

**Summary of financial results meeting  
for the three months ended March 31, 2008.**

Tokyo, April 28, 2008,

***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.***

Note:

3Q: October 1 to December 31, 2007

4Q: January 1 to March 31, 2008

**【Presentation by CFO Mr. Ema : Performance for the 4Q】**

**Business Performance**

Sales:	Yen 135,816 million	(+36.5%)
Operating Income:	Yen 18,032 million	(-26.8%)
Ordinary Income:	Yen 18,358 million	(-31.8%)
Net Income:	Yen 16,320 million	(-14.2%)
Net Income per share	Yen 37.71	
Net Income per share (diluted)	Yen 37.70	

**Financial Position**

Total Assets:	Yen 687,776 million
Net Assets:	Yen 388,695 million
Owners' Equity Ratio:	56.0%
Net Assets per Share	Yen 889.79

**Cash Flow**

Cash provided by operating activities:	Yen 34,948 million
Cash used for investing activities:	Yen -7,256 million
Cash used for financing activities:	Yen -7,546 million
Cash and Cash equivalents at the end of the term:	Yen 181,335 million

- The balance sheet of PENTAX Corporation has been consolidated to HOYA Group at the end of September, 2007. Please pay attention to the changes from the previous year, because the previous year's figures have been entered and calculated as 0 (zero) on the quarterly report. The income statements have been consolidated since the second half of the term (from October 1, 2007 to March 31, 2008).
- Five domestic subsidiaries of PENTAX have been merged into PENTAX Corporation as of March 30, 2008, and then PENTAX Corporation was merged into HOYA Corporation

on the following March 31. Therefore, please also note that the journal entry is made based on a special method that includes taxation in the 4Q, which makes the financial statements more complicated.

- Due to the influence of foreign exchange, the sales seem to be decreased slightly by Yen 2,467 million, when comparing the financial statements of the overseas subsidiaries at the exchange rate of the current term with that of the same period of the previous year. This has become a factor in reducing both the operating profit and the ordinary profit by 469 million respectively, and the net profit by Yen 392 million. Considering each business line, the foreign exchange rate has reduced the increased sales of Yen 36,349 million by Yen 2,467 million, which means that the sales increase excluding the influence of the foreign exchange rate would be Yen 38,816 million. There was no accounting entry for PENTAX for the previous year, which has resulted in the simple addition of Yen 40,923 million of sales for this year; the result of HOYA excluding PENTAX posted negative growth. The breakdown of the sales growth consists of Electro-optics (EO) recorded negative growth of Yen 2,377 million and the Vision Care (VC) posted negative growth of Yen 829 million. On the other hand, Healthcare (HC) has built a positive sales growth of Yen 1,052 million. Moreover, the operating profit has fallen by Yen 6,599 million compared with the previous year and the foreign exchange rate has negatively influenced it by Yen 469 million. If you look at the value excluding the influence of the foreign exchange rate, profit decreased by Yen 6,130 million, the breakdown of which consists of negative figures of Yen 1,584 million from PENTAX and the balance of Yen 4.5 billion from HOYA. In addition, the breakdown of HOYA consists of decreases of Yen 3,400 million in EO, Yen 1,282 million in VC and Yen 418 million in HC, respectively. The operating income of every division has recorded negative growth.
- The performance per segment (please refer to page 24 for the Quarterly Report for the 4Q ended March 31, 2008) does not include the figure of PENTAX in the same period of the previous term, and consolidated sales for the 4Q has increased by Yen 36,349 million, including the simple addition of PENTAX Corporation. The sales of EO and VC have resulted in decreases of Yen 3,415 million and Yen 2,139 million respectively, but HC has achieved a sales increase of Yen 1,046 million. The influence of the foreign exchange rate mentioned above has been considered in these figures. The total operating income has decreased by Yen 6,599 million. From the perspective of each segment, PENTAX has resulted in a deficit due to the operating loss of Yen 1,584 million in the 4Q. The operating income of EO has decreased by Yen 3,712 million over the same period in the previous year, while the Photonics division has gained Yen 128 million. VC has resulted in an operating income decrease of Yen 1,431 million and HC has resulted in a decrease of Yen 428 million year on year.
- EO, which accounts for more than half of the total sales of the Company, has been significantly influenced by the decline in sales in the businesses such as glass memory disks for HDD and optical lenses. Memory disk media (a disk with magnetic layer) was shifted in the 1Q during the term to a new perpendicular magnetic record format, but we had minor technical problems. Although it adversely affected the P/L, it has been

recovering in the 4Q. Currently, the main product is 120GB disks, but we have already started 160GB items. Going forward, we continue producing 120GB disks, at the same time will get 160GB items qualified by our customers, following by the technical advancement according to the roadmap. In terms of the glass substrate (which is a polished glass plate before applying a magnetic film), the 2.5-inch disk for notebook PCs is the main product for us. Currently, we have been running the manufacturing line at full capacity, but the price has been negatively influenced. Regarding optical lenses, we have been manufacturing molded lenses, which involve a difficult technique. The technology involved in the concave meniscus lenses is especially complicated and we have been fighting a tough game.

- Please refer to the "sales growth ratio per product", which has been separately prepared and posted on our website.
- PENTAX Corporation merged its five domestic subsidiaries as of March 30, and PENTAX Corporation was merged into HOYA Corporation on the following day. This means that six companies, including PENTAX Corporation, have been merged into HOYA Corporation. In terms of the taxation related to this merger, the gain from the merger by PENTAX Corporation was about Yen 57 billion, giving rise to a tax of Yen 23.4 billion. HOYA Corporation will pay tax as an agent in May, because PENTAX Corporation is the expired entity. On the other hand, HOYA Corporation is the surviving company and will bear a tax loss of approximately Yen 140 billion. The tax amount will be approximately Yen 58 billion, and the loss will be carried forward for about five years. HOYA Corporation as a single entity has no tax payment in the current term due to the significant loss carried forward. From the next term onwards, HOYA Corporation will deduct the loss carried forward from any taxable income. If we generate higher income, the loss carried forward will be offset earlier. Currently, we expect that this will take about 4.5 years, and we expect to be able to save approximately Yen 35 billion in cumulative total.
- In the financial earnings announcement made in October 2007, we explained that the goodwill of the PENTAX Corporation group had been valued and posted at the market price upon consolidation as a result of the take-over bid in August 2007. But later HOYA merged PENTAX Corporation on March 31, 2008, the goodwill and the deferred tax assets have been recalculated and entered in the journal for the merger. As a result, the goodwill of Yen 33.2 billion has been entered in the journal as an intangible fixed asset in the balance sheet. Additionally, there are deferred tax assets of 14.5 billion in the current assets and Yen 41.5 billion in investments and other fixed assets. Totaling these two entries, deferred tax assets will be Yen 56 billion.
- The net cash provided by operating activities is Yen 34.9 billion. The breakdown consists of income before income taxes and minority interests of Yen 17,381 million, depreciation and amortization cost of Yen 11,209 million and a income tax -paid of Yen 3,267 million. The net cash used in investing activities is Yen 6,309 million, which is mainly comprised of capital investments. The net cash used in financing activities consists mainly of the net decrease in short-term bank loans of Yen 5,677 million and repayment of long-term debt of Yen 1,833 million.

- The annual dividend of Yen 65 per share, totaling the interim dividend of Yen 30 and the year-end dividend of Yen 35, will be the same amount as in the previous term. The payout ratio is 36.5% as a consolidation basis, which was 33.6% last year. Therefore, the payout ratio is about one third of the net income of the term.
- The stock price at the end of March was Yen 2,340, and the dividend yield is 2.78%.

**[Presentation by CEO Mr. Suzuki]**

- On January 28, 2008, we announced the Company's projected results for the fiscal term ending March 31, 2008. I personally think it is serious that the actual performance was significantly lower. It is not so easy to understand the financial figures for the term under review, because they have been processed in various ways for accounting purposes. I will talk about the performance of each business line as usual.

**Mask blanks and Photomasks for LSI production**

- In the semiconductor business, I believe that DRAM and Flash Memory have been slow and Asian players have ceased to function properly, compared to the past. In spite of this, logic devices have been relatively active, and the overall situation has not been bad. There was some foreign exchange influence, but I believe that the industry or HOYA has not experienced any significant change. However, the markets were extremely sluggish in January and February. April will soon be over, but I believe that business has been recovering in March and April. While our performance slowed in January and February, it recovered in March and April.
- For photomask makers that distribute externally, the price in the industry will rise as the technology advances, but will then decrease as time goes by. Because the shift of technology is getting slower, the price does not increase. This phenomenon is causing problems for suppliers that distribute the masks externally, including HOYA in terms of the unit price. I believe that the overall semiconductor business was not bad and the situation has been recovering in March and April.

**Large Photomasks for liquid crystal display (LCD)**

- In January and February, the panel manufacturers were still producing 32-inch panels at full capacity. Although this increased the utilization rate, there was no demand for new photomasks. In February, the demand was surprisingly low. However, in March and April, we have seen active demand. It will take some time to determine if this will be a trend or was just a temporary situation. The demand in March and April was based on a revision of the version in order to improve the yield as well as the performance at their production sites, which is basically creating demand for masks by revising what is currently used. I believe it will take some time before we see further demand for masks from the panel manufacturers, that is when they install a new aligner (exposure machine) and increase production capacity. We will see this kind of demand soon or later.

- Although the panel industry has been producing 32-inch panels at full capacity, they have been playing tough games in Generation 6, cost-wise. Therefore, the industry has been manufacturing 32-inch in the G7 and G8 lines and I personally wonder if the industry has been producing the 32-inch range a little excessively, thus rapidly overcoming the supply shortage. Whatever a panel manufacturer produces in any line by changing masks, we will be glad because there will be demand for masks. We see certain trends, including wishful thinking.

### **Glass memory disks (MD) for HDDs**

- We experienced tough times in the 4Q. This is not because of our technical problem, but rather because our clients' HDD manufacturers are facing tough times. In terms of volume, WD (Western Digital) seems to have gained share in the market and HOYA does not have much shipping to that company. HOYA's market share has decreased as WD's market share has increased. However, it does not mean that our share in our client-manufacturers has decreased.
- The price has fallen slightly. A newcomer has caused lower the price, which has also had a slight influence on us.
- We have been affected by the foreign exchange rate, because we have significant US dollar exposure in our sales.
- As for the media business, the unit price has fallen significantly, although we have received qualification of 160GB items and we have been successful so far. The price in the entire market has a downside risk, perhaps because of the inventories or prices being unreasonably discounted by competitors. Because we use platinum in magnetic films and the price of platinum has been going up, we have a problem when the price of the media goes down.
- WD has purchased a media manufacturer, Komag Inc., and I believe they will self-manufacture 2.5-inch media. It is possible that the environment will change, although nothing has been foreseen as yet.

### **Optical lenses**

- It is optical lenses that have fallen most short of our estimation in this 4Q.
- In response to a question on risk factors several months ago, I answered "optical lenses for digital cameras". As anticipated, we have struggled in the digital camera lens business. The falling unit price has had a major impact, in addition to decreased quantities.
- In Japan, while some manufacturers reduced production, others have maintained the same production level. The most significant decreases in production came from Taiwanese manufacturers who have failed to sell low-end products, and they have been suffering since Christmas, that is because Japanese manufacturers have unreasonably and significantly discounted the price in the market in order to liquidate last year's inventories. The Taiwanese figure is not included in the CIPA data, but it accounts for a large part, quantity-wise. In the circumstances, Japanese manufacturers have partially ordered the production of lenses from Chinese manufacturers due to the

falling price.

- The single lens reflex (SLR) camera market was relatively good over Christmas, which made the overall result of the industry successful. However, HOYA's involvement in the SLR lens business has unfortunately been extremely small. Therefore, we could not benefit from increased production of SLR camera market, but we have been negatively influenced by decreased production in the compact camera market.
- Plastic has been used more in the 3M (mega-pixel) lens for cellular phones. Although HOYA has still been supplying lenses on a smaller scale, I believe that our lens business for cellular phones was basically over. We have eventually suffered, although we had expected to fill out the production line originally made up for lenses for cellular phones with the demand for small-sized lens for digital cameras.

### **Vision Care (eyeglass lens)**

- In Europe, we enjoyed nearly double-digit growth in the past, but this has slowed recently. We could not maintain sales at the level of the previous year.
- In North America, we have been experiencing sluggish sales over the past two quarters, reflecting a global slowdown in consumption and the economy.
- The eyeglasses business is unexpectedly sensitive to the economy. When they break, people may order them quickly. However, when people lose interest, or the index of lenses is not right, people may postpone the purchase of eyeglasses for several months. Although European and U.S. markets had been filling the gap caused by the shrinking Japanese market, they will no longer be sufficient.
- Although we wrote off some current assets, I believe that the fundamentals have not changed.

### **Healthcare (Contact lenses)**

- This has been successful.
- Because pharmaceutical jurisprudence has changed in April 2007, the National Health Insurance (NHI) points for contact lenses have been reduced. It is true that this has become less profitable for doctors. We have been working with doctors as partners, but the doctors' profits are separate from our profits. It will have no direct influence on us. However, under the circumstances where some doctors want to quit the business and new doctors are in wait-and-see mode, we cannot promote opening new stores. There is no increase in sales from new stores, but existing stores have been doing well. Our existing stores have nearly been attaining double-digit growth, while competitors' retail stores have been in difficult conditions.

### **PENTAX: Digital Cameras and Endoscopes**

- Regarding SLR cameras, the sales of the interchangeable lens has grown significantly, and the camera (body) business itself has been successful. However, the unit shipment of compact cameras remains at the same level and the unit price is approximately down to 60% (the price is discounted by 40 – 50%) of the previous year. We have liquidated the inventory of last year's models, because we have been forced

to sell them below cost.

- We will not be able to stop compact camera business, but we have been trying hard to shift resources to SLR camera business. While we were shifting the weight to the SLR camera, we could not maintain the other business properly. I regret that we did not address this earlier.
- In the industry, Samsung took the top place in Europe as a compact camera maker, and was also in 3<sup>rd</sup> or 4<sup>th</sup> place globally. Samsung has grown very rapidly. People say 'Samsung Shock', but the front line has accepted it fairly calmly and they have been working on capital investments without making a fuss.
- The endoscope business has been successful. The earnings in terms of the sales and profit have almost been as planned.
- Although we have some profitable business lines such as the interchangeable lens for SLR and the endoscopes, we suffered a deficit in the 4Q due to losses from compact cameras. In order not to repeat the mistake, we will stop in-house production of compact cameras and start ODM. We will try not to increase unit sales nor expand size unnecessarily. Instead, we will allocate these resources to the SLR and the interchangeable lens.

#### **[Questions and Answers]**

***Q: How do you foresee each business line? What is your estimation on the sales growth?***

A: (CEO Suzuki) The mask blanks for semiconductors business does not seem to have changed. I believe that we can maintain the business as it is. Especially from the perspective of the photomask business, the market has finally started shifting to 65 nm, and the demand for state-of-the-art business has been growing gradually. The environment does not look bad. Regarding HDD, we still expect 20% growth of the 2.5 inch, and the environment is not especially adverse. Unless we ruin ourselves, it will not become worse. As for the LCD photomask business, it is expected LCD panel makers will make capital investments this year, which will raise the level of demand for the mask. The risk factor is in the optical lens. The unit price had fallen to a level from which we still cannot recover. Although each camera manufacturer started launching spring models, unit sales are limited and the prices have been discounted quickly after launch. There is no longer 39,800 Yen price range, but the overall price has been discounted to the ranges of Yen 29,800 (less than \$300) and Yen 19,800. It is our challenge to assure profit while maintaining demand.

PENTAX Corporation has been successful so far in the endoscope business, and we expect to maintain the structure by growing the sales in a few quarters, at least at the current level, to raise profitability. The problem lies in the camera business. It is good to reduce the number of models of compact cameras, but the top line will shrink as a result. Our biggest challenge is how to fill the top line with SLR cameras. There is a risk where we suffer from zero growth after offsetting the results, but it is worth taking up the challenge to make profit.

**Q: The result was disappointing in this quarter, but we expect to hear good news. There are signs of recovering demand for the LCD mask. If the situation during March and April can continue from April to June, how much growth do you expect to see quarter on quarter? As for HDD glass disks, HDD manufacturers are also operating at full capacity and placing orders with HOYA one after another. If the current situation continues, how much do you expect to see profits increase by in the quarter from April to June?**

A: (CEO Suzuki) April has just ended, and I can only talk about my estimation for April. The situation became better in March and April. There is a big gap between January – February and March – April. Although we had a negative forecast in January and February, we could see a drastic change in March and April. I will not be able to say anything definitive on how long it will continue, because the situation has been changing by the day. It is still possible to improve the downtrend and rebound in the opposite direction.

**Q: Since the announcement of the purchase of PENTAX Corporation last year, performance has been sluggish along with it. I feel that the overall momentum of the company has decelerated. Under the circumstances, HOYA does not announce its annual forecast, which contributes to the increasing uncertainty. As the President of the company, when do you think HOYA can gain momentum, or it is possible to foresee profit margin increase? Considering the pending issues regarding mergers, or the restructuring of PENTAX Corporation, when do you expect to see a recovery?**

A: (CEO Suzuki) We will not announce an annual forecast, but we will disclose a forecast of interim results three months later, when announcing the 1Q's financial statements. On this occasion, I will clearly explain our forecast for the second half of the term. When we are in a difficult situation rather than doing well, I believe that we should announce a forecast to some degree. Compared to the situation last year, we have started a better year this time. I believe that we can address the problem to some degree. Although we have to still make more efforts regarding PENTAX, it has been six months since the consolidation and we can see advantages as well as disadvantages. We have finally reached the point where we can now start our strategic measures. We will start the action after the rehearsal and I have high expectations for Mr. Hamada (Chief Operating Officer, newly appointed as of April 10, 2008).

**Q: What is your plan for capital investments this year? Do you expect to see any change in the situation of the industry's reorganization of the media business?**

A: (CEO Suzuki) I have not changed my stance on the reorganization of the media industry. In terms of capital investments, the factory that was built in Vietnam will be at full capacity producing substrates for HDD glass disks and it is necessary to think about the next factory. In addition, it is still unclear how we will address G10 of the LCD masks. I believe that these are the two major investments. Because we reduced capital investments significantly last year, we will be more aggressive this year than last year. However, it will not reach the level of two years ago, amounting to Yen 50 billion.



**Q: How much do you expect in depreciation? In this term, it seems that HOYA had processed the businesses of eyeglass lenses and PENTAX Corporation. How much has this influenced matters concretely?**

A: (CEO Suzuki) We expect depreciation to be Yen 50 billion. HOYA accounts for Yen 44 billion of this. The estimation is based on an adjustment due to various changes in the accounting method.

**Q: What is the tax rate this term? How about the goodwill?**

A: (CFO Ema) As stated in the income statement for the 4Q, the actual tax ratio is zero in the 4Q, because the difference between the income tax-current and the income tax-deferred was Yen 2 million. For the time being, HOYA Corporation will not pay tax. We will pay taxes for overseas subsidiaries, but the ratio will be lowered significantly. In terms of the single entity, HOYA Corporation had various tax-related journal entries relating the merger, such as a loss from offsetting expiring stock (Yen 17,700 million) as an extraordinary loss and income tax-deferred (-Yen 15 billion). This means that we can save some tax by consolidating the expired company and the surviving company. The income earned by HOYA Corporation as a single entity will be offset and no tax will be paid up to the amount of the tax loss carried forward this year and the following years. Goodwill has initially posted approximately Yen 45 billion, which was re-calculated upon merger. Patents will be depreciated over 8 years, as announced initially. Goodwill has been reduced by Yen 10 billion or so, which will be amortized over 10 years. Therefore, it will be reduced annually by Yen 1 billion.

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