

Briefing Summary of the Analyst/Investor Meeting  
for the 3<sup>rd</sup> Quarter Financial Results for the Fiscal Year Ending March 31, 2013  
Tokyo, January 31, 2013

*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>**

- Let me provide you with an explanation based on our results for the third quarter (three months from October 1 to December 31, 2012).
- We corrected our financial results for the second quarter in December. These corrections are associated with the structural reforms being undertaken at AvanStrate Inc. (AS), which is our equity method affiliate. Specifically, the half-year report of AS was corrected in December, so we corrected our financial results for the second quarter, which we had announced already, by additionally posting a share of losses from associates of 1.8 billion yen. We also posted a share of losses from associates for the third quarter. Also, most of the 12,935 million yen posted as investments in associates as of March 31, 2012, which is shown in the balance sheet on page 14 of the Quarterly Report, is investment in AS, but the amount decreased by 10 billion yen as of December 31 of the same year. This is due to the impact of the extraordinary loss AS posted as the cost of its structural reforms. We expect negative factors from AS to continue for the fourth quarter. Our shareholding ratio is 46.6%, and the rest of the shares are held by a fund company. We are not involved in the management of AS.
- Please turn to page 7 of the Quarterly Report. There were some special factors in the third quarter. Concerning AS, we posted a share of losses from associates of 7,219 million yen for the third quarter. However, we had a share of profit of associates of 1,578 million yen in the previous year. This variance helped reduce income by 8,790 million yen. Other income includes insurance income of 1,832 million yen as compensation for damage caused by flooding in Thailand. In the previous year, we posted the amount of loss from the damage caused by the flooding, which was 4,876 million yen, as "Loss from disaster." On the statement of comprehensive income, therefore, the insurance income contributed to positive year-on-year growth in income.
- Now let me explain about effects by foreign exchange. First, an exchange rate change affects our sales and income in three ways, which are: 1) the difference in exchange rates between the time

we sold the products and the time we collected the receivables; 2) the effects on sales and income of the conversion of the financial statements of overseas subsidiaries into Japanese yen; and 3) the effects on income/losses of changes in the value of the foreign currencies we own, if any. In addition, the net assets of overseas equity method affiliates in the Statement of Comprehensive Income on page 7 influence the share of profit of associates and the share of losses from associates in terms of foreign currencies. Based on these, I will explain the effect of exchange rate changes. The amount of sales variance is 7,203 million yen, up 8.6% year on year. As the note below the table shows, an exchange rate change resulted in a sales increase of 1,880 million yen. Therefore, the actual sales increase, excluding this amount, was 5,323 million yen, up 6.4% year on year. In the same way, while the profit before tax increased 10,962 million yen, up 164.3% year on year, this amount includes 701 million yen attributed to the exchange rate change. When this amount is deducted, the amount of increase is 10,260 million yen. We also have cash, deposits, receivables, and payables in foreign currencies, which contributed to an increase of income by 9.2 billion yen. This is included in the reduction of other expenses by 9,624 million yen in the Statement of Comprehensive Income. (The comprehensive income includes the influence of the net assets of our overseas subsidiaries. This is reflected in the 34,374 million yen increase in the exchange differences on translation of foreign operations, which is shown on page 6 of the Quarterly Report.) When these amounts are deducted, approximately 5.8 billion yen of the profit before tax is attributed to special (positive) factors. Of the 164.3% increase in profit before tax, 87% is attributed to these special factors. Consequently, when the effects of the exchange rate change indicated in the note, which is 701 million yen, and the 5.8 billion yen attributed to special factors are deducted from the profit before tax of 17,634 million yen shown in the Statement of Consolidated Income, the actual profit before tax is 11.1 billion yen, up 66% (4.4 billion yen) year on year.

- For cash flows, please see page 8. Net cash generated from operating activities was 20,199 million yen, while net cash used in investing activities was 10,411 million yen (mainly for capital investment). The amount of free cash flow is 9,788 million yen.
- For segment information, please see page 11. The adjustments cover operations under the control of headquarters. They reflect values related to AS and the currency conversion of cash and deposits. Receivables and payables concerning operations are mainly those in the Information Technology segment. Although revenue decreased by 2,774 million yen, segment profit increased by 1,860 million yen. This includes an exchange gain on foreign currency of approximately 2.4 billion yen. When this amount is deducted, the segment profit decreases approximately 0.6 billion yen. This is mainly attributable to the negative growth of optical lens operations related to digital cameras. On the contrary, in the Life Care segment, the influence of exchange rate changes was not as great.

- The increase in revenue and profit in the Life Care segment is mainly attributable to eyeglass lens operations, which recovered from the damage caused by the flooding in Thailand in October of last year.
- For the projected results for the full year, please see page 23. Because the figures are for all operations, the figures for the previous year include those for camera operations. The year-on-year comparison of projected results for the fourth quarter, which is in Ref. 1, shows that projected revenues are flat, but projected profit is nearly half the previous year's figure. Profit from discontinued operations, as a gain from business transfer, which is 3,617 million yen, is included in the figure for the previous fourth quarter. For the fourth quarter of the current fiscal year, we expect to post a loss of 4.1 billion yen as adjustments for operations under the control of headquarters. This amount was deducted, and the resulting amount of profit is 9,598 million yen. (Note: Adjustments for the same quarter of the previous fiscal year constituted a gain of 2,854 million yen.) These projections are based on the assumption that the yen will not be much weaker in the fourth quarter than it is now.
- This is not a financial matter, but we will voluntarily suspend shipment of some intraocular lenses for the sake of the patients. Because these operations will have only a minor influence on our financial results, it is not mandatory to disclose this information about the suspension of shipments. However, we have included the information here as a reminder, because HOYA has decided to focus on the Life Care segment.

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

- The figures for the third quarter turned out to be hard to understand, as they include the effects of exchange rate changes, insurance income, and extraordinary losses. For the explanations, I would also like to refer to the operating income on a management basis, which we use internally, for your reference.
- Revenues in the Information Technology segment declined 12.5% from the previous quarter. To give you a breakdown, 60% of the decrease is attributable to a decrease in revenues from optical products, mainly digital camera lens operations, including digital camera modules. The remaining 30% is attributed to a decrease in revenues from glass memory disks for HDDs.
- Revenues in the Life Care segment increased 5.6% compared with the previous quarter. To give you a breakdown, 60% of this increase is attributed to endoscopes, and the rest is from eyeglass lenses. Revenues from contact lenses increased from the same quarter of the previous year, but remained flat from the previous quarter, because they sell best in summer (second quarter).
- As for operating income in the Information Technology segment, it decreased 17% from the previous quarter. Approximately 60% of this decrease is attributable to optical products. Operating income in the Life Care segment increased 18%, half of which is attributed to an

increase in income from endoscopes, and the other half is from eyeglass lenses.

#### <Eyeglass Lenses>

- Revenues have recovered to around 90% of their level before the flooding. They declined the most in Japan after flooding. However, independently from the flooding, the market environment has changed greatly compared with 2010, so I believe it will be difficult to return to the pre-flooding level.
- With regard to operations related to Seiko-Epson, these do not contribute to profits at all at the moment. Because only revenues are increasing, operations are dragging our profitability down. Revenues are increasing, but profitability is declining. However, there is a synergistic effect, so we would like to bring both revenues and costs close to HOYA's earning base in about two years.

#### <Contact Lenses>

- Revenues increased 8% year on year. Both revenues and profit increased. Revenues and profit will continue on an upward trend for a while. Our market share has also exceeded 20%. The number of stores is now over 200.
- However, unless we change the way we operate stores, efficiency will be reduced even if revenues increase. So I believe we must look for another model.

#### <Endoscopes>

- Both revenues and profit increased. We also secured growth outside Japan—in Europe, the Americas, and Asia.
- In Europe, revenues increased 15%. We are struggling in Western Europe, as the situation in Spain and Italy is terrible, and European countries, including the UK, are seeing budget cutbacks. On the other hand, we are expanding our sales in the Middle East and Russia, and revenues in Europe as a whole have been growing.
- Revenues in the Americas also increased, up 23% year on year, thanks to growth in Canada and Central and South America. Revenues in Asia have also been growing.
- The conclusion of a major contract has contributed greatly to the amount of sales. A contract with a large customer, for example, who has 40 hospitals in the United States, has temporarily driven up sales dramatically. Therefore, we are not sure if the currently growing revenues are the actual values.
- Profitability is about halfway between 10% and 20%. Looking at other companies, a higher value would be desirable, but I believe our structure has become more stable.

#### <Intraocular Lenses>

- In December, incidence rates of endophthalmitis seemed to be high concerning some of the products we currently market. This is partly because the sales ratio in Japan is high, but we have suspended production of these products as a precautionary measure. This is not good for divisional operations because sales of these products account for 60% of total sales. No clear link between our products and endophthalmitis has been found, so we would like to resume production if there proves to be no problem. Because there are various causes of endophthalmitis, I think it is difficult to be determined what caused these high incidence rates. Data from various surveys indicate that our intraocular lenses meet standard specifications.
- We have suspended production of these products as a precautionary measure, with apologies to our customers.

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

- Revenues decreased slightly from the previous quarter.
- In the third quarter, sales of advanced 28nm (nanometer) nodes declined. I believe that our market share remains unchanged, but advanced technology may have been suspended in the semiconductor market. Usually, demand for mask blanks increases during a node change and declines when mass production is started. Advanced technologies seem to have shrunk in the third quarter. Overall results were stable.
- Photomasks for semiconductor manufacturing did not show any significant change, with a slight increase in revenues and a slight decrease in profit.

#### <Large photomasks for LCDs>

- Results were flat from the previous quarter, but operations were more brisk than expected. Panel manufacturers that used to produce 4G products for smartphones and tablets started to manufacture 6G or 5.5G products, while those for TVs shifted to 8G. I think these changes in manufacturing lines have resulted in demand for photomasks. These products seem to sell a little better than before.
- Photomasks for organic EL (OLED) have started to yield some results. Photomasks for 4K and OLED have been selling comparatively well, while they have not yet been shifted to mass production.

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

- Revenues declined 10% from the previous quarter.
- HDD inventory is seemed to have decreased to a proper level, but I believe PC manufacturers

still have inventory. In addition, sub-inventory seems to remain at media manufacturers. It therefore seems that inventory adjustments will last until the fourth quarter.

- Our market share has been increasing.
- Overall demand has been declining. But I believe we can increase our market share and retain our current status for a while.

#### **<Optical Glass>**

- Revenues declined 15% from the previous quarter.
- The greatest cause of this decline is the decreasing quantity of compact cameras.
- Mirrorless cameras do not seem to be very strong, as far as we see their production volume. I believe that manufacturers who had bullish plans are now revising these plans.
- High-end compact cameras, with 10x zoom for example, and mirrorless cameras have been growing less distinguishable from each other.
- As for SLR cameras, there has been a shift to full-size SLR cameras, and their prices have been on an upward trend. It seems that the market for mirrorless cameras and the market for compact cameras have been overlapping each other, and the market for cheap compact cameras has been shrinking rapidly.
- I believe our optical lenses operations are competitive. Currently, camera manufacturers are shifting to the in-house production of lenses. However, as I told you last time, I believe we can help reduce the costs of camera manufacturers because we are competitive in that we can produce high-quality lenses efficiently in large quantities. I would like those manufacturers to overcome hard times by effectively using specialized manufacturers like us even more, as conditions will be tougher. Although it will take time, we would like to work toward making this point understood by camera manufacturers.

#### **<Overall>**

- Overall, the recovery of eyeglass lens operations from the flooding was steady, along with Life Care segment operations. However, decline of demand in PCs and digital cameras were a drag on results.
- The overall trend will be the same in the fourth quarter, but HDDs and LCD panels seem to have hit bottom. Digital cameras will decline a little more, but because the overall trend seems to have hit bottom, we would like to increase our sales in the Life Care segment further.

#### **[Q & A]**

*Q: Are special factors included in the projected results for the full year?*

A: (CFO) The effects of exchange rate changes are not included, but the issue with intraocular lenses is factored in. We do not expect the yen to depreciate greatly in the fourth quarter. We posted 34,428 million yen in exchange differences on translation of foreign operations for the third quarter only, but we expect the value for the full year to be 17.1 billion yen.

*Q: What is your stance on the tax rate?*

A: (CFO) The share of profit of associates and the share of losses from associates were not factored in for tax calculation. Therefore, the profit after tax of AS is included as is. Exchange gains and losses don't influence tax, either. The tax rate fluctuates from quarter to quarter, but it is usually around 20%.

*Q: Can you tell us which products in the Information Technology segment will have decreased sales in the next fiscal year compared with the year under review, and which ones will have increased sales in the next year, if any?*

A: (CEO) Operations in which we have a large market share will naturally follow market movements. However, we don't expect sales of either semiconductors or disks to decline significantly. Compact cameras are being dumped, so digital camera lenses may decline a little more. I think SLR cameras will enter an adjustment phase.

*Q: You told us that sales of disks are not expected to decline significantly, but I believe that the number of platters per HDD has been decreasing. What do you think?*

A: (CEO) The number of platters per HDD may be decreasing. However, looking at the requirements of PC manufacturers, there don't seem to be very many HDDs with only one disk in each. The number of platters may decrease a little more, but we believe we can prevent a significant decline in our overall results by increasing our market share.

*Q: What about the average unit price of disks for HDDs?*

A: (CEO) The downward pressure on prices has been increasing, but we expect to be able to withstand it.

*Q: Isn't there a concern that the intraocular lens issue will affect other products?*

A: (CEO) Some eye doctors say they don't mind using our alternatives. The products whose production is being suspended are our mainstay products, but our next new products will be released in May of this year. We plan to offer these new products as alternatives.

*Q: What about the direction of the M&A?*

A: (CEO) This year, expenditure for M&A will end at 35 to 40 billion yen. With regard to eyeglass lenses, we cannot go for the next M&A until the Seiko-Holdings matter is put to rest. We want to undertake M&A related to endoscopes, and are actually studying some potential projects. The scale of the M&A is expected to be around 50 billion yen.

*Q: A weaker yen will make M&A difficult to carry out, won't it? Will you change your policy?*

A: (CEO) We do not look at things in terms of the yen. We buy in dollars when it is sold in dollars, so we never change our policy. As you know, we have a reasonable amount of cash, so we would like to make effective use of that cash.

*Q: The post of COO remains vacant. What do you plan to do?*

A: (CEO) Authority over the appointment of executives is held by our outside directors, so I can't make decisions by myself. The primary duty of the CEO is to restructure the portfolio, and running the operations of our businesses should be done by someone else. Therefore, I can't say anything about it, although I believe my current position does need to be changed.

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