forecast)	---	0.00	---	15.00	15.00		40.5	

3. Forecast consolidated results for the fiscal year ending October 31, 2010

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period	11,500	27.4	400	---	500	---	380	---	15.62
Full-year	25,000	28.3	1,400	---	1,500	---	900	---	37.00

1. Operating Results

(1) Analysis of operating results

1) Consolidated business results for the fiscal year under review

The domestic and overseas economies in the fiscal year under review experienced a continued downturn with worsening employment conditions, despite a recovery in production, especially in Asia, driven by economic stimulus policies. The U.S. economy moved out of its trough on the strength of economic stimulus, but the recovery remained anemic, with weak personal spending associated with the deteriorating employment situation. Although inventory adjustments came to a halt in European economies—again thanks to the effects of economic-stimulus packages—the recovery in exports and production was modest. In contrast, the Chinese economy enjoyed a robust recovery, especially in domestic demand, partly because of government initiatives including support for purchases of automobiles and home appliances. Korean and Taiwanese economies also recovered, reflecting increases in exports to China. The Japanese economy finally ceased contracting in the second half of the fiscal year, but the economy overall was sluggish with surplus production capacity and a weakening employment situation.

In the optical equipment market, demand for single-lens reflex digital cameras and interchangeable lenses recovered gradually in the second half of the fiscal year, but fell below the year-ago level. Demand for compact digital cameras remained weak, and prices continued to fall. In the electronics equipment market, demand for hard disk drives recovered sharply in the second half of the fiscal year but fell short of the year-ago level because of production and inventory adjustments at hard disk drive manufacturers. Prices of hard disk drivers declined accordingly. Demand for optical glass for semiconductor exposure devices was weak as manufacturers scaled back their capital spending. There were signs of a recovery in capital outlays for exposure devices for LCDs at manufacturers, but demand for special glass for the devices remained weak.

The average exchange rates of the U.S. dollar and the euro against the yen were 94.38 yen and 128.70 yen, respectively, in the fiscal year under review, with the yen remaining approximately 11.3% and 19.1% stronger against these currencies in comparison with the previous fiscal year.

In this environment, demand for single-lens reflex digital cameras and optical glass products for interchangeable digital camera lenses was down, and demand for hard disk substrates plummeted. As a consequence, sales for the fiscal year under review stood at ¥19,490 million, a fall of 36.3% from the previous fiscal year.

The gross margin on sales fell 15.4 percentage points year on year, to 23.2%, as improved production efficiency at a low capacity utilization rate through comprehensive efforts to cut costs was unable to offset a sharp decline in sales and falling unit prices. In selling, general and administrative expenses, freight costs and supplies expenses declined with the lower sales, but an operating loss of ¥605 million was posted (compared with operating income of ¥6,372 million for the same period of the previous fiscal year). The Group posted an ordinary loss of ¥736 million (compared with an operating profit of ¥6,458 million for the year-ago period) because of a foreign exchange loss attributable to the appreciation of the yen, and other factors. As a result of registering an impairment loss on fixed assets and a loss on devaluation of inventory in extraordinary losses, we posted a net loss of ¥1,848 million (compared with net income of ¥3,915 million for the year-ago period).

Results by business segment are as follows:

(1) Optical business

Sales of optical pressings, the core products for this segment, stood at ¥11,458 million, reflecting weaker demand for lens blanks for digital cameras and lower unit prices. Sales of optical blocks were ¥1,567 million, attributable to declining demand because of production and inventory adjustments by optical instruments manufacturers.

As a result of the above, sales for the segment came to ¥13,025 million, and operating income was ¥448 million.

(2) Electronics business

Sales of disk products, the core products for this segment, reached ¥2,870 million as a result of declining demand and unit prices, reflecting temporary production and inventory adjustments by hard disk drive manufacturers. Sales of special glass products were ¥3,594 million, attributable to weak demand for highly homogeneous glass materials for semiconductor exposure devices and ultra low expansion glass-ceramics for liquid crystal exposure devices—in turn a result of lower capital spending by manufacturers. The addition of sales of low-margin quartz glass products also influenced results.

Sales in the segment were ¥6,464 million. An operating loss of ¥1,054 million was posted.

The following is a breakdown of results by geographical segment:

(1) Japan

In optical products operations, demand for optical pressings for digital cameras declined, as did their prices. In

electronics products operations, needs for hard disk substrates plummeted given temporary production and inventory adjustments at hard disk drive manufacturers, among other factors. Quartz glass contributed to an increase in sales, but profits were weak. As a consequence, sales stood at ¥11,678 million (down 33.3% year on year). An operating loss of ¥2,286 million (compared with operating income of ¥3,694 million in the previous fiscal year) was posted, as a reduction in freight costs and supplies expenses through cost-cutting initiatives was more than offset by the sharp fall in sales and falling selling prices, along with sluggish quartz operations.

(2) Asia

In optical products operations, demand for lens blanks and ball lenses for digital cameras—especially compact digital cameras—plunged. Unit selling prices also declined. As a result, sales amounted to ¥5,917 million (down 40.4%). Meanwhile, operating income stood at ¥544 million (down 67.4%) as reductions in freight and personnel costs associated with falls in sales and costs were more than offset by a plunge in sales.

(3) North America

In electronics products operations, demand for special polished products rose, while needs for products for industrial use, including highly homogeneous glass materials, were down on reduced capital expenditure. In optical products operations, demand for optical blocks and ball lenses fell. As a consequence, sales reached ¥880 million (falling 24.3%), and operating income was ¥81 million (dropping 63.7%).

(4) Europe

In optical products operations, demand for optical pressings and blocks declined. Electronics products operations meanwhile experienced a fall in demand for highly homogeneous glass materials for semiconductor exposure devices, because of capital expenditure controls. As a result, sales were ¥1,014 million (down 48.6%), and operating income stood at ¥193 million (declining 62.0%).

Sales by geographical segment above are sales to external customers.

2) Outlook for the next fiscal year

Looking at the business environment for the Ohara Group, the principal concern is that any recovery in the real economy will be delayed, as it will take the corporate sector some time to recover its appetite for investment given excessive production capacity and personal spending remains weak because of worsening employment conditions. However, the global economy is expected to continue to recover moderately thanks to national economic stimulus programs. In the optical equipment market, demand for digital cameras is recovering, especially for single-lens reflex digital cameras and interchangeable lenses. On the other hand, demand for compact digital cameras is weak, and there is concern that prices will continue to fall. In the electronics equipment market, unit prices may continue to decline, although demand for hard disk drives is recovering sharply. We expect that demand for optical glass for semiconductor exposure devices and special glass for exposure devices for LCDs will recover only from the second half of the next fiscal year, reflecting curbs on capital expenditures.

In this difficult business environment, the Group will streamline its production bases and will make comprehensive efforts to reduce costs. The Group will meanwhile aim to expand sales in markets in Asia, where growth is expected. We forecast the following consolidated results for the next fiscal year:

Sales of ¥25,000 million

(up 28.3% year on year)

Operating income of ¥1,400 million

(compared with an operating loss of ¥605 million in the fiscal year under review)

Ordinary profit of ¥1,500 million

(compared with an ordinary loss of ¥736 million in the fiscal year under review)

Net income of ¥900 million

(compared with a net loss of ¥1,848 million in the fiscal year under review)

In its outlook for the next fiscal year, the Group assumes that the exchange rate for the yen will be 88 yen to the U.S. dollar and 130 yen to the euro.

The Group has prepared the above forecasts based on information available at present and certain assumptions that the Group deems reasonable. Actual results may differ materially from the forecasts.

(2) Financial analysis

1) Analysis of financial position

Total assets at the end of the consolidated fiscal year under review stood at ¥52,367 million (down 13.3% from the end of the previous fiscal year). The principal factors included a sharp decline in notes and accounts receivable-trade because of a fall in sales, and a decrease in property, plant and equipment due to depreciation and impairment losses, which offset an increase in the market value of investment securities and other factors. Current assets were ¥23,335 million (falling 16.2%). The major causes were a decrease in notes and accounts receivable-trade and a fall in inventories because of a decline in sales and write-downs, offsetting an increase in cash and deposits through the collection of accounts receivable and borrowings.

Fixed assets came to ¥29,032 million (declining 10.8%). The result principally reflected decreases in tangible fixed assets, including ¥326 million in buildings and structures and ¥2,534 million in machinery and vehicles. These declines in tangible fixed assets resulted primarily from impairment accounting for production equipment at certain consolidated subsidiaries and reductions in the value of assets at overseas subsidiaries, reflecting translations into yen which was stronger than it was in the previous fiscal year. In investments and other assets, long-term time deposits declined, but investment securities rose ¥31 million because of a valuation gain based on the market value at the end of the period.

Current liabilities were ¥9,827 million (down 25.7%). Key factors were a decrease in notes and accounts payable-trade due to a reduction in the scale of production and a decline in accrued income taxes, which offset an increase in short-term borrowings.

Noncurrent liabilities stood at ¥3,289 million (up 11.2%). Major causes were rises in long-term borrowings and provision for retirement benefits, and an increase in deferred tax liabilities due to factors including a rise in net unrealized holding gain on securities.

Net assets amounted to ¥39,250 million (slipping 11.2%). The result reflected a fall of ¥2,509 million in retained earnings as a result of a decline of ¥2,112 million in foreign currency translation adjustment associated with the stronger yen and the posting of a net loss of ¥1,848 million, despite a rise in the net unrealized gain on securities holdings based on the market value at the end of the period.

2) Analysis of cash flows

Cash and cash equivalents (hereinafter "cash") at the end of the fiscal year under review rose ¥2,364 million from the end of the previous fiscal year, to ¥8,572 million (up 38.1%). A loss before income taxes and minority interests of ¥1,597 million (compared with income of ¥6,391 million in the previous fiscal year), a decrease in notes and accounts payable-trade, and purchase of property, plant and equipment were more than offset by a decrease in notes and accounts receivable-trade, depreciation, and proceeds from short-term and long-term loans payable.

The following is a description of each category of cash flows and their factors:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥3,571 million (down 23.2% year on year).

The major factors behind the cash inflow included a loss before income taxes and minority interests of ¥1,597 million (compared with income of ¥6,391 million in the previous fiscal year) and a decrease in notes and accounts payable-trade of ¥1,380 million (compared with an increase of ¥711 million in the previous fiscal year), more than offset by depreciation and other amortization of ¥2,513 million (up 26.0% year on year) and a decrease in notes and accounts receivable-trade of ¥2,952 million (compared with an increase of ¥416 million in the previous fiscal year).

(Cash flows from investing activities)

Net cash used in investing activities was ¥895 million (down 79.0%).

The cash outflow resulted primarily from proceeds from the withdrawal of time deposits of ¥1,051 million (a fall of 57.4%) more than offset by the purchase of property, plant and equipment of ¥1,753 million (a decline of 68.0%).

(Cash flows from financial activities)

Net cash provided by financial activities ¥364 million (an outflow of ¥3,243 million in the year-ago period).

The cash inflow primarily reflected long-term borrowings of ¥1,000 million and a net increase in short-term loans payable of ¥669 million (compared with repayments of ¥53 million in the previous fiscal year), which more than offset repayments of long-term debt of ¥533 million (compared with repayments of ¥938 million in the previous fiscal year).

Changes in cash flow-related indicators of the Group are as follows.

	FY 2006	FY 2007	FY 2008	FY 2009
Equity ratio (%)	71.5	77.7	71.9	74.4
Market value-based equity ratio (%)	134.7	93.3	35.6	64.1
Ratio of interest-bearing debt to cash flow	54.7	51.1	120.4	185.0
Interest coverage ratio	76.5	93.2	141.7	51.0

(Notes) Equity ratio: Shareholders' equity / Total assets x 100
 Market value-based equity ratio: Aggregate market value of stocks / Gross assets
 Ratio of interest-bearing debt to cash flow: Interest-bearing debt / Cash flow by sales activities
 Interest coverage ratio: Cash flow by sales activities / Interest payments
 *Each indicator is calculated based on consolidated financial data.
 *The total market value of shares is calculated by multiplying the closing stock price at the end of the period by the number of shares issued (excluding treasury stocks) at the end of the period.
 *For operating cash flows, cash flows from operating activities in the consolidated cash flow statement are used.
 *All debts involving the payment of interest and stated in the consolidated balance sheets are included in interest-bearing debts. For the calculation of interest payments, interest payments recorded in the consolidated statements of cash flows are used.

3) Principle policy on the distribution of profits and dividends in fiscal 2009 and fiscal 2010

Our basic policy is to distribute consistent and stable profits to shareholders while securing sufficient retained earnings to strengthen the management base and expanding operations. Under this policy, we seek to pay dividends in accordance with business performance, taking dividend on equity ratio (DOE) and dividend payout ratio on a consolidated basis into consideration.

For the fiscal year under review, we will propose a common dividend of ¥15 at the 101st ordinary general meeting of shareholders to be held on January 28, 2010.

For the next fiscal year, the Company plans to pay a common dividend of ¥15 based on its prediction that the business environment will be extremely difficult.

The Company will use retained earnings to bolster its financial position and develop new operations to respond to changes in the business environment expected to occur in the future.

4) Business risks

The following are the main business risks that could have impact on the operating results and financial conditions of the Group.

The future risks described herein are based on our judgment as of the end of the fiscal year under review.

(1) Dependence on a certain business

The Group is heavily dependent on the optical products business, which accounts for approximately 67% of net sales. Although demand for single-lens digital cameras and interchangeable lenses is expected to remain firm, sales and profit margins could decline, reflecting the downscaling of the camera market due to business slowdown and intensifying competition with competitors in Japan and overseas. We will continue our efforts to solidify the pillars of our optical business by introducing operational reforms with an emphasis on customer satisfaction in quality, price and delivery time, and by developing a highly efficient production organization. At the same time, we will expand our electronics business by bolstering the product lineup. The operating results and financial conditions of the Group could be affected, however, subject to the success of these endeavors.

(2) Dependence on certain customers

In the electronics business, although the Group provides the electronics equipment market with highly specialized glass products, dependence on certain customers is high because of the high degree of expertise and specialties of these products. Although we remain committed to attracting new customers and continuing research and development in new areas, the business results and financial conditions of the Group could be affected if orders from the certain customers decline substantially.

(3) Changes in foreign exchange rates

The Group's production and sales activities are global, centering on Asian countries, and these activities involve foreign currency transactions. As a consequence, changes in foreign exchange rates could have an impact on results. Although we hedge these risks using forward exchange contracts and other instruments, it is not possible to eliminate all risks. A sharp appreciation in the yen could have an impact on the business results and financial conditions of the Group as it would lower the price competitiveness of its products.

(4) Changes in interest rates

The balance of interest-bearing debt of the Group at the end of the period under review was ¥6,607 million. Interest-bearing debt grew from a year ago in preparation for capital needs due to falls in sales. As demand for funds eases, the Group will continue to reduce interest-bearing debt to improve its financial strength. However, rapid changes in the interest rate environment and the financial market could have an adverse effect on the business results and financial conditions.

(5) Risks relating to overseas business operations

The Group operates businesses in overseas markets, mostly in Asia, and overseas sales account for approximately 51% of consolidated sales. Operations in overseas markets involve various risks including unexpected changes in laws and regulations, the imposition of taxes due to revisions to the tax law and transfer price taxation, unfavorable political and economic developments, difficulty in hiring and securing personnel, the impact of changes in foreign exchange rates on results, and social disturbances due to terrorism, wars and other factors. The occurrence of any of these risks could have an impact on the business results and financial conditions of the Group.

(6) Risks relating to litigation

The Group could become a subject of a lawsuit, dispute or any other legal proceeding in its business operations in Japan and overseas. Although the Group was not party to any lawsuit with the potential to have a material impact on its business during the period under review, litigation in the future could have an adverse effect on the results and financial conditions of the Group.

(7) Risks relating to major shareholding companies

(Seiko Holdings Corporation)

Seiko Holdings Corporation is the largest shareholder of the Company (with a shareholding of 32.4% as of the end of October 2009), and the Company is an equity-method affiliate of Seiko Holdings Corporation. Seiko Holdings Corporation is also one of the "Other related companies" of the Company.

Although the Company currently has two part-time directors and one part-time corporate auditor from the Seiko Holdings Group, it did not have any business transactions with Seiko Holdings Corporation in the fiscal year ended October 31, 2008 and the fiscal year ended October 31, 2009.

Meanwhile, the Company held 256,307 shares in Seiko Holdings Corporation as of the end of October 2009 (a shareholding of 0.2%) for the purpose of strengthening its ties with the Seiko Holdings Group in the future.

Although the Company expects Seiko Holdings Corporation to continue to play a role as a stable shareholder and strengthen its relationship, the results and financial conditions of the Company could be affected if it is unable to maintain a favorable relationship.

(Canon Inc.)

Canon Inc. is the second largest shareholder of the Company (a shareholding of 18.4% as of the end of October 2009), and the Company is an equity-method affiliate of Canon Inc., while Canon Inc. is one of the "Other related companies" of the Company.

The Company currently has one part-time director and one part-time corporate auditor from Canon Inc.

Transactions with Canon Inc. in the fiscal year ended October 31, 2008 and the fiscal year ended October 31, 2009 are as described in "Transactions with related parties." Terms and conditions of the transactions are the same as those for general transactions, and no conflict of interest or other issue has arisen.

Meanwhile, the Company held 729,658 shares in Canon Inc. as of the end of October 2009 (a shareholding of 0.05%) for the purpose of maintaining and strengthening the relationship with the Canon Group in the future.

Although the Company expects Canon Inc. to continue to play a role as a stable shareholder and strengthen the relationship, the results and financial conditions of the Company could be affected if it is unable to maintain a favorable relationship.

(8) Risks relating to raw materials

As raw materials used by the Group include those that can be obtained from a limited number of manufacturers or production areas, production of the Group could be interrupted if it has difficulty in obtaining the materials it needs. Prices of raw materials could also rise, subject to factors such as the production status, foreign exchange rates and market conditions, which could influence the business results and financial conditions of the Group.

2. Business Overview

The Company and its related companies consist of the Company, ten subsidiaries and other related companies—Seiko Holdings Corporation and Canon Inc.

The Group (the Company and consolidated subsidiaries; hereinafter the same applies) consists of ten consolidated subsidiaries. Its main business is the manufacture and sale of glass materials for optical and electronics devices. The Company engages mainly in the production and sale of materials and the sale of products. The consolidated subsidiaries process and sell the products.

The following is a description of the Group's businesses by segment:

(1)Optical business

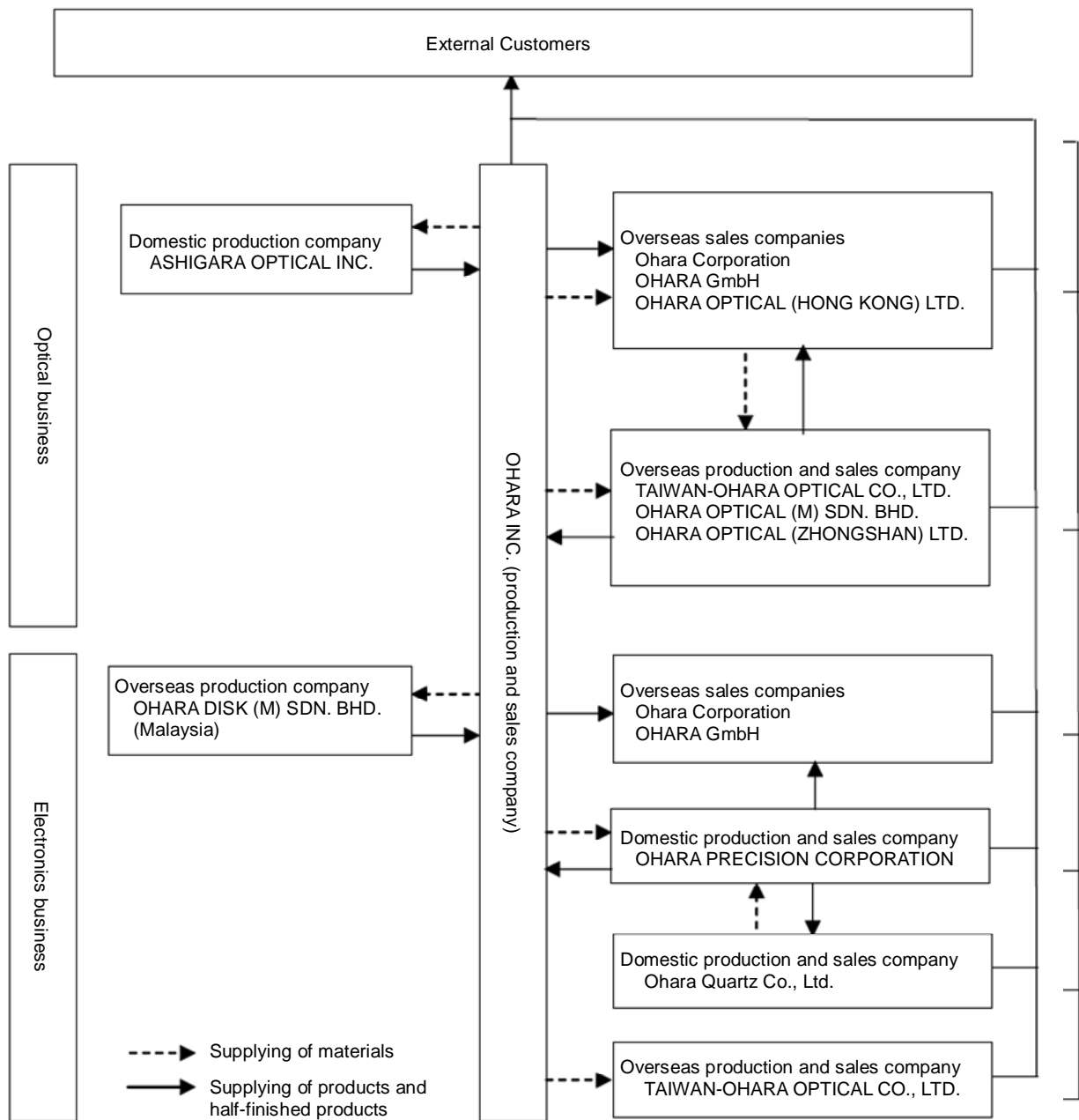
In its optical products segment, the Group possesses a stable mass production system based on optical glass production technologies. This is an integrated production system involving domestic and overseas production subsidiaries system, which the Group has been building since its foundation, and handles all processes from the melting of raw materials to molding for different purposes. We produce and sell optical lens blanks used in digital devices such as digital cameras and LCD projectors, as well as lens preforms for the mold press. Sales subsidiaries Ohara Corporation, OHARA GmbH, and OHARA OPTICAL (HONG KONG) LTD.. sell these products in North America, Europe, and Asia, respectively.

(2)Electronics business

In this segment, the Group produces and sells glass-ceramics, including glass disks for hard disk devices installed mainly in mobile equipment, highly homogeneous glass materials and low expansion glass-ceramics used for semiconductor manufacturing equipment and liquid crystal exposure devices, and quartz glass and polished quartz glass for LCDs, semiconductor manufacturing equipment, and projectors. We supply materials for glass disks for hard disk devices to OHARA DISK (M) SDN. BHD., a production subsidiary in Malaysia, which processes the materials, and purchases the processed products.

Segment	Company name
Optical business	OHARA INC. TAIWAN-OHARA OPTICAL CO., LTD. (ROC) OHARA OPTICAL (M) SDN. BHD. (Malaysia) OHARA OPTICAL (ZHONGSHAN) LTD. (PRC) Ohara Corporation (USA) OHARA GmbH (Germany) OHARA OPTICAL (HONG KONG) LTD. ASHIGARA OPTICAL INC.
Electronics business	OHARA INC. TAIWAN-OHARA OPTICAL CO., LTD. (ROC) Ohara Corporation (USA) OHARA GmbH (Germany) OHARA PRECISION CORPORATION OHARA DISK (M) SDN. BHD. (Malaysia) Ohara Quartz Co., Ltd.

The chart below shows a business system diagram of the Group.



(Note) There are no business transactions with Seiko Holdings Corporation. Canon Inc. is a customer of the Company. Business terms including prices for Canon Inc. are the same as those for other customers with which the Company does not have special relationships.

3. Management Policy

(1) Principle management policy

The Group has developed a management policy of constantly creating new, distinct value, developing powerful companies, and contributing to the happiness of all employees and the prosperity of society. It shares this policy among all employees, making it a code of conduct.

From a medium-and long-term perspective, the Group has recently established the following long-term vision, which serves as the guidelines for business administration:

With high aspirations for contributing to the improvement of mankind through technological advances, we will provide high quality, cutting-edge materials for use in the optical, electronics, and environmental/energy fields worldwide. Working closely with our customers, we will continuously pursue innovation and become the "Company that Fulfills Dreams."

To achieve its long-term visions, the Group has developed the following policies for each business:

1) Optical business

The Group will differentiate itself from its competitors by developing molding techniques and will pursue the potential of optical technologies by providing the ultimate performance material. In doing so, the Group aims to become a pioneer in the optics industry that can achieve technological innovation with customers.

2) Electronics business

The Group will differentiate its products from those of its competitors by focusing on high value-added products, helping to create a safe and comfortable society by efficiently developing, manufacturing, and selling functional materials that will assist customers in solving issues that confront them.

3) Environmental and energy business

The Group will contribute to the creation of new value for a low-carbon society friendly to both people and the environment, and will make the business the third pillar of the Group by investing in growth areas, such as battery materials and photovoltaic generation, and developing businesses in these fields at an early stage.

4) Internal reforms

i) Human resource development: The Group will cultivate personnel capable of detecting changes with sensitivity, acting swiftly and taking on challenges without fear of failure.

ii) Corporate culture: The Group will foster a culture that attracts people with diverse strengths and encourages them to create new products on an ongoing basis with a sense of self-reliance and precision.

iii) Organizational reform: The Group will build organizational systems that will be most efficient and responsive in accordance with the growth stage of each business.

iv) Operational efficiency: The Group will reform its sales, management, development and production operations, aiming to achieve greater efficiency and effectiveness so as to maximize the value added to its products and services, and to create a proposal-based business that will anticipate customers' needs.

(2) Target management indicators

The Group will strive to increase its shareholder value, setting the following target consolidated results as target management indicators for the fiscal year ending October 31, 2011 as the last fiscal year:

Target indicators for the year ending October 2011
Sales of at least ¥30.0 billion
Ordinary profit of at least ¥3.4 billion
ROA (return on assets) of at least 5%
Ratio of interest-bearing debt to total assets of no more than 10%

(3) Medium- to long-term management strategies

1) The Group has established the following basic strategies to achieve its long-term visions:

i) Reforming business structure

To make a profit in emerging markets where demand growth is likely, the Group aims to optimize its business structures, including sales, production, and development structures.

- Develop high value-added items and establish manufacturing technologies for them.
- Review production systems for less profitable items.
- Concentrate management resources to rapidly build businesses for new products.

ii) Enhancing total cost competitiveness

Responding to factors likely to increase costs, such as fluctuations in the prices of rare raw materials and export controls, the Group will review sourcing methods and will focus on production innovation.

- Form OEM agreements with Chinese companies and purchase glass materials.
- Improve productivity in collaboration with downstream processing companies.

iii) Promoting growth strategies

The Group will provide functional materials for cutting-edge technologies and will expand sales of high value-added items by promptly responding to changes in customer needs in the growing areas of the environment and energy.

- Manufacture all-solid lithium-ion batteries.
- Manufacture condenser lenses for photovoltaic power generation.
- Manufacture photocatalysts.

(4) Key management issues

Looking at the business environment, the global economy is expected to continue to recover modestly thanks to national economic stimulus programs. Nonetheless, there is concern that any recovery in the real economy could be delayed. Specifically, it will take businesses some time to recover their investment appetites given excessive production capacity as well as ongoing weakness in personal spending linked to the worsening employment conditions. The outlook is uncertain, with an upward trend in prices of resources and energy ahead of a recovery in the real economy and unstable exchange rates favoring a strong yen.

In the optical and electronics businesses, the Group is expected to find itself in greater competition with manufacturers in China and other countries in Asia under difficult operating conditions, including reduced domestic demand and the erosion of competitiveness caused by the strong yen. The intensified competition is likely to create a situation that forces the Group to take further steps to enhance product quality, while reducing costs.

Responding to the circumstances, the Group developed a three-year, medium-term management plan in the previous fiscal year and is diligently executing it. In the adverse economic conditions, the Group aims to streamline manufacturing technologies and production bases and to promote comprehensive efforts to cut costs. It also aims to expand sales in Asian markets where growth is expected. The Ohara Group will develop a robust management organization that can withstand changes to the operating environment and will prepare for future growth by investing aggressively in promising areas, accelerating the development of new products, and building new businesses.

We ask our shareholders for their continued support.

4. CONSOLIDATED FINANCIAL STATEMENTS**(1) CONSOLIDATED BALANCE SHEETS**

At October 31, 2009

(Thousands of yen)

	FY2008	FY2009
Assets		
Current assets		
Cash and deposits	6,274,569	6,814,275
Notes and accounts receivable-trade	11,013,864	7,222,694
Short-term investment securities	704,375	2,006,664
Inventories	8,306,924	---
Merchandise and finished goods	---	1,511,876
Work in process	---	3,344,187
Raw materials and supplies	---	1,581,903
Deferred tax assets	799,822	478,791
Other	764,188	391,727
Allowance for doubtful accounts	(12,087)	(16,765)
Total Current assets	27,851,657	23,335,355
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,457,589	9,130,811
Accumulated depreciation	(4,323,064)	(4,562,911)
Buildings and structures, net	5,134,525	4,567,900
Machinery, equipment and vehicles	21,479,967	18,945,453
Accumulated depreciation	(12,224,715)	(11,446,860)
Machinery, equipment and vehicles, net	9,255,252	7,498,593
Tools, furniture and fixtures	11,891,534	11,858,782
Accumulated depreciation	(1,383,349)	(1,490,031)
Tools, furniture and fixtures, net	10,508,184	10,368,751
Land	407,732	210,498
Construction in progress	1,017,599	147,578
Total Property, plant and equipment	26,323,294	22,793,322
Intangible assets	69,252	57,999
Investments and other assets		
Investment securities	3,794,008	4,097,996
Long-term loans receivable	---	2,432
Long-term time deposits	1,800,000	1,400,000
Deferred tax assets	70,527	13,185
Other	485,461	667,700
Total Investments and other assets	6,149,997	6,181,314
Total Noncurrent assets	32,542,544	29,032,637
Total Assets	60,394,202	52,367,992

(Thousands of yen)

	FY2008	FY2009
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,183,570	2,121,016
Short-term loans payable	5,310,907	5,834,360
Current portion of bonds	125,000	---
Income taxes payable	818,357	62,635
Deferred tax liabilities	6,338	2,584
Provision for bonuses	736,433	435,955
Provision for directors' bonuses	68,484	56,056
Accounts payable-other	1,306,098	967,223
Other	666,225	347,455
Total Current liabilities	13,221,416	9,827,288
Noncurrent liabilities		
Long-term loans payable	165,739	773,280
Deferred tax liabilities	871,011	973,283
Provision for retirement benefits	1,029,850	1,161,203
Provision for directors' retirement benefits	283,409	280,257
Provision for special repairs	46,400	66,800
Provision for environmental measures	27,973	27,734
Long-term accounts payable-other	30,498	6,308
Negative goodwill	502,688	---
Other	870	870
Total Noncurrent liabilities	2,958,441	3,289,736
Total Liabilities	16,179,857	13,117,025
Net assets		
Shareholders' equity		
Capital stock	5,855,000	5,855,000
Capital surplus	7,930,785	7,930,785
Retained earnings	30,143,224	27,633,281
Treasury stock	(1,548,610)	(1,548,850)
Total Shareholders' equity	42,380,399	39,870,215
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,306,024	1,486,252
Foreign currency translation adjustment	(276,779)	(2,388,936)
Valuation and translation adjustments	1,029,245	(902,683)
Minority interests	804,700	283,434
Total Net assets	44,214,345	39,250,967
Total Liabilities and net assets	60,394,202	52,367,992

(2) CONSOLIDATED STATEMENTS OF INCOME

Years ended October 31

(Thousands of yen)

	FY2008	FY2009
Net sales	30,574,775	19,490,582
Cost of sales	18,758,137	14,971,513
Gross profit	11,816,637	4,519,069
Selling, general and administrative expenses	5,444,615	5,124,629
Operating income (loss)	6,372,022	(605,560)
Non-operating income		
Interest income	123,081	47,073
Dividends income	120,295	108,183
Land and house rent received	9,713	12,355
Amortization of negative goodwill	---	100,537
Equity in earnings of affiliates	1,267	---
Insurance return	128,218	117,826
Subsidy income	---	74,118
Other	139,665	105,732
Total Non-operating income	522,242	565,827
Non-operating expenses		
Interest expenses	32,296	77,935
Foreign exchange losses	349,132	584,376
Other	54,690	34,133
Total Non-operating expenses	436,119	696,444
Ordinary income (loss)	6,458,144	(736,177)
Extraordinary income		
Gain on sales of noncurrent assets	2,597	27,696
Other	---	402,150
Total Extraordinary income	2,597	429,846
Extraordinary loss		
Loss on sales of noncurrent assets	16,161	—
Loss on retirement of noncurrent assets	52,702	79,237
Impairment loss	---	749,919
Loss on valuation of inventories	---	461,514
Total Extraordinary losses	68,863	1,290,671
Income (loss) before income taxes and minority interests	6,391,878	(1,597,002)
Income taxes-current	2,121,835	263,951
Income taxes for prior periods	256,502	---
Income taxes-deferred	82,370	448,946
Total income taxes	2,460,708	712,897
Minority interests in income (loss)	15,474	(461,615)
Net income (loss)	3,915,695	(1,848,284)

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31

(Thousands of yen)

	FY2008	FY2009
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	6,391,878	(1,597,002)
Depreciation and amortization	1,994,564	2,513,088
Impairment loss	---	749,919
Loss on valuation of inventories	---	461,514
Equity in (earnings) losses of affiliates	(1,267)	---
Increase (decrease) in provision for retirement benefits	(94,888)	52,944
Increase (decrease) in provision for directors' retirement benefits	12,516	(3,152)
Increase (decrease) in provision for bonuses	21,126	(276,189)
Increase (decrease) in allowance for doubtful accounts	(401)	7,604
Increase (decrease) in provision for special repairs	35,600	20,400
Increase (decrease) in provision for environmental measures	(15,000)	---
Interest and dividends income	(243,377)	(155,256)
Interest expenses	32,296	77,935
Foreign exchange losses (gains)	41,960	212,900
Amortization of negative goodwill	---	(502,688)
Gain on sales of property, plant and equipment	(2,597)	---
Loss on retirement of noncurrent assets	52,702	79,237
Loss on sales of property, plant and equipment	16,161	---
Loss (gain) on sales of property, plant and equipment	---	(27,696)
Decrease (increase) in notes and accounts receivable-trade	(416,918)	2,952,184
Decrease (increase) in inventories	(1,173,876)	802,878
Increase (decrease) in notes and accounts payable-trade	711,102	(1,380,355)
Other, net	(303,892)	382,649
Subtotal	7,057,690	4,370,917
Interest and dividends income received	244,504	158,172
Interest expenses paid	(32,834)	(70,043)
Proceeds from insurance income	69,068	86,718
Income taxes paid	(2,686,201)	(974,215)
Net cash provided by (used in) operating activities	4,652,227	3,571,551

(Thousands of yen)

	FY2008	FY2009
Net cash provided by (used in) investing activities		
Proceeds from withdrawal of time deposits	2,466,579	1,051,073
Payments into time deposits	(373,706)	(676,262)
Purchase of short-term investment securities	(1,097,092)	—
Proceeds from sales of short-term investment securities	614,964	500,000
Purchase of investment securities	(231,000)	(394)
Proceeds from sales of investment securities	6,720	—
Proceeds from sales of investments of subsidiaries and affiliates in capital	140,010	—
Purchase of property, plant and equipment	(5,478,437)	(1,753,428)
Proceeds from sales of property, plant and equipment	4,975	27,964
Purchase of intangible assets	(20,104)	(20,085)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(162,803)	—
Purchase of investments in subsidiaries	(111,108)	—
Other, net	(31,154)	(24,666)
Net cash provided by (used in) investing activities	(4,272,158)	(895,799)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(53,334)	669,812
Proceeds from long-term loans payable		1,000,000
Repayment of long-term loans payable	(938,810)	(533,430)
Redemption of bonds	(25,000)	(125,000)
Purchase of treasury stock	(1,544,857)	(240)
Repayments of installment payables	(23,025)	(23,663)
Cash dividends paid	(635,476)	(607,406)
Cash dividends paid to minority shareholders	(23,432)	(15,456)
Net cash provided by (used in) financing activities	(3,243,935)	364,616
Effect of exchange rate change on cash and cash equivalents	(88,637)	(676,358)
Net increase (decrease) in cash and cash equivalents	(2,952,504)	2,364,009
Cash and cash equivalents at beginning of period	9,160,815	6,208,311
Cash and cash equivalents at end of period	6,208,311	8,572,320

Note for the assumption of going concern
There is no applicable information.

(Segment Information)

a. Business segment information

Fiscal year 2008 (from November 1, 2007 to October 31, 2008)

(Thousands of yen)

	Optical products	Information products	Total	Elimination or company total	Consolidated
I. Net sales and operating income					
Net sales					
(1) Sales to external customers	22,091,476	8,483,299	30,574,775	---	30,574,775
(2) Intergroup sales and transfers	---	---	---	---	---
Total	22,091,476	8,483,299	30,574,775	---	30,574,775
Operating expenses	17,865,308	6,337,444	24,202,753	---	24,202,753
Operating income	4,226,167	2,145,854	6,372,022	---	6,372,022
II. Assets, depreciation and capital expenditures					
Assets	31,048,397	21,319,169	52,367,567	8,026,634	60,394,202
Depreciation	1,087,137	907,427	1,994,564	---	1,994,564
Capital expenditures	3,603,385	1,895,234	5,498,619	---	5,498,619

(Note 1.) Business classification method

Business segments are classified by categories which we have adopted for internal management.

(Note 2.) Main products by business segment

Segment	Main products
Optical products	Optical lens blanks, lens materials for optical equipment
Information products	Glass disks for hard disks devices, special glass products for liquid crystal exposure devices

(Note 3.) No unallocated operating expense is included in "Elimination or company total."

(Note 4.) Assets that are included in "Elimination or company total" in the fiscal year under review are ¥8,026,634 thousand, and the major items are undesignated funds (cash on hand and in banks) and long-term investment funds (investment securities) etc.

(Note 5.) Additional information

Starting in the fiscal year under review, elaborate allocation of manufacturing costs incurred by the Company by item for sale, etc. has been made possible as a result of an improvement in the accuracy of cost accounting.

As a result, operating expenses fell ¥1,500,508 thousand and operating income declined by the same amount in the optical products segment, in comparison with the case in which the old allocation method is used. In the information products segment, operating expenses declined ¥1,500,508 thousand and operating income increased by the same amount.

Fiscal year 2009 (from November 1, 2008 to October 31, 2009)

(Thousands of yen)

	Optical business	Electronics business	Total	Elimination or company total	Consolidated
I. Net sales and operating income					
Net sales					
(1) Sales to external customers	13,025,594	6,464,987	19,490,582	---	19,490,582
(2) Intergroup sales and transfers	---	---	---	---	---
Total	13,025,594	6,464,987	19,490,582	---	19,490,582
Operating expenses	12,576,926	7,519,216	20,096,143	---	20,096,143
Operating income/loss	448,668	(1,054,228)	(605,560)	---	(605,560)
II. Assets, depreciation and capital expenditures					
Assets	24,237,139	17,317,339	41,554,477	10,813,515	52,367,992
Depreciation	1,185,565	1,327,524	2,513,088	---	2,513,088
Impairment loss	---	749,919	749,919	---	749,919
Capital expenditures	652,293	605,913	1,258,206	---	1,258,206

(Note 1.) Business classification method

Business segments are classified by categories which we have adopted for internal management.

(Note 2.) Main products by business segment

Segment	Main products
Optical business	Optical lens blanks, lens materials for optical equipment
Electronics business	Glass disks for hard disks devices, quartz glass, highly homogeneous glass for semiconductor exposure devices, special glass products for liquid crystal exposure devices

(Note 3.) No unallocated operating expense is included in "Elimination or company total."

(Note 4.) Assets that are included in "Elimination or company total" in the fiscal year under review are ¥10,813,515 thousand, and the major items are undesignated funds (cash on hand and in banks) and long-term investment funds (investment securities) etc.

(Note 5.) Change in Business Segmentation

We divided our businesses into optical products and information products from the perspective of the similarity in functions among products. Starting the fiscal year under review, however, we are dividing our businesses into the optical business and the electronics business based on similarity of product applications.

With Ohara Quartz Co., Ltd. becoming a consolidated subsidiary, we reviewed the business segmentation based on the development of the operations of the Group. As a consequence, we have changed the business segmentation so that it will reflect the actual status of business segments more appropriately and will increase the effectiveness of business segment information.

As a result of the change, net sales in the optical business fell ¥335,640 thousand in the fiscal year under review compared with net sales calculated under the old segmentation method, while net sales in the electronics business rose by the same amount. Operating income in the optical business declined ¥38,092 thousand, while operating income in the electronics business increased by the same amount.

b. Geographical segment information

Fiscal year 2008 (from November 1, 2007 to October 31, 2008)

(Thousands of yen)

	Japan	Asia	North America	Europe	Total	Elimination or company total	Consolidated
I. Net sales and operating income							
Net sales							
(1) Sales to external customers	17,512,726	9,925,623	1,162,896	1,973,528	30,574,775	---	30,574,775
(2) Intergroup sales and transfers	8,146,805	5,148,682	7,629	12,723	13,315,841	(13,315,841)	---
Total	25,659,532	15,074,306	1,170,525	1,986,252	43,890,616	(13,315,841)	30,574,775
Operating expenses	21,964,588	13,401,168	946,718	1,476,444	37,788,920	(13,586,167)	24,202,753
Operating income	3,694,943	1,673,137	223,806	509,807	6,101,696	270,326	6,372,022
II. Assets	50,615,849	17,469,315	881,876	1,565,917	70,532,958	(10,138,756)	60,394,202

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

(1) Asia: Malaysia, Taiwan, Hong Kong, China

(2) North America: The United States

(3) Europe: Germany

(Note 3.) No unallocated operating expense is included in "Elimination or company total."

(Note 4.) No company-wide assets are included in "Elimination or company total."

Fiscal year 2009 (from November 1, 2008 to October 31, 2009)

(Thousands of yen)

	Japan	Asia	North America	Europe	Total	Elimination or company total	Consolidated
I. Net sales and operating income							
Net sales							
(1) Sales to external customers	11,678,250	5,917,611	880,184	1,014,535	19,490,582	---	19,490,582
(2) Intergroup sales and transfers	4,943,967	3,591,404	---	---	8,535,371	(8,535,371)	---
Total	16,622,218	9,509,015	880,184	1,014,535	28,025,954	(8,535,371)	19,490,582
Operating expenses	18,908,629	8,964,268	798,946	820,791	29,492,635	(9,396,492)	20,096,143
Operating income/loss	(2,286,410)	544,747	81,238	193,743	(1,466,681)	861,120	(605,560)
II. Assets	45,535,166	13,478,451	732,110	958,737	60,704,466	(8,336,473)	52,367,992

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

(1) Asia: Malaysia, Taiwan, Hong Kong, China

(2) North America: The United States

(3) Europe: Germany

(Note 3.) No unallocated operating expense is included in "Elimination or company total."

(Note 4.) No company-wide assets are included in "Elimination or company total."

c. Overseas sales

Fiscal year 2008 (from November 1, 2007 to October 31, 2008) (Thousands of yen)

	Asia	North America	Europe	Total
I. Overseas sales	13,592,256	1,047,376	1,973,434	16,613,067
II. Consolidated sales	---	---	---	30,574,775
III. Ratio of overseas sales to consolidated sales (%)	44.5	3.4	6.4	54.3

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

(1) Asia: Malaysia, Taiwan, China, etc.

(2) North America: The United States, Canada

(3) Europe: Germany, other European countries

(Note 3.) Overseas sales are the aggregate sum of sales of the Company and consolidated subsidiaries in countries or regions other than Japan.

Fiscal year 2009 (from November 1, 2008 to October 31, 2009) (Thousands of yen)

	Asia	North America	Europe	Total
I. Overseas sales	8,035,893	809,026	1,018,012	9,862,932
II. Consolidated sales	---	---	---	19,490,582
III. Ratio of overseas sales to consolidated sales (%)	41.2	4.2	5.2	50.6

(Note 1.) Geographical segments are classified by the geographical proximity of countries or regions.

(Note 2.) Countries or regions that belong to segments other than Japan

(1) Asia: Malaysia, Taiwan, China, etc.

(2) North America: The United States, Canada

(3) Europe: Germany, other European countries

(Note 3.) Overseas sales are the aggregate sum of sales of the Company and consolidated subsidiaries in countries or regions other than Japan.