

## Summary of financial results meeting for the three months ended September 30, 2008

Tokyo, November 10, 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:

1Q: April 1 to June 30, 2008

2Q: July 1 to September 30, 2008

3Q: October 1 to December 31, 2008

### [Presentation by Mr. Ema, CFO: Performance for the 2Q]

#### Business Performance

Sales:	Yen 128,372 million	(+27.1% year on year )
Operating Income:	Yen 20,610 million	(-23.2%)
Ordinary Income:	Yen 27,511 million	(-2.2%)
Net Income:	Yen 19,135 million	(-9.0%)

#### Financial position

Total Assets:	Yen 651,744 million
Net Assets:	Yen 404,594 million
Owners' Equity Ratio:	61.5%

#### Performance for the quarter

- The picture in the quarterly report ("the Report") is a new transnasal endoscope, a device to examine the stomach by being inserted nasally (released in August 2008 in Japan).
- The sales growth rates by product are shown on page 13 of the Report.
- My talk will focus on the profits and losses and the segments' second quarter (2Q) results.
- Please note that the year-on year figures do not include those for Pentax for the first half of last year because the Pentax sectors were not consolidated during such period.
- We are going to initially examine Pentax's actual year-on-year results, before proceeding to the impact of foreign exchange. We presently have around 100 consolidated subsidiaries, and since most are operating overseas, we need to translate local currencies. By comparing the translated rates of the previous and current years,

we are going to explain details of our actual performance by examining the extent of the actual effects of the exchange rates.

- In the 2Q, sales increased by 27.1%, operating profit decreased by 23.2%, and net income decreased by 9.0%. Of the sales increase, 33.0 billion yen was for Pentax. The difference is for the former HOYA; 5.673 billion yen sales decrease, with the breakdown given later.
- Of the 5.673 billion yen sales decrease, 2.683 billion yen was due to the effect of exchange rates.
- We posted a 6.239 billion yen decrease in operating profit, of which 2.458 billion yen was for the Pentax sectors, due mainly to the camera business. The remaining portion of this decrease was for the former HOYA, a 3.781 billion yen decrease, 1.876 billion yen of which was attributable to the effect of exchange rates, which represents a decrease of approximately 1.9 billion yen on a business activity basis. Divisionally, we posted a 4.1 billion yen decrease in the Electro-Optics Division (EO), an increase of approximately 0.4 billion yen in the Vision Care Division (VC), and a 1.0 billion yen increase in the Health Care Division (HC). As for operating profits, there was a 3.5 billion yen decrease in EO, a 1.4 billion yen increase in VC, and a 0.1 billion yen decrease in HC.
- The Pentax sectors showed a drop in income of 11.7 billion yen (down 26%) on a year-on-year basis in the 2Q compared with the equivalent for the previous year. In terms of operating profit and loss, they posted a deficit of 2.4 billion yen, down 4.6 billion yen on a year-on-year basis. As I repeated, the quarterly report and the supplementary material do not include Pentax's figures for the previous first half.
- Pentax's operating profit and loss include goodwill amortization and the revaluation of patent rights upon acquisition. The expenses after the acquisition increased by approximately 1.2 billion yen from the ordinary level during the quarter, while the deficit in this 2Q amounted to 2.4 billion yen, half of which was the amortization of goodwill/patent rights.
- The factor of 212 million yen of equity in the losses of associated companies in nonoperating expenses does not indicate that NH Techno Glass was in the red. The profit-and-loss account of NH Techno only went into the red in September, which was due to the collective and simultaneous inclusion of all the past expenses incurred for the merger. Due to the sale of 21.5% of our NH Techno shares to the Carlyle Group in the 1Q, (editor's note: For details please refer to the News Release as of May 9 in the HOYA website <http://www.hoya.co.jp/english/news/latest/>), our equity has declined to 28.5% and the equity in earnings of associated companies in July-August lowered, but in September, as a result of a stock price equivalent exchange in the merger of a Carlyle Group subsidiary SPC and NH Techno, the equity increased to 47.4%. This increase is not due to the cash repurchase of shares, but due to an equivalent exchange with the corporate value computed upon the merger. It just happened that the merger with SPC took place in a negative month and the equity increased, leading to an investment loss

- of 200 million yen in the 2Q. Again, it is not the fact that NH Techno was in the red during the quarter but that the equity changed as a result of the monthly profit-and-loss.
- We accrued 4.4 billion yen of exchange gain, which brought a net increase of 5.1 billion yen, since we lost 680 million yen from exchange in the previous 2Q. Ordinary income decreased by 608 million yen.
  - Proceeds from the transfer of business under extraordinary profit and loss were due to a profit of 883 million yen generated through the sale of Pentax's printer business.
  - As for additional retirement benefits paid to employees, we implemented a personnel reform in five domestic and two overseas offices for the purpose of structural change. We also concluded the sale of Pentax's land after reviewing their utilization and reevaluated the buildings, resulting in an impairment loss of 1.370 billion yen due to a decrease in value. After all, minus income taxes and minority interests, the net income amounted to 19.135 billion yen (a 9.0% decrease year-on-year).
  - The characteristic points in the cash flow statement (page 7 of the Report) are as follows: Income before income taxes and minority interests of 25.0 billion yen and depreciation of 12.4 billion yen are the main accounts of income from operating activities. We made a tax payment on approximately 21.0 billion yen in the 1Q gained from the transfer of Pentax, achieved due to the merger, the calculation of which changed significantly due to the merger of HOYA Corporation and Pentax at the end of March, 2008. A tax loss was also carried forward for the interim tax of the previous year, while an income tax refund of 7.387 billion yen was made and reported in the 2Q. Due to capital investments of approximately 12.0 billion yen and repayments of commercial papers, etc., the ending balance of cash and cash equivalents stood at 189.473 billion yen.
  - As for the segment information (page 8 of the Report), though the Pentax figures for assets and the final number of employees at the end of the previous 2Q were consolidated, the profit-and-loss accounts, not yet consolidated, are shown as “—.” The total for consolidated operating profit in the 2Q decreased by 6.239 billion yen on a year-on-year basis. The breakdown is as follows: a 4.741 billion yen decrease in EO, and a 2.458 billion yen loss in Pentax. For 4.741 million, the page 13 gives the sales growth rates by product, the year-on-year increase/decrease rates for the 1Q, 2Q, and the interim, as well as the increase/decrease rates for the 1Q and 2Q compared with the previous quarters.
  - Mask blanks posted a drop in income of approximately 13% in both the 1Q and 2Q on a year-on-year basis. They were affected by the semiconductor market conditions, the effect of which was further accentuated due to our large market share of 86%. This sales decrease led to EO's profit decline. In addition, the media in the MD business in the 2Q fell slightly below the figure for the same term the previous year, despite a 5.4% year-on-year increase in this 1Q, due to the poor 1Q performance last year. Compared with the previous period, in the 1Q we incurred a 9.1% drop in income, alongside a 7.3% increase from 1Q in the 2Q, representing little change. The profit fell in the 2Q, but with

the 1Q increase, the operating profit in the first half was offset.

- With regard to optical lenses, trends show plastic is increasingly being adopted in camera lenses for cellular phones.
- The breakdown of Pentax is: the Imaging Systems (IS) business treating single-lens reflex (SLR) cameras, compact digital cameras, and lens modules, which reported a drop in sales and a loss. The Life Care (LC) business treating medical instruments (endoscopes and artificial bones) however, achieved a 13% increase in sales, and roughly doubled the operating profit on a year-on-year basis. LC sales are continuing to improve smoothly, while image-related IS products, such as digital cameras, have conversely experienced a considerable drop, namely 37% decrease in sales on a year-on-year basis, thus showing a deficit.
- The interim dividend is 30 yen per share. With the net income per share of 93.18 yen, the dividend payout ratio is approximately 32.2%. We decided to maintain the same amount of dividends per share as in the same period last year.

### **【Explanation of general state of company performance by Mr. Hamada, COO】**

#### **Mask blanks and Photomasks for LSI production**

- Sales have dropped on a year-on-year basis, although the market share itself has been maintained at virtually the same level. Please understand that the decrease in our blanks sales, with a large share of 86%, resulted from the overall deterioration in the semiconductor market, lowered unit prices, and diminished demand.
- As this business will continue to be important to us, we are going to keep making the required investments in it as a profitable cash cow. However, since we can no longer count on strong growth in this segment, we should move when we consider it necessary.
- Masks for semiconductors are also declining compared with the same term last year, and as with blanks, are directly affected by the semiconductor market conditions. This does not indicate the fact that the industry trend itself equals ours, for our market share in them is less than 10%, but rather the fact that they are worsening.
- Broadly divided into memories and logics, the memory market itself is worsening considerably, while DRAMs have also experienced a decrease of 30 to 40% in the past few months. Moreover, the NAND market is also rapidly worsening, with market prices lowering to half or less. Logics do not appear to be dropping very much.
- As for overall trends in semiconductor development, the number of masks has been increasing, in terms of both type and production, with chip manufacturers managing to continue investing in miniaturization, while mid to low-end products seem to be declining overall. Macroscopically, with reference to the so-called Long Tail effect, the period seems to be extended slightly instead of a new generation emerging and replacing the old in a flash, as was previously the case. We do not expect the numbers of masks to decrease significantly in terms of type and production from a macroscopic perspective because conventional products will survive.

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

- There has been a slight increase in sales from the same term last year, which is partly because our share fell over the past 4 to 5 years. Now that we have finally reached the bottom and signs of recovery are emerging, we should aggressively strive to grab an increased market share. Still, with the economy in its present state, where TV sales appear to be in considerable decline, we cannot necessarily be optimistic about the future in October-December and are working to brace our energies. As you probably have learned from the quantitative data you may have obtained, retail (POS) level sales in TVs and digital cameras, the leading items, have been fluctuating wildly over the past few months. I have no time to await figures from a statistics company and hence contact local companies almost daily to check the latest from the Europe and U.S. markets. Under such circumstances, the single-month sales of the biggest mass merchandiser in France, they say, for example, decreased by 40% in October on a year-on-year basis, and as seen in the example of U.S. Circuit City, they are experiencing a 20 to 30% decline year-on-year all-round, hence we anticipate being significantly affected by market conditions as a manufacturer of parts and materials.

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

- Partly because of having lagged behind others in launching new technology in the first half of the previous year, this segment resulted in a year-on-year increase in this 1Q, and a decrease in the 2Q respectively. Half the factor behind this decrease is attributable to exchange rates; with the majority of media (glass plates coated with magnetic film) expressed on a dollar basis, and the larger portion of the substrates (polished glass plates) on the dollar, with some yen. The remaining half of the decrease was due to the decline in unit prices. In total, sales in this division decreased between 10 and 20%.
- As for media, I would like to refrain from comment today because the circumstances are moving as per currently reported (editor's note: For details please refer to the News Release as of September 30 "SDK and HOYA to Consolidate HD Media Operations" on the HOYA website: <http://www.hoya.co.jp/english/news/latest/>). Comments on substrates should also be avoided since they relate to the same issue.
- In macroscopic terms, the SSD, a product using a NAND-type flash memory, has emerged as a competitor to the HDD, which uses a glass substrate. However, it is difficult to predict what this ratio will be in three years and the extent to which HDDs will be replaced by NANDs, with each industry having its own speculations, plans, and desires. Some people say 50 to 60% of all notebook PCs will adopt a flash SSD in three years, while others predict a figure of 10% or so. We plan to make careful investments by focusing on the movements of industrial reorganization, the economy, and exchange rates, as well as the way technologies will develop over the three years, or to what extent, for example, the market for 4 to 5 hundred dollar notebook PCs recently released will grow.

### **Optical lenses**

- This segment posted a year-on-year decrease in two consecutive quarters. Most cellular phones have adopted a plastic lens into the camera and the same trend has emerged in digital camera lenses. At the same time, market conditions are expected to become considerably difficult with digital camera sales, having grown up to September on a year-on-year basis, starting to fall from the same month. As reported in the previous financial results meeting, some differences are also emerging between the figures on a shipment basis and those of the sales values at shops. As for digital cameras, likewise, the market for compact cameras has halved on a year-on-year basis in the case of some big mass merchandisers, although the decline in single-lens reflex cameras is relatively minor. From a macroscopic perspective, the market for compact cameras appears to be dropping on a year-on-year basis globally, in sales as well as shipments. It seems that single-lens reflex cameras are not dropping much.
- Sales of single-lens reflex cameras also trigger those of interchangeable lenses, so we will continue focusing on the former product.

### **Vision care (eyeglass lenses)**

- This segment remained flat on a year-on-year basis in both the 2Q and the first half. Since sales are made worldwide, including Europe, the U.S., and Asia, exchange rates have begun to exert their effects. Although unit prices are dropping in Japan, elsewhere in Asia, they are still increasing slightly on a local currency basis. In Europe they have dropped, while in the U.S., with an increasing number of baby boomers beginning to purchase eyeglasses, there is no decline. Considering the fact that our shares of the U.S. and European markets remain small, as I stated clearly in the previous meeting, we plan to market aggressively with a clear and global view of the countries in which we can gain more shares, capitalize on our advantages, and where interest has accumulated, as one of the HOYA Group's growth or focus segments.

### **Healthcare (contact lenses)**

- We run some 150 stores of the Eye City retailing brand. Though it is one of the biggest franchise chains in Japan marketing contact lenses, its market share is 14 to 15%, and hence has the potential for further growth. Because the market itself has not grown significantly and there remains plenty of room for improvement or evolution as a retailer, we are planning to focus more on this contact lens division, considering it as a future growth segment, although it differs from the businesses in which HOYA is engaged as a manufacturer.
- As for overseas operations, we have already launched six stores in China. In the Chinese market, there are fewer people using contact lenses than currently in Japan, but given the signs of potentially explosive growth, particularly among women in their twenties, we are going to extend the business there.

### **Intraocular lenses (IOL)**

- The majority of sales were in Japan, but we are strengthening Europe and Asia in future with a view to growing significantly in markets in which we newly entered. Under these economic circumstances, this segment achieved a year-on-year increase.
- In North America, FDA approval was granted, and we are planning full scale entry to this market in the near future, which will help further expand our global operations in Europe, Asia, Japan, and the U.S.

### **Pentax: endoscopes**

- Given the high sales ratios in the U.S. and Europe, exchange effects are unavoidable. However, it showed a year-on-year increase, and as a matter of fact, the demand for endoscopes rarely diminishes due to any change of business climate. Though hospitals in the U.S. may find it difficult to appropriate their budget or to get such items leased, they remain not directly affected in terms of fundamentals.
- In Japan we recently launched a lower endoscope (colonoscope) EPK-i, with plans to improve our shares by marketing the same. This business also clearly remains one of our growth segments.

### **Pentax: digital cameras**

- This segment features a very hard-fought struggle compared with the same term last year. The effects of exchange rates were relatively minor until the 2Q and POS demand varies from country to country. However, in France for example, it declined suddenly in August, while the same happened in Germany slightly earlier and likewise in the U.S., it declined in July and August. According to the monthly shipment statistics issued by the CIPA, until September they were riding on the crest of a wave and shipping of newly manufactured items continued relatively briskly one after the other, but around summer, in-store sales clearly started slowing down with lost momentum, as seen in the year-on-year increases of 15% or 20% they had enjoyed up to then. Our sales also decreased significantly on a year-on-year basis, with accumulated stocks and production and marketing carried out while keeping the market conditions in mind. Another factor was price; there was a significant drop in unit prices. The decline in the unit prices of compact digital cameras had a particularly grave impact, given the advent of a new low-end product at 79 dollars finally realized. This unit price decline was damaging to us, in terms of both sales and profits.
- Essentially, the products we are now producing and selling were developed last summer or autumn, with a roadmap that lacked strategy in my view. As I said in the previous meeting, we remade a completely new roadmap for the next fiscal year in accordance with the "scrap & build" policy: creating unique cameras of a new and different field, and releasing and commencing the marketing of interchangeable lenses at the same time as new cameras. As for new products for this year, a new single-lens reflex camera K-m model (an entry level high-end model) was launched about two

weeks ago, while new compact digital cameras have also been released on a quarterly basis. Next year, we are planning to launch some three types, including minor design change versions, of single-lens reflex (SLR) cameras. With a desire to offer cameras which will demonstrate our advantages, as announced in the Photokina held in Germany, we will relaunch ourselves next year as a manufacturer of all-weather cameras which are strong outdoors, highly water-resistant, splash-proof, and dustproof, small and light, easily portable and tough (durable).

**【Explanation of the current (October) conditions by Mr. Suzuki, President & CEO】**

- A glance at the current (October) conditions shows the yen basically strengthening (125 yen to the Euro and 98 yen to the dollar), and while affected by exchange rates, profits in endoscopes, eyeglasses, and cameras in particular are decreasing, since a large portion of their sales are of overseas. Total sales are also declining due to the impact of exchange on the HOYA side, but the figures are basically beginning to settle at levels generally just under those of the previous year. Optical products are rapidly contracting, and as the market suddenly started production adjustments in October, they have been a considerable slowdown. With these facts in mind, the October performance is likely to settle at a level similar to that of the previous year. Likewise Pentax, given the fact that a significant portion of its sales are overseas, is being directly affected by exchange rates. Apart from such effects, endoscopes are continuing to grow at a rate just under 10% or so on a year-on-year basis, whereas the performance of cameras has been poor, with a clear and remarkable decline in terms of both local currency and exchange.

**【Questions and answers】**

***Q: In order to forecast the performance in the following fiscal year, how should we consider the fixed expenses, which may change subject to HOYA's specific manner of business? Also, will you explain about the possible changes in sales and fixed expenses made by separating the HDD media business?***

A: (CFO Ema) We are establishing a joint venture with Showa Denko for HDD memory disks. It will not be consolidated, meaning both sales and operating profit will decrease for such portion; however, it will be an equity method company, of which we will hold 25% of the equity, meaning that 25% of its net income will come to HOYA via the equity method, with an equivalent amount of ordinary income. As the business grows, we will acquire increased equity in the earnings of associated companies. Moreover, if our equity increases above 25%, our investment gain will also increase.

(CEO Suzuki) Our costs will decrease instead of a drop in sales, and the resulting 25% profit will accrue to the nonoperating income based on the equity method. This will depend on the joint company's profit.



**Q: I understand that HOYA is a keen observer of industry trends. Please give us good indications including local factors, if any, that you see under these bad high-tech market conditions.**

A: (CEO Suzuki) As the final demand is basically slackening, there is no good news. The current condition is that because the bottom is unseen, and with the future uncertain, companies remain unable to establish a clear direction with all the terrible figures. In my opinion, we should henceforth focus on cash, including semiconductor market. Cash is likely to decide the outcome for a while, but raising money is becoming difficult, with tightened credit; hence judging a company by examining its cash flow over time will be the way forward.

**Q: EO is likely to deteriorate considerably from October to December and from January to March respectively. Are you taking any countermeasures in terms of products and costs?**

A: (COO Hamada) We are presently amidst a storm that is set to worsen, hence we are now encouraging our employees to take forward-looking measures. We're also striving to avoid rushing to approve investments in new technology, such as the leading edge of LCD, which was postponed, unless careful consideration is given to the same. We are not implementing cost reductions in R&D itself, since this may eliminate the seeds of future technology, but we will carefully decide on the details of equipment installation in factories or the additions of factories with future demand in mind. At the same time, as there is a need to remain nimble amid such challenges, we are working on reducing variable costs, not only fixed expenses, in every business as well as planning to streamline the organization and personnel by merging and closing down branches and facilities. SGA, including the costs of material and consumables, are under overall review with our product quality ensured. The command for cost reduction has been given everywhere in SGA, from materials and consumables to tools, and the entire company is striving to establish a low-cost operation structure, though we are not definitely saying how much or by when.

**Q: Give us your estimates for the full-year capital investments, depreciation, R&D expenses, and extraordinary losses.**

A: (CFO Ema) Our estimation of the capital investments as of now is 48 billion yen, with depreciation of approximately 50 billion yen. The full-year R&D expenses are likely to be twice the first half amount, 9.167 billion yen.

**Q: What are the sales growth and profits in each Pentax segment? How will the extraordinary loss of the year be?**

A: (CFO Ema) In the 2Q, the Life Care (LC) business increased its income by 13.0% from the same term last year, the Imaging Systems (IS) business decreased by 37.1%, and the Optical Component (OC) decreased by 31.6%. In terms of profits, LC doubled its profits from the same term last year, while IS experienced a deficit. The amount of extraordinary

loss for the year is uncertain. Our estimate will be included in the announcement of earnings results for the 3Q. Extraordinary loss is expected to increase.

***Q: Give us slightly more explanation about VC's profit increase in the 2Q. Was it due to the improved profitability in imports with the depreciation of the Thai baht? Do you think this trend will persist during the 3Q?***

A: (CEO Suzuki) The weak baht is telling. However, this need not be attributed to a temporary exchange impact alone because we have been making structural changes, such as concentrating production bases to improve profitability, although the exchange benefit is telling, particularly in this 2Q. This benefit of such extent will not continue for long. In the 3Q, it will be hard to obtain profits because the portions in Euro will be diminished. Profitability may be lowered with costs on a dollar basis and sales on a Euro basis respectively. We have taken measures to improve profitability in terms of structural aspects excluding exchange effects.

***Q: It can be seen from the data concerning the consolidated personnel that you downsized by some 200 people in the 2Q in advanced nations alone, but in which fields? In future, will the personnel be reduced in advanced nations, or in Asia, you production base?***

A: (COO Hamada) As we are going to seek optimization in every business omnidirectionally, there is no specific target area at present. On a divisional basis, personnel downsizing will come mainly in businesses with less growth and others whose conditions are expected to worsen in future, namely, those other than the Eye Care and Medical segments.

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