

Briefing Summary of the Analyst/Investor Meeting for the 2nd Quarter Financial Results for the  
Fiscal Year Ending March 31, 2014  
Tokyo, October 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 the 2<sup>nd</sup> Quarter Financial Results Provided by Mr. Hirooka, CFO]**

**<Overview of Financial Results>**

- Allow me to start with an explanation of the consolidated statement of comprehensive income for all operations (p. 6 of the Quarterly Report). Sales totaled 102,236 million yen, increasing 9,133 million yen, or 9.8%, from the same quarter the previous year. Profit before tax stood at 15,972 million yen, declining 44 million yen, or 0.3%, from the previous year. Profit for the quarter (profit after tax) was 12,773 million yen, falling 1,741 million yen, or 12.0%, from the previous year.
- The exchange rate impact from the translation rate into yen of overseas consolidated subsidiaries is noted at the bottom of this section (p. 6 of the Quarterly Report), along with the foreign exchange rates that our Company considers major currencies (US dollar, euro, Thai baht). These three currencies have each appreciated against the yen by nearly 25% to 30% compared with the same period the previous year. As a result, the impact of foreign exchange rates from currency translation accounted for an increase of 11,191 million yen in sales, a rise of 1,841 million yen in profit before tax and a climb of 1,675 million yen in profit for the quarter.
- Sales rose 9,133 million yen, but since the increase of 11,191 million yen in sales from currency translation is included, sales actually declined by 2,058 million yen, or 2.2%, excluding the impact of foreign exchange rates. There were no special factors that significantly affected profit before tax in the current fiscal year, while there were several such factors in the previous year. In the previous year, the Company recorded "other income" of 6,883 million yen, including insurance proceeds of 5,042 million yen related to the flooding in Thailand. The absence of such a factor in the current fiscal year affected profit negatively. On the other hand, the Company recorded a "share of losses from associates" of 2,018 million yen in the previous year, whereas it recorded a "share of profit of associates" of 47 million yen in the current fiscal year. Consequently, the net impact of these results was an increase of 2,065 million yen in profit. These factors, together with other transient factors such as foreign exchange gain/loss and gain/loss on sales of non-current assets, contributed to a decline of 3,954 million yen in profit.

Excluding this figure from a year-on-year decline of 44 million yen in profit, profit before tax effectively rose 3,910 million yen year on year. This still includes the impact of the currency translation that accounted for an increase of 1,841 million yen in profit. By excluding this amount, profit from actual business activities rose 2,069 million yen or 12.9% from the previous fiscal year. To sum up, excluding the impact of foreign exchange rates and special factors, the Group as a whole recorded slightly lower sales and a double-digit rise in profit.

- Turning to an explanation of each segment (p. 10 of the Quarterly Report), sales in the Information Technology segment declined by 3,608 million yen year on year. Excluding the impact of foreign exchange rates as mentioned above, sales actually fell by 7,277 million yen, or 17.1%. Profit before tax for the segment fell by 193 million yen. Excluding the impact of special factors and foreign exchange rates, profit before tax actually decreased by 729 million yen, or slightly less than 10%. On the other hand, sales in the Life Care segment increased by 12,675 million yen. Excluding the impact of foreign exchange rates, sales actually rose by 5,183 million yen, or 10.4%. Profit before tax posted a decline of 1,838 million yen. Excluding the insurance proceeds from the flooding in Thailand and other factors, profit before tax increased by 2,403 million yen, or 18.8%.
- We reported “Profit from ordinary operating activities” as reference information for the results under review. It was calculated by excluding finance income and costs, the share of profit/loss from associates, foreign exchange gain/loss and transient factors from profit before tax.
- Further, as explained in the details of sales by product (p. 12 of the Quarterly Report), they show that electronics-related products in the Information Technology segment posted sales that rose 134 million yen from the previous year, to 27,652 million yen. Excluding the impact of foreign exchange rates, this is actually equivalent to a decline in sales of 2,696 million yen, or slightly less than 10%. The main factor behind the drop in sales was the business for glass memory disks for HDDs. Excluding the impact of foreign exchange rates, its sales fell more than 20% year on year because the second quarter of the previous fiscal year was a period before the market began to contract. On the other hand, with a slight improvement in the market conditions, sales of mask blanks for semiconductors and photomasks for large-scale flat panels increased from the second quarter of the previous fiscal year. However, overall sales of electronics-related products, including the business for glass memory disks for HDDs, declined by slightly less than 10% year on year. Sales of imaging-related products fell 3,755 million yen, to 11,296 million yen. Excluding the impact of foreign exchange rates, sales declined 4,568 million yen, or around 30%. The languishing camera market was the main factor behind the decline. Overall, sales of products in the Information Technology segment were nearly unchanged from the first quarter of the current fiscal year, although the performance of each product varied. We are in a situation where the market conditions are not necessarily improving but the rate of the contraction in sales

has been slowing.

- Meanwhile, healthcare-related products in the Life Care segment posted a sales increase of 10,497 million yen, to 46,707 million yen, and an increase of 5,814 million yen, or 16.1%, excluding the impact of foreign exchange rates. Sales of eyeglass lenses rose significantly in the mid-20% range, reflecting the fact that sales in the second quarter of the previous fiscal year were still in the midst of recovery from the flooding in Thailand. To date, sales have grown to a level in excess of that reached before the flooding. Sales of contact lenses have been continually expanding at the rate of mid single-digit range growth. Sales of medical-related products increased by 2,178 million yen, to 15,957 million yen, but declined by 631 million yen excluding the impact of foreign exchange rates. A voluntary recall of some intraocular lenses that we undertook in January 2013 served as a factor for the year-on-year sales decline. We resumed production in July and have carefully and gradually recommenced sales in countries where we have obtained permission. However, sales have not yet recovered extensively. Sales of endoscopes grew more than 10% from the second quarter of the previous fiscal year, even after excluding the impact of foreign exchange rates.
- Overall, sales of the Information Technology segment declined from the second quarter of the previous fiscal year due to sluggish sales of glass disks for HDDs and camera lenses. The situation is such that this decline was offset by the Life Care segment, but not fully. Sales of the Information Technology segment remained almost unchanged or declined slightly from the first quarter of the current fiscal year, but overall profit effectively increased. Although the Information Technology segment recorded lower profit, due to lower sales it is maintaining its profitability. At present, the rising sales of the Life Care segment are making up for a decline in the profit of the Information Technology segment. The profitability of the Information Technology segment remained almost unchanged from the first quarter of the current fiscal year.
- There were not many major changes in the balance sheet. Interest-bearing long-term debt (p. 5 of the Quarterly Report) declined by 25,163 million yen. This was due to the transfer of the debt to interest-bearing short-term debt in preparation for the redemption of corporate bonds in September 2014.
- As for the statement of cash flows (p. 8 of the Quarterly Report), net cash generated from operating activities improved 4,107 million yen, to 25,776 million yen. Net cash used in investing activities was 4,644 million yen. There were no large-scale investments in the second quarter of the current fiscal year.
- With respect to dividends (p. 1 of the Quarterly Report), dividends per share were 30 yen, unchanged from the previous fiscal year.
- The interim dividend payout ratio was 51.7%.

### **[Overview of Operations by Mr. Suzuki, CEO]**

- The sales and profit of the Life Care segment have come to account for 60% of overall results. This increasingly makes the Company look like a life care company.
- Excluding the impact of foreign exchange rates, the Life Care segment was not able to offset declines in sales in the Information Technology segment. However, with the Information Technology segment starting to show signs of bottoming out in the first and second quarters, and with the profit generated by the Life Care segment, overall performance is on an improvement course.

### **[Overview of the Operations of the Information Technology Segment by Mr. Ikeda, COO]**

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

- Tablets and smartphones are driving demand for blanks.
- As for the results, sales were unchanged year on year.
- Demand for cutting edge products is relatively modest. Because we are also purposely trying to capture the businesses of middle- to low-end products, volumes have been rising.
- There are no major changes in the market share, including the sector of cutting-edge products.
- Although the number of chip manufacturers engaged in the cutting-edge product sector is limited, major customers are currently using HOYA's blanks. At present, the more advanced development of 16/14nm is also underway. Despite the continued severe competition, we are determined to steadily acquire businesses in the cutting-edge product sector.

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

- We expected that photomask demand for large-scale televisions would temporarily peak out around August. However, even after that, the development of large-scale products, such as 4K and 60 inches, continued.
- Photomask demand for medium-to-small-sized products for tablets and smartphones remained steady.
- Sales for the second quarter rose approximately 20% from the same period of the previous fiscal year.
- Given higher sales and an improvement in the product mix, the profit ratio also improved further from the first quarter.
- There are signs of rising demand for photomasks with higher definition or larger size for smartphones and for photomasks with higher definition for tablets. Demand for products used in televisions flattened somewhat compared with the first quarter, but demand for large-size photomasks, such as the G8, remained steady.
- Demand for large-scale photomasks is currently expected to remain at the present level until the

end of the year, partly reflecting the continued development of products related to 4K.

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

- The laptop PC and 2.5-inch HDD market, to which glass disks are mainly applied, is continuing to contract. Shipment volumes of those products declined 10% year on year. They appeared to have improved slightly from the previous quarter, but the market is not a market that will continue to improve in the future, rather we believe that it will continue to contract.
- The inventory level of both HDDs and substrates among the HDD manufacturers appears to be appropriate.
- As for applications, demand for external HDDs and game consoles increased, partly due to seasonal factors, however this failed to offset a decline in demand for laptop PCs. As a result, the Company recorded lower sales year on year.
- We are taking initiatives to restructure the production level to one that appropriately meets actual demand as the market contracts. We are making an effort to improve productivity, mainly by concentrating production in plants that have cutting-edge production lines. As a result, the overall plant utilization rate remains at approximately 75%.
- Partly reflecting the effects of structural reforms, profitability improved from both the previous quarter and the same period of the previous fiscal year.
- We will restructure our operations to meet the continued decline in demand in the future.

**<Optical Glass and Lenses>**

- The trend in the compact camera market remains one of continuing contraction due to the increasing popularity of smartphones. In response, compact camera manufacturers have been taking initiatives including the introduction of cameras with high quality, high zoom, waterproof functions and other advanced features. However, even such initiatives have not successfully altered the contraction in the compact camera market.
- Sales in the interchangeable lens market, including mirrorless types, failed to recover and remained sluggish due to stagnant demand. The camera market is expected to continue to contract toward the end of the year.
- In this severe market environment, in the second quarter we focused on stimulating demand for high value-added glass materials, large-diameter lenses with high unit prices and new applications other than digital cameras (such as smartphones, CCTV and sport cameras). However, given a decline in the shipping volumes of mold lenses for compact cameras, sales fell significantly.
- Sales and profit also declined from the previous quarter. However, partly reflecting the effects of the initiative to contain production costs ahead of schedule, profitability has been improving.

- We expect that there will be no stopping in the contraction of the market and the growing trend of in-house production of lenses by camera manufacturers for some time. In response, the Company will focus on securing earnings by steadily cutting costs in the future.

**[Overview of the Operations of the Life Care Segment by Mr. Cimermans, COO]**

**<Overall Life Care Segment>**

- Sales of the Life Care segment rose 10%, excluding the impact of foreign exchange rates, and profitability (on the basis of excluding special factors) also improved from both the previous quarter and the same period of the previous fiscal year.
- Sales and profit before tax of the Life Care segment have grown to account for 60% of those of the overall HOYA Group.

**<Eyeglass Lenses>**

- Sales in the second quarter rose by the approximately mid-20% range from the same period of the previous fiscal year on a local currency basis.
- Sales recovered from the effects of the flooding that took place in the previous fiscal year, and they have exceeded the level reached before the flooding. However, profitability has not yet recovered to the level reached before the flooding.
- A significant recovery in sales from the second quarter of the previous fiscal year was recorded in Japan and Europe.
- Sales of the eyeglass lens business that was transferred from Seiko Epson Corporation came to 2.2 billion yen in the second quarter. The profitability of the business is still low, but we will improve it by optimizing the production line.

**<Contact Lens Retail>**

- Although the domestic retail market of contact lenses is contracting, sales of the Company's retail stores rose around 5% year on year.
- We opened six new stores in the second quarter. We plan to open six more new stores in the second half.
- The high profitability remains unchanged.
- Because there are many areas to which the Company has not extended its market coverage, significant room remains for growth.

**<Endoscopes>**

- Sales in the second quarter rose more than 10% from the same period of the previous year on a local currency basis. Sales rose approximately 30% in the Americas. As a result of the receipt of

product permission and authorization in the United States, sales of, in particular, the EPK-i5010 that was launched for the North American market have grown steadily.

- Sales in Europe in the second quarter rose approximately 5% from the same period of the previous year on a local currency basis. Sales in the United Kingdom, Germany and the Netherlands increased, but those in Southern Europe and Russia were sluggish.
- Sales in China also grew strongly. In particular, because we have not currently fully covered the markets in China, India and Latin America, we are determined to actively expand operations in these markets in the future.
- We launched the EPK-i7000, an endoscope processor with advanced features, in Japan and Europe last year. This year, sales of the processor with an optical enhancement function that was added in accordance with the needs of doctors rose steadily.
- At UAGW congress in Berlin this month, we launched the NaviAid G-Eye, a product developed jointly with Smart Medical System Ltd.. The product was received with great anticipation, as it is expected that it will potentially significantly improve the detection rate in colonoscopy in the future. Clinical study is underway in several countries. The product has already been introduced in Europe.
- We launched Retroview scope platform in Asia and the US, which enables the clinicians to look behind the folds in the colon, improving detection rates.
- The profitability of the endoscopes business improved further in the second quarter compared with the first quarter.
- Today, the Company announced that it would acquire a majority shareholding in Wassenburg Medical Devices B.V., a manufacturer of equipment that washes and dries the scopes of endoscopes. This business is expected to exert synergy effects with the Company's endoscope business in terms of sales and development. It is also expected to not only stimulate equipment sales, but also to bring about the provision of after-sales services and sales of consumable goods.

#### < Intraocular Lenses for Cataract >

- We suspended production and undertook a voluntary recall of some IOLs in the fourth quarter of the previous fiscal year. However, we recommenced production in July this year and began to sell the products in countries in which permission for the products was obtained.
- As for recommencing sales in Japan, it is taking time to obtain the permission of the PMDA. However, we expect that we will be able to recommence sales soon.

#### [Q&A]

Q. Could you please tell us about the return to shareholders and plans for ways to use cash?

A. (CEO) Cash has increased on the balance sheet. We would like to use it as funds to be spent on

M&As on a priority basis. Because it is not our objective to increase our cash reserves, if we observe a situation where there are no M&As on which cash is to be spent, we will consider making a return to shareholders.

Q. Konica Minolta, Inc. is reportedly withdrawing from the business of substrates for HDDs. What is the impact of this withdrawal on the Company?

A. (Ikeda, COO) Our operating stance of shipping substrates for the amount that is required in the HDD market remains unchanged.

Q. You said that you would acquire a majority shareholding in Wassenburg Medical Devices B.V. What is the acquisition amount and the impact on results?

A. (Cimermans, COO) The acquisition amount is not publicly available. The business scale is still small. Wassenburg Medical Devices B.V. is a company that was mainly trading with J&J until three years ago. After the termination of transactions, it was engaged in sales activities by itself. It carries out operations mainly in the Netherlands, Belgium, France, the United Kingdom and Ireland. With respect to the impact on results, it will add sales of approximately 30 million euros per annum. However, we are expecting it to make a contribution to the Company's results on a long-term basis.

Q. "Profit from ordinary operating activities (Note: A reference amount that was calculated by excluding finance income and costs, share of profit/losses from associates, foreign exchange gain/loss, non-recurring profit/losses, etc. from profit before tax)" improved by around 2.5 percentage points from the first quarter. What factors are attributable to this improvement?

A. (CFO) The improvement was largely attributable to increases in sales and an improvement in profitability, mainly in the eyeglass lenses and endoscopes businesses.

*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.*