

OHARA INC.

December 15, 2010

Flash Report (Consolidated Basis)
Results for the fiscal year ended October 31, 2010

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, 2011
 Planned date for commencement of dividend payments: January 31, 2011
 Planned date for submission of quarterly securities report: January 31, 2011

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

1. Consolidated Financial Results (from November 1, 2009 to October 31, 2010)
(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	%
FY2010	27,456	40.9	3,275	---	3,105	---	1,963	---
FY2009	19,490	(36.3)	(605)	---	(736)	---	(1,848)	---

	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	%	%	%
FY2010	80.72	---	5.0	5.7	11.9
FY2009	(75.98)	---	(4.5)	(1.3)	(3.1)

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2010	55,840	40,566	72.1	1,656.05
FY2009	52,367	39,250	74.4	1,601.91

Reference: Own Capital: As of October 31, 2010: 40,284 million yen, As of October 31, 2009: 38,967 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
FY2010	4,307	(2,417)	(1,036)	9,082
FY2009	3,571	(895)	364	8,572

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. 2009	---	0.00	---	15.00	15.00	364	---	0.9
Year ending Oct. 2010 (result)	---	0.00	---	20.00	20.00	486	24.8	1.2
Year ending Oct. 2011 (forecast)	---	0.00	---	20.00	20.00		28.6	

3. Forecast consolidated results for the fiscal year ending October 31, 2011

(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	13,900	6.2	500	(66.3)	600	(62.6)	200	(79.8)	8.22
Full-year	30,000	9.3	3,700	(17.6)	2,900	(6.6)	1,700	(13.4)	69.89

4. Others

(1) Important changes in subsidiaries during the term (changes in specified subsidiaries that lead to a change in the scope of consolidation): No

New: ---companies (---) Excluded: --- companies (---)

(2) Changes of Accounting Methods and Presentation of Consolidated Financial Statements (to be described in the changes of fundamental and important matters for the preparation of Consolidated Financial Statements)

(a) Changes due to revisions of accounting standards, etc.: Yes

(b) Changes other than (a) above: No

(3) Number of common shares issued

(a) Number of issued shares (including treasury shares)

October 31, 2010: 25,450,000 shares October 31, 2009: 25,450,000 shares

(b) Number of treasury shares

October 31, 2010: 1,124,354 shares October 31, 2009: 1,124,281 shares

(Reference) Summary of non-consolidated basis

1. Performance (from November 1, 2009 to October 31, 2010)

(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	%
FY2010	22,026	54.4	1,603	---	1,967	---	1,038	---
FY2009	14,265	(42.2)	(1,110)	---	(219)	---	(1,658)	---

	Net income per share	Net income per share after dilution
	Yen	Yen
FY2010	42.71	---
FY2009	(68.16)	---

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2010	46,546	32,791	70.4	1,348.00
FY2009	41,723	32,001	76.7	1,315.53

(Reference): Shareholders' equity: Year ended October 31, 2010: ¥32,791 million

Year ended October 31, 2009: ¥32,001 million

* Explanation about proper use of business outlook and other special remarks

The forward-looking statements, including forecasts of results, stated in this document are based on information obtained at present by the Company and certain assumptions that the Company deems reasonable. Hence, actual results may differ materially from the forward-looking statements, depending on various factors.

1. Operating Results

(1) Analysis of operating results

1) Consolidated business results for the fiscal year under review

During the fiscal year under review, the global economy recovered moderately, backed by economic stimulus measures in major economies and the expansion of demand in emerging economies, particularly China. In the United States, capital expenditure recovered, and personal spending was solid despite persistently high unemployment. Although exports expanded in major economies, especially Germany, instability was noticeable in Europe, in both the financial markets and national finances. In contrast, China and other economies in Asia continued to achieve growth as exports were solid, although certain economies began to slow. In Japan exports improved, driven by increasing demand in emerging economies, while personal spending recovered. However, the recovery in the overall economy was limited by lingering weakness in employment and persistent deflation. In the optical equipment market, demand for single-lens reflex digital cameras and interchangeable lenses continued to expand. Demand for compact digital cameras also increased, particularly in emerging economies, although prices declined. In the electronics market, demand for hard disk drives rose significantly, with a particularly sharp recovery in demand for notebook applications. In the semiconductor exposure device market, demand climbed for exposure devices for electronic components, as well as for glass materials of the Company. In the liquid crystal exposure devices market, demand for the Company's glass materials picked up as capital expenditure by crystal panel manufacturers recovered.

The average exchange rates of the U.S. dollar and the euro against the yen in the fiscal year under review were 88.88 yen and 119.82 yen, respectively, with the yen remaining approximately 5.8% and 6.9% 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 solid, and demand for hard disk substrates recovered sharply. As a consequence, sales for the fiscal year under review stood at ¥27,456 million, a rise of 40.9% from the previous fiscal year.

The gross margin on sales rose 8.4 percentage points year on year, to 31.6%, reflecting a sharp improvement in the capacity utilization ratio and the results of company-wide initiatives to cut costs and streamline indirect operations. Gross profit was ¥8,675 million, up 92.0% year on year. Although certain expenses declined, mainly as a result of activities to improve the efficiency of indirect operations, freight costs and other expenses increased with the rise in sales. Consequently, selling, general and administrative expenses were ¥5,400 million (rising 5.4% year on year), and operating income was ¥3,275 million (compared with an operating loss of ¥605 million in the previous fiscal year). Ordinary profit came to ¥3,105 million (compared with an ordinary loss of ¥736 million in the previous fiscal year), partly because foreign exchange losses declined from a year ago as the scope of currency movements narrowed, although the yen did strengthen. As a result of the posting of a loss on the valuation of investment securities in extraordinary losses, net income amounted to ¥1,963 million (compared with a net loss of ¥1,848 million for the previous fiscal year).

Results by business segment are as follows:

(i) Optical business

Looking at optical pressings, the core products in this segment, demand for lens blanks for single-lens reflex digital cameras and interchangeable lenses increased. Demand for lens blanks for compact digital cameras also rose, especially in emerging markets. As a consequence, sales of optical pressings stood at ¥14,815 million (up 29.3% year on year). Sales of optical blocks amounted to ¥1,778 million (rising 13.5%), primarily reflecting an increase in demand from processing companies.

As a result of the above, sales for the segment amounted to ¥16,593 million (increasing 27.4%), and operating income was ¥1,996 million (climbing 345.0%).

(ii) Electronics business

Sales of disk products, the core products for this segment, reached ¥5,346 million (up 86.3% year on year) as a result of a sharp increase in demand for hard disk substrates and additional facilities in response to the increase. Sales of special products stood at ¥5,516 million (rising 53.4%), attributable to rising demand for quartz glass for projector substrates, highly homogeneous glass materials for exposure devices for electronic components, and ultra low expansion glass-ceramics for special purpose products.

As a result, sales in the segment were ¥10,863 million (increasing 68.0%), and operating income came to ¥1,278 million (compared with an operating loss of ¥1,054 million in the previous fiscal year).

The following is a breakdown of results by geographical segment.

(i) Japan

Demand for optical pressings for single-lens digital reflex cameras, interchangeable lenses, and projectors increased in the optical business, while demand for hard-disk substrates, especially for notebook computers, climbed in the electronics business. Demand for quartz glass, particularly for projectors, rose. Demand for ultra low expansion glass-ceramics also increased. As a consequence, sales were ¥17,606 million (up 50.8% year on year). Operating income was ¥1,789 million (compared with an operating loss of ¥2,286 million in the previous fiscal year), reflecting a sharp improvement in the capacity utilization ratio associated with an increase in sales and reductions in certain expenses due to initiatives to cut costs and streamline indirect operations.

(ii) Asia

Demand for optical pressings for single-lens digital reflex cameras, interchangeable lenses, and projectors rose in the optical business, and sales amounted to ¥7,865 million (rising 32.9% year on year). Operating income was ¥1,348 million (increasing 147.5%), attributable to an improvement in the capacity utilization ratio associated with increases in sales at production subsidiaries.

(iii) North America

Although demand for optical pressings declined in the optical business, demand for highly homogeneous glass materials, especially for semiconductor exposure devices, and special products rose in the electronics business. As a result, sales reached ¥1,011 million (up 14.9% year on year), and operating income was ¥83 million (climbing 2.3%).

(iv) Europe

Although demand for ultra low expansion glass-ceramics, especially for semiconductor exposure devices, increased in the electronics business, demand for optical pressings in the optical business declined. Consequently, sales were ¥973 million (down 4.1% year on year), and operating income stood at ¥154 million (falling 20.4%).

Sales by geographical segment above are sales to external customers.

2) Outlook for the next fiscal year

Looking at the operating environment for the OHARA Group, we expect that the global economy will slow more sharply as major economies switch to fiscal austerity, although the recovery will continue, especially in emerging countries. We are concerned that the Japanese economy will continue to face a challenging employment situation, and that personal spending will be weak, reflecting declines in exports and sluggish production associated with the slow recovery in the global economy. The outlook for the economy remains uncertain, with destabilizing factors including surges in the prices of certain resources and violent currency exchange fluctuations.

In the market relating to the optical business of the Group, demand for optical glass products for digital cameras, especially for single-lens reflex cameras and interchangeable lenses, is expected to be solid. In the market relating to the electronics business, we expect that there will be a temporary adjustment in production of hard disk drives but that demand will recover early. In association with the production adjustment, we are reviewing the timing of investment for additional facilities. We will announce the decision on the resumption of investment as soon as it is made.

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

Sales of ¥30,000 million (up 9.3% year on year)

Operating income of ¥2,700 million (down 17.6%)

Ordinary profit of ¥2,900 million (down 6.6%)

Net income of ¥1,700 million (down 13.4%)

In its outlook for the next fiscal year, the Group assumes that the exchange rate for the yen will be 80 yen to the U.S. dollar and 110 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 ¥55,840 million (up 6.6% from the end of the previous fiscal year). The principal factors included an increase in notes and accounts receivable-trade, reflecting a rise in sales and an increase in inventories, which offset a decrease in long-term time deposits and other factors.

Current assets were ¥26,663 million (rising 14.3%). The major causes were a climb in notes and accounts receivable-trade of ¥1,559 million because of an increase in sales and a rise in inventories of ¥870 million, reflecting production expansion associated with the rise in sales.

Fixed assets amounted to ¥29,176 million (climbing 0.5%). The result principally reflect an increase in machinery, equipment and vehicles of ¥633 million and a rise in construction in progress of ¥1,269 million in property, plant and equipment, which more than offset a decline in long-term deposits of ¥400 million in long-term time deposits in investments and other assets with some deposits reaching maturities. The increase in property, plant and equipment reflected the bolstering of production facilities in certain consolidated subsidiaries.

Current liabilities were ¥10,625 million (up 8.1%). The main factors included an increase in notes and accounts payable-trade of ¥1,568 million, attributable to production expansion associated with a rise in sales, and a rise in income taxes payable of ¥579 million associated with the posting of a profit, which more than offset a decrease in short-term loans payable of ¥1,778 million and other factors.

Noncurrent liabilities stood at ¥4,648 million (rising 41.3%). The major causes were a rise in long-term borrowings of ¥1,146 million and a climb in the provision for retirement benefits of ¥51 million.

Net assets amounted to ¥40,566 million (increasing 3.4%). The result reflected an increase in retained earnings of ¥1,605 million, reflecting the posting of net income of ¥1,963 million, despite a decrease in foreign currency translation adjustment of ¥404 million associated with a stronger yen.

2) Analysis of cash flows

Cash and cash equivalents (hereinafter "cash") at the end of the fiscal year under review rose ¥510 million from the end of the previous fiscal year, to ¥9,082 million (up 6.0%). Purchase of property, plant and equipment, and an increase in notes and accounts receivable-trade were more than offset by income before income taxes and minority interests of ¥2,773 million (compared with a loss of ¥1,597 million in the previous fiscal year), depreciation, and an increase in notes and accounts payable-trade.

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 ¥4,307 million (up 20.6% year on year).

The major factors behind the cash inflow included an increase in notes and accounts receivable-trade of ¥1,773 million (compared with a decrease of ¥2,952 million in the previous fiscal year) and an increase in inventories of ¥1,016 million (compared with a decrease of ¥802 million), more than offset by income before income taxes and minority interests of ¥2,773 million (compared with a loss of ¥1,597 million), depreciation and other amortization of ¥2,131 million (down 15.2% year on year), and an increase in notes and accounts payable-trade of ¥1,858 million (compared with a decrease of ¥1,380 million).

(Cash flows from investing activities)

Net cash used in investing activities was ¥2,417 million (up 169.9% year on year).

The cash outflow resulted primarily from the purchase of property, plant and equipment of ¥2,547 million (rising 45.3%), which more than offset proceeds from withdrawal of time deposits of ¥478 million (down 54.5%).

(Cash flows from financial activities)

Net cash used in financial activities was ¥1,036 million (an inflow of ¥364 million in the year-ago period).

The cash outflow primarily reflected a net decrease in short-term loans payable of ¥2,148 million (compared with a net increase of ¥669 million in the previous fiscal year) and repayment of long-term loans payable of ¥484 million (down 9.2% year on year), which more than offset proceeds from long-term loans payable of ¥2,000 million (up 100%).

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

	FY 2007	FY 2008	FY 2009	FY 2010
Equity ratio (%)	77.7	71.9	74.4	72.1
Market value-based equity ratio (%)	93.3	35.6	64.1	42.3
Ratio of interest-bearing debt to cash flow	51.1	120.4	185.0	138.7
Interest coverage ratio	93.2	141.7	51.0	68.1

- (Notes) Equity ratio: Shareholders' equity / Total assets
 Market value-based equity ratio: Aggregate market value of stocks / Total assets
 Ratio of interest-bearing debt to cash flow: Interest-bearing debt / Cash flow by operating activities
 Interest coverage ratio: Cash flow by operating 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 debt. 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 2010 and fiscal 2011

Our basic policy is to distribute consistent and stable profits to shareholders while securing sufficient retained earnings to strengthen the management base and expand operations. Under this policy, we seek to pay dividends in accordance with 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 ¥20 at the 102nd ordinary general meeting of shareholders to be held on January 28, 2011.

For the next fiscal year, the Company plans to pay a common dividend of ¥20.

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

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.

(i) Dependence on a certain business

The Group is heavily dependent on the optical business, which accounts for approximately 60% 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, surging prices of raw materials, 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 and achieving streamlining 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.

(ii) 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.

(iii) 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.

(iv) Changes in interest rates

The balance of interest-bearing debt of the Group at the end of the period under review was ¥5,975 million. Interest-bearing debt declined from a year ago through planned repayment, and 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.

(v) Risks relating to overseas business operations

The Group operates businesses in overseas markets, mostly in Asia, and overseas sales account for approximately 49% 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.

(vi) 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.

(vii) 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 2010), and the Company is an equity-method affiliate of Seiko Holdings Corporation. Seiko Holdings Corporation is 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, 2009 and the fiscal year ended October 31, 2010.

Meanwhile, the Company held 256,307 shares in Seiko Holdings Corporation as of the end of October 2010 (a shareholding of 0.14%) 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 2010), 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, 2009 and the fiscal year ended October 31, 2010 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 had 729,658 shares in Canon Inc. as of the end of October 2010 (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.

(viii) 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

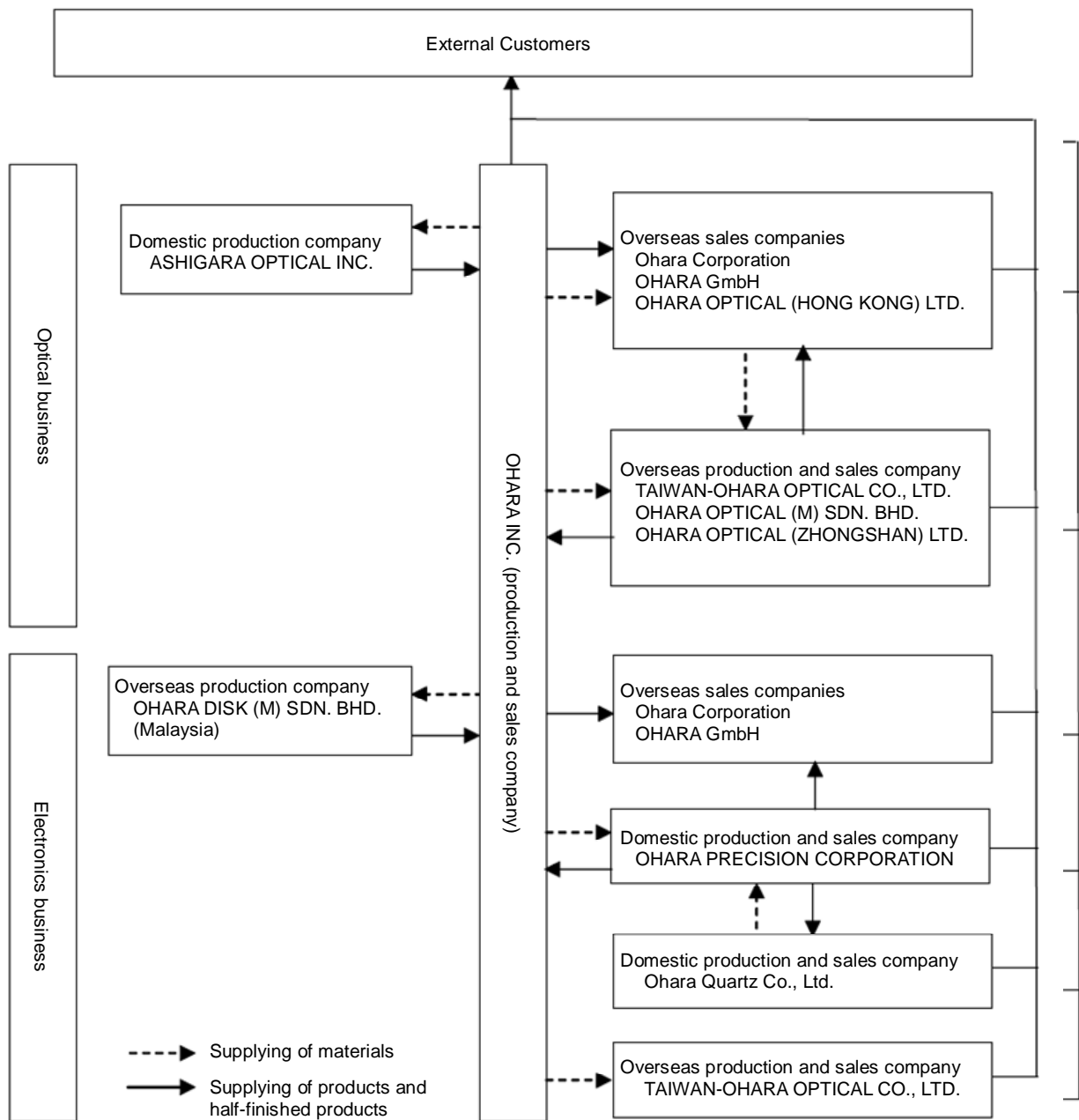
In its optical products segment, the Group possesses a stable mass production system based on optical glass production technologies. This is an integrated production system involving domestic and overseas production subsidiaries system, which the Group has been building since its foundation, and handles 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 has set the following target consolidated results as target management indicators for the fiscal year ending October 31, 2011, as the last fiscal year of the current plan. Although the consolidated ordinary profit forecast for the fiscal year ending October 31, 2011 is short of the target below, we will strive to achieve the target.

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

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 glass lens for concentric photovoltaic (CPV) system.
- Manufacture photocatalyst materials

(iv) Key management issues

Looking at the business environment, although the global economic recovery should continue, led by emerging economies, we expect a more notable slowdown in growth as major countries adopt austerity measures. We are concerned that in Japan the employment situation will remain challenging, and personal spending will achieve only weak growth, reflecting declining exports and flagging production associated with the slowing recovery in the global economy. The outlook is uncertain, with surging prices of certain resources and large fluctuations in foreign exchange.

In the market relating to the optical business, demand for optical glass products for digital cameras, particularly for single-lens reflex cameras and interchangeable lenses, is expected to be solid. In the market relating to the electronics business, we expect there will be a temporary adjustment in the production of hard disk drives but that demand will recover soon. In the circumstances, the Group is likely to face challenging conditions, including falling domestic demand as production shifts overseas and declining competitiveness because of the stronger yen. Meanwhile, intensifying competition with manufacturers in China and other countries in Asia is likely to create a situation that forces the Group to take further steps to enhance product quality, while reducing costs.

Responding to these circumstances, the Group will take steps to achieve the targets set in its medium-term management plan for the three years ending the 103rd term. In the adverse business environment, the Group aims to enhance its manufacturing technologies and streamline its production bases, while making a comprehensive effort to cut costs. It also aims to expand sales in growing Asian markets. 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. Meanwhile, the Group will endeavor to protect the environment and will enhance its internal control system to complement corporate governance so that it will be able to fulfill its corporate social responsibility and contribute to society as a good corporate citizen.

4. CONSOLIDATED FINANCIAL STATEMENTS

(1) CONSOLIDATED BALANCE SHEETS

At October 31, 2010

(Thousands of yen)

	FY2009	FY2010
Assets		
Current assets		
Cash and deposits	6,814,275	7,408,738
Notes and accounts receivable-trade	7,222,694	8,781,775
Short-term investment securities	2,006,664	2,008,043
Merchandise and finished goods	1,511,876	1,258,752
Work in process	3,344,187	3,939,877
Raw materials and supplies	1,581,903	2,109,715
Deferred tax assets	478,791	628,460
Other	391,727	544,878
Allowance for doubtful accounts	(16,765)	(16,654)
Total current assets	23,335,355	26,663,586
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,130,811	9,193,093
Accumulated depreciation	(4,562,911)	(4,855,034)
Buildings and structures, net	4,567,900	4,338,058
Machinery, equipment and vehicles	18,945,453	19,578,526
Accumulated depreciation	(11,446,860)	(12,650,027)
Machinery, equipment and vehicles, net	7,498,593	6,928,498
Tools, furniture and fixtures	11,858,782	12,018,780
Accumulated depreciation	(1,490,031)	(1,619,956)
Tools, furniture and fixtures, net	10,368,751	10,398,823
Land	210,498	201,840
Construction in progress	147,578	1,416,745
Total property, plant and equipment	22,793,322	23,283,966
Intangible assets	57,999	62,380
Investments and other assets		
Investment securities	4,097,996	4,099,219
Long-term loans receivable	2,432	1,614
Long-term time deposits	1,400,000	1,000,000
Deferred tax assets	13,185	53,210
Other	667,700	676,093
Total investments and other assets	6,181,314	5,830,137
Total noncurrent assets	29,032,637	29,176,484
Total assets	52,367,992	55,840,070

(Thousands of yen)

	FY2009	FY2010
Liabilities		
Current liabilities		
Notes and accounts payable-trade	2,121,016	3,689,229
Short-term loans payable	5,834,360	4,055,640
Income taxes payable	62,635	642,448
Deferred tax liabilities	2,584	16,166
Provision for bonuses	435,955	596,884
Provision for directors' bonuses	56,056	48,851
Accounts payable-other	967,223	995,302
Other	347,455	580,704
Total current liabilities	9,827,288	10,625,227
Noncurrent liabilities		
Long-term loans payable	773,280	1,919,640
Deferred tax liabilities	973,283	1,116,763
Provision for retirement benefits	1,161,203	1,212,499
Provision for directors' retirement benefits	280,257	269,202
Provision for special repairs	66,800	101,600
Provision for environmental measures	27,734	27,734
Long-term accounts payable-other	6,308	---
Other	870	958
Total noncurrent liabilities	3,289,736	4,648,398
Total liabilities	13,117,025	15,273,625
Net assets		
Shareholders' equity		
Capital stock	5,855,000	5,855,000
Capital surplus	7,930,785	7,930,785
Retained earnings	27,633,281	29,238,723
Treasury stock	(1,548,850)	(1,548,947)
Total shareholders' equity	39,870,215	41,475,562
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,486,252	1,601,947
Foreign currency translation adjustment	(2,388,936)	(2,793,139)
Total valuation and translation adjustments	(902,683)	(1,191,191)
Minority interests	283,434	282,073
Total net assets	39,250,967	40,566,444
Total liabilities and net assets	52,367,992	55,840,070

(2) CONSOLIDATED STATEMENTS OF INCOME

Years ended October 31

(Thousands of yen)

	FY2009	FY2010
Net sales	19,490,582	27,456,482
Cost of sales	14,971,513	18,781,206
Gross profit	4,519,069	8,675,275
Selling, general and administrative expenses	5,124,629	5,400,061
Operating income (loss)	(605,560)	3,275,214
Non-operating income		
Interest income	47,073	20,856
Dividends income	108,183	104,310
Land and house rent received	12,355	12,804
Amortization of negative goodwill	100,537	---
Insurance return	117,826	235
Subsidy income	74,118	14,361
Fiduciary obligation fee	---	34,400
Other	105,732	90,348
Total non-operating income	565,827	277,316
Non-operating expenses		
Interest expenses	77,935	77,978
Foreign exchange losses	584,376	352,015
Other	34,133	17,081
Total non-operating expenses	696,444	447,075
Ordinary income (loss)	(736,177)	3,105,455
Extraordinary income		
Gain on sales of noncurrent assets	27,696	4,655
Amortization of negative goodwill	402,150	---
Total extraordinary income	429,846	4,655
Extraordinary loss		
Loss on sales of noncurrent assets	---	7,003
Loss on retirement of noncurrent assets	79,237	33,380
Loss on valuation of investment securities	---	295,750
Impairment loss	749,919	---
Loss on valuation of inventories	461,514	---
Total extraordinary losses	1,290,671	336,134
Income (loss) before income taxes and minority interests	(1,597,002)	2,773,976
Income taxes-current	263,951	901,656
Income taxes-deferred	448,946	(125,624)
Total income taxes	712,897	776,032
Minority interests in income (loss)	(461,615)	34,388
Net income (loss)	(1,848,284)	1,963,555

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31

(Thousands of yen)

	FY2009	FY2010
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	(1,597,002)	2,773,976
Depreciation and amortization	2,513,088	2,131,882
Impairment loss	749,919	---
Loss on valuation of inventories	461,514	---
Increase (decrease) in provision for retirement benefits	52,944	50,732
Increase (decrease) in provision for directors' retirement benefits	(3,152)	(11,054)
Increase (decrease) in provision for bonuses	(276,189)	171,229
Increase (decrease) in allowance for doubtful accounts	7,604	1,508
Increase (decrease) in provision for special repairs	20,400	34,800
Interest and dividends income	(155,256)	(125,166)
Interest expenses	77,935	77,978
Foreign exchange losses (gains)	212,900	145,932
Amortization of negative goodwill	(502,688)	---
Loss on retirement of noncurrent assets	79,237	33,380
Loss (gain) on sales of property, plant and equipment	(27,696)	2,347
Loss (gain) on valuation of investment securities	---	295,750
Decrease (increase) in notes and accounts receivable-trade	2,952,184	(1,773,868)
Decrease (increase) in inventories	802,878	(1,016,912)
Increase (decrease) in notes and accounts payable-trade	(1,380,355)	1,858,448
Other, net	382,649	(127,246)
Subtotal	4,370,917	4,523,718
Interest and dividends income received	158,172	125,344
Interest expenses paid	(70,043)	(63,253)
Proceeds from insurance income	86,718	4,162
Income taxes paid	(974,215)	(282,569)
Net cash provided by (used in) operating activities	3,571,551	4,307,402
Net cash provided by (used in) investing activities		
Proceeds from withdrawal of time deposits	1,051,073	478,053
Payments into time deposits	(676,262)	(204,800)
Proceeds from sales of short-term investment securities	500,000	---
Purchase of investment securities	(394)	(102,899)
Purchase of property, plant and equipment	(1,753,428)	(2,547,746)
Proceeds from sales of property, plant and equipment	27,964	14,285
Purchase of intangible assets	(20,085)	(26,029)
Other, net	(24,666)	(28,719)
Net cash provided by (used in) investing activities	(895,799)	(2,417,855)

(Thousands of yen)

	FY2009	FY2010
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	669,812	(2,148,000)
Proceeds from long-term loans payable	1,000,000	2,000,000
Repayment of long-term loans payable	(533,430)	(484,360)
Redemption of bonds	(125,000)	---
Purchase of treasury stock	(240)	(96)
Repayments of installment payables	(23,663)	(24,318)
Cash dividends paid	(607,406)	(364,652)
Cash dividends paid to minority shareholders	(15,456)	(15,512)
Net cash provided by (used in) financing activities	364,616	(1,036,939)
Effect of exchange rate change on cash and cash equivalents	(676,358)	(341,965)
Net increase (decrease) in cash and cash equivalents	2,364,009	510,641
Cash and cash equivalents at beginning of period	6,208,311	8,572,320
Cash and cash equivalents at end of period	8,572,320	9,082,961

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

(Segment Information)

a. Business segment information

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.

Fiscal year 2010 (from November 1, 2009 to October 31, 2010)

(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	16,593,349	10,863,132	27,456,482	---	27,456,482
(2) Intergroup sales and transfers	---	---	---	---	---
Total	16,593,349	10,863,132	27,456,482	---	27,456,482
Operating expenses	14,596,571	9,584,696	24,181,267	---	24,181,267
Operating income	1,996,778	1,278,435	3,275,214	---	3,275,214
II. Assets, depreciation and capital expenditures					
Assets	25,594,843	19,682,067	45,276,910	10,563,159	55,840,070
Depreciation	1,005,093	1,126,788	2,131,882	---	2,131,882
Capital expenditures	666,096	2,083,179	2,749,275	---	2,749,275

(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 ¥10,563,159 thousand, and the major items are undesignated funds (cash on hand and in banks) and long-term investment funds (investment securities) etc.

b. Geographical segment information

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."

Fiscal year 2010 (from November 1, 2009 to October 31, 2010)

(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	17,606,784	7,865,027	1,011,289	973,381	27,456,482	---	27,456,482
(2) Intergroup sales and transfers	7,722,545	6,224,240	---	995	13,947,780	(13,947,780)	---
Total	25,329,329	14,089,267	1,011,289	974,377	41,404,263	(13,947,780)	27,456,482
Operating expenses	23,540,201	12,741,257	928,160	820,245	38,029,864	(13,848,596)	24,181,267
Operating income	1,789,127	1,348,010	83,129	154,131	3,374,198	(99,184)	3,275,214
II. Assets	48,811,219	15,904,397	730,086	809,857	66,255,561	(10,415,491)	55,840,070

(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 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.

Fiscal year 2010 (from November 1, 2009 to October 31, 2010)

(Thousands of yen)

	Asia	North America	Europe	Total
I. Overseas sales	11,568,606	964,799	976,348	13,509,755
II. Consolidated sales	---	---	---	27,456,482
III. Ratio of overseas sales to consolidated sales (%)	42.1	3.5	3.6	49.2

(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.