

Briefing Summary of the Analyst/Investor Meeting
for the 1st quarter financial results for the fiscal year ending March 31, 2013
Tokyo, August 6, 2012

Note: This memo is posted for reference purposes for the convenience of those who were unable to attend the meeting and is not a verbatim record of all statements made at the meeting. Please be aware that it has been compiled in a concise form at the judgment of the Company's Corporate Communications Group. Please also refer to the cautionary notes on the final page.

Overview of Financial Results Provided by Mr. Ema, CFO

<Overview of Financial Results>

- Allow me to make use of the Quarterly Report for my briefing. During this first quarter under review, there were special factors in the statement of comprehensive income and segment-based profits, which I will analyze as I go through my explanations.
- The statement of comprehensive income for all operations is shown on page 6, while the statement of comprehensive income for continuing and discontinued operations is on page 7. The camera business was in operation until the first half of the previous year, so for the camera business we sold in October, its first-quarter figures from the previous year are included in the column for discontinued operations for the first quarter of last year at the bottom of page 7.
- Sales for continuing operations in the first quarter declined by 549 million yen, or 0.6%, from the previous year. Profit before tax for the quarter increased by 8,249 million yen, or 47%, from the previous year. Due to the impact of foreign exchange rates, the yen appreciation caused earnings to languish, with sales pushed down by 2,569 million yen, profit before tax lowered by 1,028 million yen and profit for the quarter pressured down by 917 million yen. The yen appreciated against the euro by 14.5%, having the greatest impact of the movements in all the major currencies. By region, the impact of foreign exchange rates pushed down sales in Europe by 2,000 million yen and by segment, Life Care segment sales were lowered by 2,400 million yen. Given a decline in production capacity as a result of flooding in Thailand in the third quarter of last year, opportunity loss (amount that was unable to be shipped) pushed down sales by 6,458 million yen from the same period the previous year. Opportunity loss also reduced profit before tax by 4,237 million yen compared with the same period the previous year.
- "Other income," which totaled 13,848 million yen, include insurance proceeds of 11,000 million yen and 2,269 million yen in profit in the eyeglass operation from a step acquisition of a company in Brazil, for which the Company now has a 100% stake from the previously held 25% of total shares.
- Excluding such special factors, looking at results based on continuing operations, actual sales stood at 101,642 million yen, increasing 8,478 million yen, or 9.1%, and profit before tax totaled 17,764 million yen, up 200 million yen, or 1.2%.
- As for segment information (p. 11), actual revenues in the Information Technology segment, excluding the effect of foreign exchange rates and flooding, totaled 44,999 million yen, while actual profit before tax for the segment, excluding insurance proceeds, profit from the step acquisition as well as the impact of foreign exchange rates and flooding, stood at 9,914 million yen, with the impact

of foreign exchange rates pushing this total down by 139 million yen (22% segment profit before tax ratio). Comparing these numbers with those from last year, sales rose 4,450 million yen, or 11%, while profit before tax increased 60 million yen, or 0.6%. The first quarter of last year was the period during which the economy slumped due to the earthquake in Tohoku, so the April-June quarter results are compared with figures that reflect the impact of the earthquake. The overall industry climate for the Photomasks for Semiconductors and Photomasks for Liquid Crystal Displays operations is not good. Also, the cost base is high because we secured materials amid a surge in rare earth prices in China and a supply shortage. As a result, revenues increased 4,400 million yen, but profit was limited to an increase of 60 million yen. It could take a little while longer for the high rare earth prices to ameliorate.

- In the Life Care segment, the impact from currency rates on revenues equaled 2,390 million yen, flooding-related opportunity loss stood at 6,458 million yen, resulting in actual revenues of 56,200 million yen. As for profit before tax, the actual figure is 11,218 million yen, compared with 19,526 million yen in the released materials, which include insurance proceeds of 11,000 million yen, profit from the step acquisition at 2,260 million yen, the negative impact of foreign exchange rates at 760 million yen and the opportunity loss from flooding at 4,200 million yen. This segment posted a large decline in revenues and profit because of the effect of flooding and currency rates on the eyeglass lenses operation, but revenues and profit increased for contact lenses, intraocular lenses and endoscopes. On a local currency basis, intraocular lenses and endoscope sales rose by 13% and 16%, respectively, but slightly contracted otherwise due to foreign exchange rates.
- Net cash generated from operating activities, mentioned on page 8, was 19,424 million yen. Net cash used in investing activities stood at 19,193 million yen, while free cash flow was at a positive 231 million yen. Of the net cash used in investment activities, a total of 10,221 million was posted as net cash outflow on acquisition of subsidiary. This consists of 8,865 million yen in acquisition costs for an eyeglass lenses company in Brazil as well as 2,000 million yen in costs for acquiring a company in Japan in the artificial bone business that manufactures and sells metal orthopedic implants. This Japanese company had cash and deposits, so the cash flow totaled 1,365 million yen.
- The 9,675 million yen for “other” in the “net cash generated from operating activities” accounts for the deduction in this category for posting the 5,476 million yen in advanced insurance receipts through March under profit before tax. Also, around 2,500 million yen from property insurance was transferred into the investment account. Profit from the step acquisition is included in the profit before tax, but since cash was not generated, this amount has been deducted in the “other” category. Cash and cash equivalents declined by 14,988 million yen, which includes the year-end dividend payment in the first quarter.
- The forecast for the first half period on page 13 covers all operations, so the figures for last year include results of the camera business. The projection for this first half period is 185,000 million yen for revenue, 41,000 million yen for profit before tax and 35,000 million yen for profit for the term.
- In terms of the forecast for the second quarter compared with the previous quarter, revenues are expected to remain roughly unchanged. By segment, those related to semiconductors and liquid crystals are expected to trend lower, Glass Memory Disks for HDDs are projected to edge down in the second quarter compared with the first quarter, but we expect the level to be around the same as seen in the first quarter. As for profit before tax, we have not included any insurance proceeds in the

projection. This continues to be dependent on negotiations with insurance companies, so we will post these figures once insurance proceeds are actually realized. The foreign exchange forecast for the second quarter is 75 yen for the US dollar and 95 yen for the euro. Comparing these projections with last year, we are assuming the yen to appreciate by 2.7% against the dollar and 12.6% against the euro. The opportunity loss from flooding in the eyeglass lenses operation is expected to decline, with contact lenses, intraocular lenses and endoscopes projected to post a slight increase.

[Overview of operations by Mr. Suzuki, CEO]

- Financial results tend to be difficult to understand as they contain various items. There were effects from the flooding and foreign exchange rates, as well as the sale of the camera business last year. Excluding these factors and on a continuing operations basis (actual results), as per Mr. Ema's comments earlier, revenues were up 9%. The concept of operating income no longer exists according to IFRS, but if we were to calculate it, operating income ratio would be around 17-18%. This range includes the impact of flooding, so excluding this would produce a result of around 20-21%. So looking at the first quarter results, I think the numbers show that conditions are a bit different from a little while ago but are returning to levels seen in the past. Recovery in eyeglass lenses will take a little while longer, so there will not be an immediate turnaround, but looking at the first quarter alone, I think that results were adequate. That said, there is not much optimism looking at macro conditions and the surrounding climate. There are a lot of stories about dire situations in the market, so I think we should not look at things in a very optimistic way.
- As for the first half forecast, I think it is a little conservative. There really isn't a clear reason, but having managed for over ten years, I feel that we are on unsteady ground. Even if we can detect signs of waning market demand in a business by looking at our portfolio, if you ask us whether there is a region or a product that can offset it, for now, we cannot find anything. Looking at the overall balance, conditions are fairly challenging. During such times, I think there is a need to work on growing businesses that can be expanded, while swiftly reducing the scale of businesses that need to be pared down.
- I think that the growth in both disks for HDDs and lenses for digital cameras has peaked. While I don't expect a decline in profitability, I think that it would be difficult to expect the market to stage a major expansion.
- We have been working especially hard in the medical-related field in developing countries, but growth in these nations has weakened slightly. Europe is expected to deteriorate quite a bit going forward, so we need to look at things in a slightly pessimistic way. Thus, we are starting to move forward as we realize the need to create a matrix of regions and businesses to verify, once again, which businesses need to be quickly reduced, and which businesses are showing elements of growth so that we can allocate our resources.

Overview of operations by Mr. Suzuki, CEO

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

- Overall conditions are not good, but leading semiconductor manufacturers are steadily working on technological development. There is considerable activity at the 32-nanometer node. While it may not be at a mass production level, a considerable amount of mask blanks and photomasks are starting to

get shipped on a start-up basis. However, current conditions are such that there are only a few clients, with only three to four companies pushing up our sales.

- Since we did not know how things would turn out last year because of the earthquake, four client companies built up their inventory levels after the earthquake. As a result, first quarter results were inflated last year, so first quarter results for this year appear to have declined on a year-over-year basis, but sales to these four semiconductor manufacturers were basically solid.

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

- We're entering a pretty difficult world now with 5th and 6th generations using LTPS for applications such as smart phones. Meanwhile, price pressures are very pronounced in photomasks for regular television since panel makers are not generating profit from those products. Prices are fairly stable in the area of cutting-edge technology, but price declines are rampant in other areas, creating quite a challenging situation for the business. Prices fell by an average 15% in the first quarter alone. We're in a situation in which prices continue to fall while not being able to generate profits.

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

- The figures in the results are good. I think that our clients built up their inventory significantly during this first quarter. There were times when HDDs were not able to be manufactured because of the flooding in Thailand, and so the amount of HDD inventory was considerably less. HDD manufacturers did supply inventory to PC manufacturers, but there were times when external HDDs were not available at stores, so HDD manufacturers built up inventory in the first quarter in one fell swoop. As a result, inventory levels rose instantaneously. After the flooding, the amount of inventory fell to below one week's worth, so I was worried about what would happen, but after a short period of time, they are close to surpassing the four-week mark. This does not only apply to HDD inventory, but also to PC and glass disk inventory levels, so I think demand will fall off in the second and third quarters.
- However, fortunately, amid the move toward mass-producing 500GB products, we have already received qualifications for 500GB products from our clients, so even if there is a decline in overall demand in the market, we would be in a more advantageous position than our competitors. Even if we are unable to post growth, I think we would stay close to flat at current levels.
- All the HDD manufacturers have downwardly revised their shipment forecasts. Growth was expected to be 22-25% this year, but they are now starting to expect 8-10%. The increasing feeling in the industry is that the total figures for 2.5- and 3.5-inch HDDs will be slightly higher from the levels seen last year.

< **Optical Glass** >

- Compact cameras have been contracting at a considerable pace since early June. I expect about a 20% decline on the year on a unit basis. There is a difference in strength among manufacturers, with the low-end doing adequately based on the number of units.
- Luxury compact cameras on the high end of the market are doing relatively well, with luxury cameras with 12 or 18 times zoom lens performing well.
- The area that is not doing well is the middle end. It looks as if this sector, which commands the

greatest volume, is slumping considerably.

- Looking at the market overall, I think that both the low and the middle end of the market are declining, and this condition will probably not end any time soon. I think conditions are difficult for manufacturers of glass lenses and glass materials alike, including our company, while I think camera manufacturers are suffering even more. I think growth in single-lens reflex cameras is past its peak, with the European economy remaining weak, while Asia, which had been a driving force in growth, has been slowing.

<Endoscopes>

- As expected, conditions in Europe are weak. Since the climate is bad in central Europe, we had started to expand our sales last year in the surrounding areas, such as Eastern Europe, Turkey, Iran and Russia. Thanks to this move, sales have risen substantially on a local currency basis, However, the problem is that for businesses in Europe, even if we tried really hard in the surrounding countries, the scale of the market in these areas is small.
- Asia is healthy. Revenue and profit growth has been slight because of the effect of foreign exchange rates, but we posted double-digit growth in both revenues and profits on a local currency basis. The market is not expanding, but our share is increasing. We are steadily expanding our sales.

<Contact Lenses>

- The market has declined from last year. Since contact lenses are primarily a product for young people, the market is contracting from a demographic standpoint. The percentage of those who use contact lenses has not changed, but if the population base gets smaller, the market for contact lenses will shrink. Amid such conditions, we did launch a price-cut promotion, and while our sales did increase to a certain extent, it didn't have a major impact.
- It might be good to open new stores, but the regions where we are based are starting to get saturated, and there are fewer regions where we could achieve the same kind of probability we are experiencing today. Since the distance for a one-way trip for a consumer to purchase contact lenses is pretty much set, there is not much room for new stores, given the competition in various areas. So in this type of scenario, we are starting to think that it might be better to absorb another company rather than open up new stores on our own.

<Eyeglass lenses>

- Production capacity of the plant for custom-made lenses is currently back to around 70% of the level seen before the flooding, with the mechanical equipment restoring. The capacity will return to 100% in mid to late September. That said, this only applies when we look at plants in Thailand. After the flooding, we substantially increased our production capacity in countries like the Netherlands, Spain and Japan, so worldwide capacity is more or less back to pre-flooding levels.
- But even if capacity has recovered, it doesn't necessarily mean that clients will return immediately. So we have to reconsider what products need to be manufactured in which region while looking at overall conditions; to date we had prioritized costs. In addition, we need to have a dialogue with each and every one of over 20,000 customers and mull over how we would be able to recover our orders. While it would probably be difficult to achieve it before the end of the year, through such efforts, we

would like revenues to increase to pre-flood levels by early next year. But even so, profitability will be considerably lower compared with pre-flood levels.

[Q&A]

Q: Could you please explain the background to your projected figures for the second quarter?

A: (Ema, CFO) One of the factors for the lower figures in the second quarter compared with the first quarter is because the foreign exchange assumption for the second quarter is 75 yen for the US dollar and 95 yen for the euro.

(Suzuki, CEO) Overall profitability is expected to fall slightly as a result of our assumption that disk sales for HDDs will decline from the first quarter, with sales of eyeglass lenses and endoscopes improving by the same amount.

Q: You said that there are businesses that are to be expanded and those that need to be curtailed. Which specific businesses are these?

A: (Suzuki, CEO) Even if the competitive environment doesn't change, there are businesses that contract in size. Even if profitability does not wane, the scale of some businesses could contract. Or there are businesses that expand or do not expand depending on the region. So this means that there is a need to appropriately allocate resources by getting to the bottom of our business segments and regions going forward.

Q: Please explain your perception that growth in single-lens reflex cameras has peaked.

A: (Suzuki, CEO) The percentage of single-lens reflex cameras with lenses is on the decline, so even if someone buys a camera, there is an increasing number of people who do not buy a replacement lens. Unit prices appear to be falling as well. There are variations among models, but prices for entry models in the market seem to have peaked. The rate of decline in prices appears to be accelerating.

Q: Will you be reviewing your plans for capital expenditure as well as depreciation and amortization?

A: (Ema, CFO) Capital expenditure has been increased to 50 billion yen, which is 2 billion higher than the figure we announced in the previous briefing for the fourth quarter. The 2-billion-yen increase is a slight adjustment. We had previously said that depreciation and amortization costs would total 30 billion yen, and at this point, we are expecting 29 billion yen.

(Suzuki, CEO) This includes the amount for replacing equipment that was immersed in water in the eyeglasses plant. At the decision-making level, the pending issue right now is whether to stop or not stop the production increase for glass disks for HDDs. We constructed a new plant in Vietnam, but half of it is still empty, so it is time for us to decide on whether to install more equipment. I think it might be a little difficult. We currently have five plants in three countries, and we might close an older plant.

Q: In terms of mask blanks for semiconductor manufacturing, there seems to be activity at the 32-nanometer node. How about in terms of the number of designs?

A: (Suzuki, CEO) This doesn't mean that the 32-nanometer node is moving at the mass-production level, but it means that mask blanks are seeing activity because yield is poor. So it doesn't necessarily mean

that there is activity seen in a lot of designs. On the contrary, if semiconductor manufacturers move to mass production, our sales of mask blanks will not grow that much.

Q:What type of technology do you envision beyond 22 nanometers?

A: (Suzuki, CEO) We will inevitably get to 22 nanometers as an extension of what we have today, but past that, I don't have an answer. Excluding CPUs, even if there is further miniaturization in 22 nanometers and beyond, we will be in a world in which there will not be much of an economic benefit. I don't think we will go that far in the foreseeable future.

Q:How about your forecast for eyeglass lenses for the second and third quarters compared with pre-flood levels? How about the possibility of a recovery in profitability?

A: (Suzuki, CEO) In terms of recovery in revenue, we think that it will be higher in the second quarter than in the first quarter. Our plan is such that the figure will chart growth to return to pre-flood levels early next year. The degree of recovery right now is at 80 and we are expecting to chart a straight growth line to 100 at the end of the year. As for profitability, while unit prices will decline, costs will rise. Plants that had made considerable progress in depreciation and amortization were immersed in water, so we not only installed new equipment there, but also had to invest capital in other plants while these plants were under water. This investment will be depreciated over a five-year period, so it will lead to a rise in costs. On top of that, when we go to a client that has strong demand in a bid to recover our sales within a short period of time, we cannot even start our dialogue unless we offer a large discount. The structure of higher costs and lower unit prices will not end any time soon, so even if revenues recover to pre-flooding levels, I think we will need to take a considerable amount of time bringing profitability back to levels seen before the flooding.

Q:Going forward, do you think it will be difficult for eyecity to grow organically by utilizing existing resources?

A. (Suzuki, CEO) If we force ourselves to open new stores, the sphere of business activity could get smaller or competition could get fierce. It could be time-consuming to open a new store, and thus average sales might not reach the levels being posted by the 192 eyecity stores we currently operate. There is a risk of not being profitable if we open a store using the current business model, so I think we've come to a point where we need to change our way of thinking. I believe that a new method is necessary, such as opening a new store by combining existing stores, or develop low-cost stores. Our current structure is such that we can maintain a certain level of profitability if we garner a certain number of clients by lowering prices, but compared with the past, it feels to me that client response to our campaign is sluggish.

Q:Would it be fair to attribute the lower profitability in Information Technology mainly to rare earth prices?

A. (Ema, CFO) Market conditions for semiconductor-related products are worsening, and prices are not rising. Liquid crystal-related items are moving into small- and medium-sized products from large ones and not increasing volume, and the impact of rare earth prices is great in terms of costs. This means that we can't achieve the unit prices we want for sales, while volume is declining and costs are rising.

Q:How much additional insurance proceeds are you expecting going forward?

A. (Ema, CFO) Insurance proceeds are largely categorized into two groups: property and profit insurance. Property insurance is applied to machinery that was damaged because of water exposure. About 6.3 billion yen of the 11.0 billion yen in insurance proceeds this time around is from property insurance, and the remainder is from profit insurance. Even if we do not use all of the proceeds of 6.3 billion yen, the unused amount in property insurance proceeds do not have to be returned, so we posted the total as income in this term. Profit insurance is for guaranteeing the profit level posted the previous year during the one year from the time damage occurs, so we still have amounts outstanding for July, August and September. We do not know the total because it is up to negotiations, but it doesn't necessarily mean that 11.0 billion yen would be the total amount.

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