

Briefing Summary of the Analyst/Investor Meeting for the 3rd Quarter Financial Results for the Fiscal Year Ending March 31, 2014

Tokyo, January 31, 2014

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 IR Group. Please also refer to the cautionary notes on the final page.

[Overview of Financial Results Provided by Mr. Hirooka, CFO]

Overview of Financial Results

- Allow me to start with an explanation of the consolidated statements of comprehensive income for all operations on page 6 of the Quarterly Report. Sales stood at 109,690 million yen, up 19,008 million yen, or 21.0%, from the same period a year earlier. Profit before tax increased 11,801 million yen or 66.7% from the same period in the preceding year to 29,499 million yen. Profit for the quarter (profit after tax) stood at 22,274 million yen with a year-on-year rise of 11,908 million yen or 114.9%.
- The exchange rate impact from the translation rate into yen of overseas consolidated subsidiaries is noted at the bottom of this section, on page 6 of the Quarterly Report, along with the foreign exchange rates with major currencies to our Company. The U.S. dollar, the euro and the Thai baht all appreciated around 20% to 30% against the yen compared with the period in the previous year. As a result, the impact of foreign exchange rates from currency translation accounted for an increase of 12,604 million yen in sales, a rise of 3,149 million yen in profit before tax and a climb of 2,914 million yen in profit for the quarter.
- Sales rose 19 billion yen. This figure includes an increase from currency translation amounting to 12.6 billion yen. Excluding the exchange rate impacts, sales actually climbed 6.4 billion yen, or 7.1%. Likewise, profit before tax was up 11.8 billion yen. Since this includes an increase from currency translation worth 3.1 billion yen, profit before tax actually rose 8.6 billion yen, or 48.9%.
- In comparison with the same period a year earlier, there were two major special factors. One is that a share of profit of associates amounting to 52 million yen was posted whereas the share of loss of associates was 7,219 million yen for the same period a year earlier. The other is that foreign exchange gain decreased 3,830 million yen, from 9,215 million yen in the same period in the preceding year to 5,384 million yen for the quarter under review. On an actual basis excluding these special factors, profit rose 4.4 billion yen or 25%.
- Turning to an explanation of each segment on page 10 of the Quarterly Report, sales of the

Information Technology segment stood at 41,135 million yen, which represents an actual approximate decline of 0.7 billion yen, or 2%, excluding the rise of 4.5 billion yen based on the exchange rates. Meanwhile, the Life Care segment achieved sales of 67,854 million yen. Excluding the positive impact of around 8.0 billion yen from exchange rates, its sales were actually up 7.0 billion yen or 13%.

- The Information Technology segment saw an increase in profit to 3,329 million yen, but excluding the foreign currency and special factors, the segment actually achieved profit growth of 1.2 billion yen, or in the mid-10 percent range. The Life Care segment attained a profit increase of 4,353 million yen on a nominal basis, or a rise of 3.1 billion yen or more than 30% on an actual basis.
- We now look in more depth at sub-segments (page 12). Sales of electronics-related products increased 4,372 million yen year on year, but they actually rose 0.5 to 0.6 billion yen, or 2%, if the positive impact of exchange rates worth 3.7 billion yen is not taken into account. Semiconductors and LCD-related products attained sales growth from the same period a year earlier while glass memory disks (substrates) for HDD saw a mid-single-digit sales decline year on year given shrinking demand for laptops. Imaging-related products saw their sales fell by 1.4 billion yen, or around 10% on an actual basis. This is due chiefly to tumbling sales of camera-related products, among other factors.
- In the Life Care segment, healthcare-related products achieved sales growth of 10.9 billion yen, or 6.0 billion yen (or in the mid-10 percent range) on an actual basis excluding the positive exchange rate impact worth 4.8 billion yen. Following growth in transactions with major customers in Europe and with Epson, sales of eyeglass lenses rose around 20%. The contact lens retail business recorded a mid-single-digit sales hike. Sales of medical related products rose by 4.1 billion yen, or by 1.0 billion yen, a mid-single-digit percentage increase, if the positive impact of exchange rates worth 3.1 billion yen is excluded. Sales of intraocular lenses (IOL) for cataract treatment fell from the same period in the preceding year. After the voluntary recall in the preceding year, we have already resumed overseas sales. In Japan, we received permission for resale in December last year and will be working carefully on our sales activities. Sales of endoscopes showed mid-single-digit growth without the exchange rate impact. Until the second quarter, sales of the Life Care segment did not fully offset the sales decline in the Information Technology segment. In the third quarter, the Life Care segment attained growth in sales and profit to cover the slide in the Information Technology segment. As a result, total sales achieved positive growth.
- As for cash flows, net cash generated from operating activities improved 3,798 million yen from the same period a year earlier to 23,997 million yen. This is due to the sales growth, despite an increase in trade receivables.

- On a full-year basis, we forecast sales of 413.0 billion yen, up 10.9% from the preceding year, and profit before tax of 76.0 billion yen, down 16.7%. However, there was an insurance income of 32.0 billion yen following the Thai floods in the preceding year. Excluding this factor, we foresee a profit increase of around 17.0 billion yen. Our forecast is on the assumption that the yen will appreciate again at the end of the fiscal year.

[Overview of Operations by Mr. Suzuki, CEO]

- The Life Care segment appeared to be relatively healthy except for eyeglass lenses in Japan and endoscopes in Europe. The results of the Information Technology segment were reasonable in comparison with those in the same period a year earlier, even without the exchange rate factor. As we reduce costs ahead of sales growth, the Information Technology segment now has enhanced profitability.
- The Life Care segment contributed around 62% of our total sales. Its share will continue to rise and soar into the seventies of percent.

Eyeglass Lenses

- Sales in Japan have yet to reach the level seen before the flood disaster. U.S. sales originally suffered no impact from the flood. Sales in Asia and Europe continue to rally. In the Japanese market, it takes more time to regain customers lost in the wake of the flood than it does in Europe.
- Production is in full operation but the average unit price is on the decline. We attained an operating margin of 16% to 17% on an under management basis but I think we need to improve the product mix in order to fulfill the target of 18%.
- Our production capacity is becoming inadequate. We are thinking of expanding it in Asia outside Thailand, for example in the Philippines.
- Following the manufacturing section taken over from Epson, Seiko's sales subsidiary, will be further added in the coming year. They will make a limited contribution to our profit and it will take us some time to raise the overall operating margin to 18%.

Contact Lenses

- The domestic contact lens retail market is shrinking. The young population is on the decline, and so are those who wear contact lenses.
- Under these circumstances, our Eyecity contact lens retail stores increase their sales by 2% year on year on an existing stores basis or by 5% to 6% if sales from newly opened stores are taken into account.
- In the past, we expanded sales mainly by launching large-scale stores. In the future, we will need

to launch small stores as well. Future sales growth will not be proportionate to the future increase in number of stores, but we manage to maintain a high level of profitability. Given that sales are soaring at existing stores, we will be able to further increase sales to some extent by increasing our market share.

Endoscopes

- Double-digit growth was seen in Asia and in the Americas. In Asia, the growth rate reached around 20%.
- In Europe, business conditions are tough, especially in Southern Europe. In the preceding year, we planned to boost sales in European peripheral countries, namely Turkey, Iraq, Russia and Eastern Europe. These strategies were successful but the markets themselves are not large. We captured local demand to some extent but sales did not rise on a year-on-year basis. I think that we will basically have to take an orthodox approach.

Intraocular Lenses

- We resumed the products that we had stopped shipping and voluntarily recalled in July to Asia and to Europe. In both regions, sales returned to the pre-recall level.
- In the Japanese market, we obtained permission for resale in December. In the foreseeable future, we will adopt a careful sales approach while limiting target customers.
- We expect that sales will reach the pre-recall level in the second half of the next fiscal year.

Mask Blanks for Semiconductor Manufacturing and Photomasks

- Few manufacturers are capable of developing technologies in the leading-edge domain of 16- and 14-nanometer node semiconductors. It seems that such semiconductors can now be manufactured.
- Meanwhile, photomasks and mask blanks in earlier generations, such as micron-node ones, were unexpectedly brisk after new applications and design changes came into being. I expect that this domain will not shrink and will continue to exist.

Large-scale Photomasks for Liquid Crystal Displays (LCD)

- There was strong demand for photomasks for large-sized LCDs such as 4K panels and 60-inch ones.
- The point that I found a little interesting is that high-end LCDs with high resolutions for smartphones and tablets used to be produced with LTPS and are today produced with fifth-generation amorphous silicon.

Glass Memory Disks for Hard Disk Drives (HDDs)

- The results were not as poor as expected. Demand for application in game consoles normally falls from the second to third quarters, but in the current fiscal year, there was a certain level of demand in the third quarter. In addition, demand for external HDDs continued to grow.
- There is concern that the HDD inventories may increase after the Chinese New Year. However, the demand-supply situation for the substrates is tight and fourth quarter sales are unlikely to fall significantly, even if the HDD inventories are adjusted.
- In the long run, laptops will decrease at a double-digit pace. In anticipation of that, we will be changing the structure of this business to ensure that profitability can be secured after a market shrinkage. The storage capacity per disk is 500 GB at the moment and it will take some time until next-generation HDDs hit the market. However, there is demand for external HDDs with larger capacity, such as one or two terabytes. The number of disks required per HDD unit is trending upward. In this sense, the sales volume of disks (substrates) will not slide as quickly as that of personal computers.

Optical Glass

- We managed to secure close to double-digit profitability but we have no idea how far sales will still fall. Some raise the question as to what to do with this business if digital cameras vanish. At the moment, we will need to study our response in the case of the disappearance of the digital camera market while cultivating other applications, including CCTVs, vehicle mounted cameras, smartphones and products other than digital cameras.

[Q&A]

Q. What do you think about the impact of Obamacare?

A. (CEO) That is still uncertain, but we anticipate that the number of tests using endoscopes will increase. On the other hand, product unit prices will fall. We therefore foresee a market growth rate that is equivalent to past rates.

Q. According to your comment, the optical lens business is difficult, although optical lenses have various potential applications. In what sense do you think it is difficult?

A. (Suzuki, COO) Our optical lens business has traditionally specialized in applications for digital cameras. The business of lenses for digital cameras was in contrast a volume sales business. It sold a large quantity to a limited number of end product manufacturers. On the other hand, take the CCTV market for example. It may be a large market as a whole, but it has plenty of small manufacturers and it is necessary to offer small quantities of many different lenses. However, our business structure is not set up to do that. This is the reason for my remark about difficulty.

Q. What will you be doing in the next fiscal year.

A. (Suzuki, CEO) From a long-term perspective, the current portfolio is still insufficient. I think we need to make clear what should be closed down and what should be added in order to enhance the portfolio. From a short-term perspective, we believe that the strategies we implemented in individual businesses have appropriate orientations, but their implementation is not perfect. We think we must follow the basics and soundly operate the businesses.

Q. Does the full-year earnings forecast take impairment losses into account?

A. (CFO) The forecast is made on the assumption that the yen will be fairly high against the major foreign currencies.

Q. What is your stance on future capital investment?

A. (CEO) Given a business structure where the Information Technology segment is shrinking while the Life Care segment is growing, our capital investment is unlikely to be as high as it was in the past. I think that the amount will fall to around one third the past amount.

Q. What is behind the higher profitability for the third quarter than for the quarter just before?

A. (CEO) The profitability of endoscopes improved. The eyeglass lens production is in full operation, although some cost incurred for the Epson integration. These produce positive effects.

Q. I hear that you will focus on emerging markets in the eyeglass lens business. Is that correct?

A. (CEO) There are still a large number of markets that our eyeglass lens business fails to cover. For example, in Africa, we serve South Africa alone. In South America, we mainly serve Brazil only. We will work proactively to expand this business.

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