

HOGY



January 20, 2006

Financial Report

The Nine Months Ended December 31, 2005

(April 1 – December 31, 2005)

Jun-ichi Hoki, President and COO

Mitsunori Suzuki, Executive Vice President

Kazuo Takahashi, Executive Officer, Administration Div.

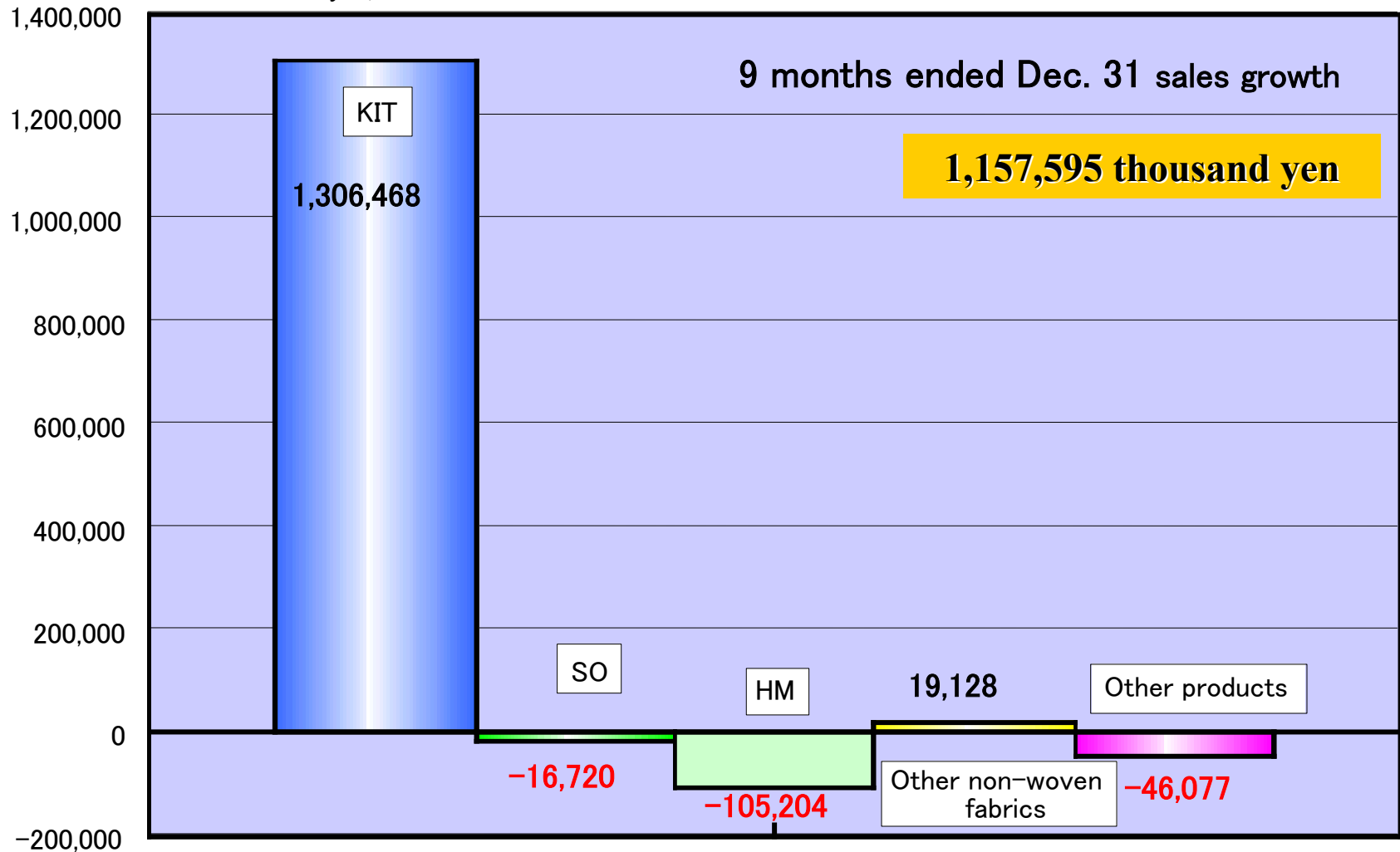
Overview and Analysis (Consolidated)

Fiscal 2005 Income Statements (9 months ended Dec. 31) ²

(Unit: million yen, rounded down)	Third Quarter Ended Dec. 2004 Results		Third Quarter Ended Dec. 2005 Results		Year-on-Year Comparison	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	19,036		20,194		1,157	106.1%
Cost of sales	9,320	49.0%	9,816	48.6%	495	105.3%
Gross profit	9,716	51.0%	10,378	51.4%	661	106.8%
SG&A expenses	5,314	27.9%	5,448	27.0%	134	102.5%
Operating income	4,402	23.1%	4,929	24.4%	527	112.0%
Non-operating income/loss	116		249			
Ordinary income	4,518	23.7%	5,178	25.6%	660	114.6%
Extraordinary income/loss	201		8			
Income before income taxes and minority interests	4,719	24.8%	5,187	25.7%	467	109.9%
Net income	2,858	15.0%	3,173	15.7%	315	111.0%
EPS (total shares)	174.95 yen		194.23 yen			
Number of shares outstanding	16,341,155		16,341,155			
EPS (minus treasury shares)	183.68 yen		203.91 yen			
Number of shares after deducting treasury shares	15,564,608		15,565,175			

Fiscal 2005 Sales Growth by Major Products (9 months ended Dec. 31)

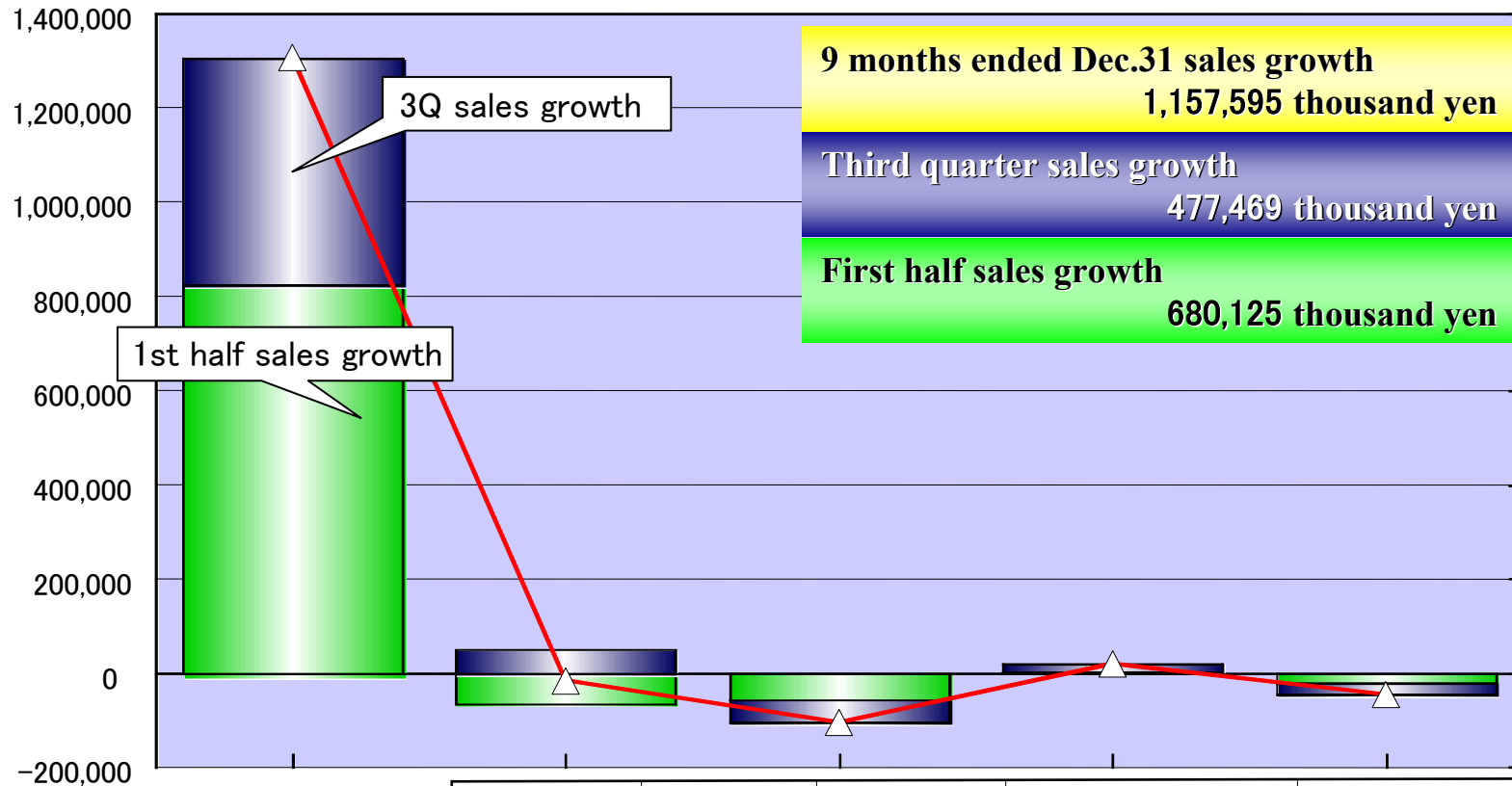
(Unit: thousand yen, rounded down)



Fiscal 2005 Sales Growth by Major Products (9 months ended Dec. 31)

Sales growth (First half and 3Q)

(Unit: thousand yen, rounded down)



	KIT	SO	HM	Other non-woven fabrics	Other products
3Q sales growth	484,030	48,980	-47,053	16,490	-24,979
1st half sales growth	822,438	-65,701	-58,151	2,638	-21,098
Total	1,306,468	-16,720	-105,204	19,128	-46,077
9 months ended Dec.31 sales growth	1,306,468	-16,720	-105,204	19,128	-46,077

Fiscal 2005 Performance Analysis

(9 months ended Dec. 31)

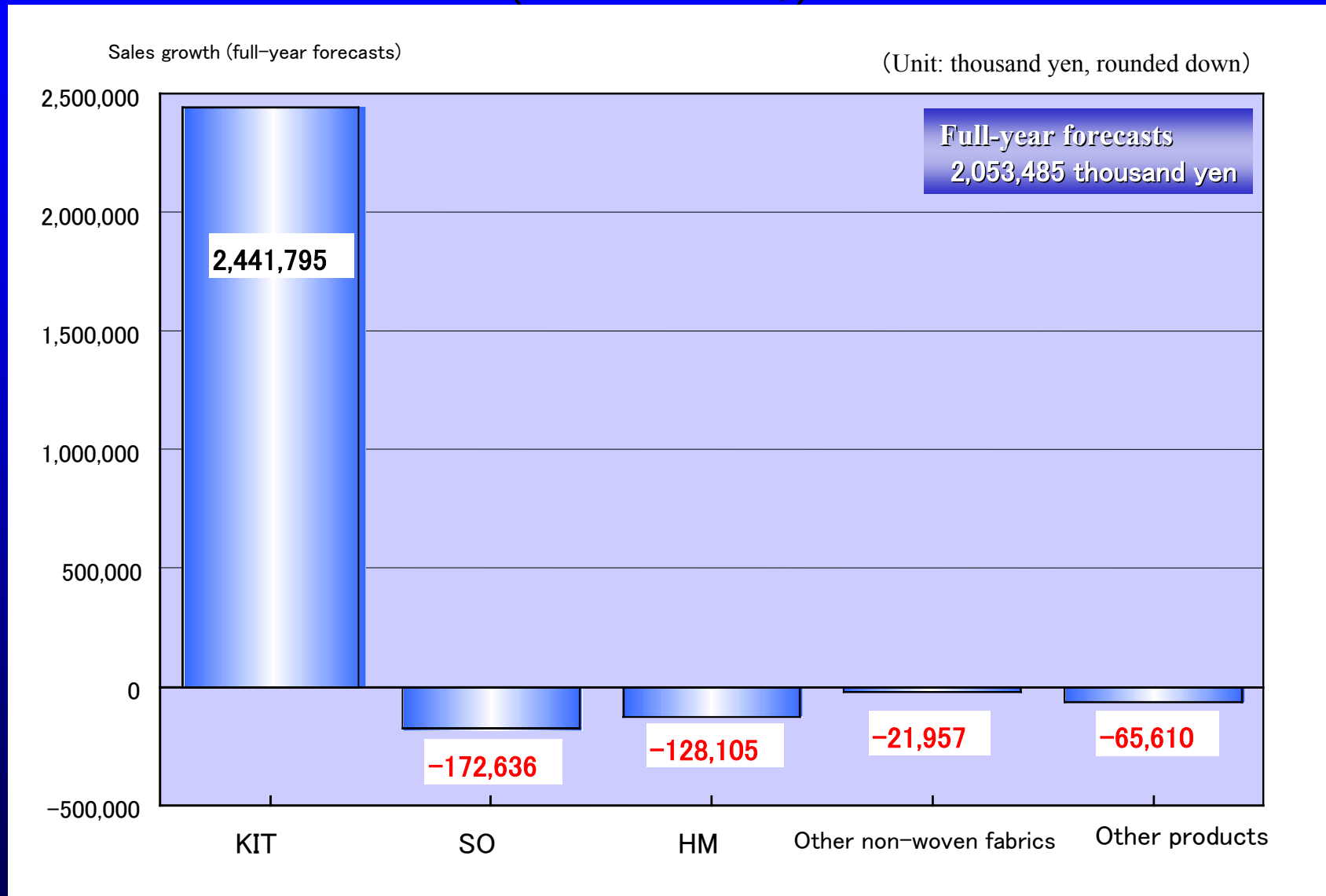
- **Net Sales** : Up ¥1,157 million (106.1%)
 - ✧ **Kit products** : Up ¥1,306 million (123.5%)
 - ✓ Focus on getting Operamaster into full-scale operation
 - ✓ Regular kits : Steady sales growth → Upgraded kit contents
 - ✧ **Sontara products** : Down ¥16 million (99.8%)
 - ✓ First-half trends continued; some products to generate higher year-on-year sales
- **Cost of sales** : According to revised plan
- **SG & A expenses** : According to revised plan
- **Non-operating income/loss** : ¥176 million foreign exchange gains
- **Extraordinary income/loss** : ¥19 million loss on disposal of fixed assets

Full-Year Outlook

Fiscal 2005 Statements of Income (Full-Year, Consolidated) ⁷

(Unit: million yen, rounded down)	Third Quarter Ended Dec. 2005 Results		Fiscal 2005 Full-Year Forecasts		Fiscal 2004 Full-Year Results		Year-on-Year Comparison	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	%
Net sales	20,194		27,015		24,961		2,053	108.2%
Cost of sales	9,816	48.6%	13,374	49.5%	12,225	49.0%	1,148	109.4%
Gross profit	10,378	51.4%	13,640	50.5%	12,735	51.0%	904	107.1%
SG&A expenses	5,448	27.0%	7,569	28.0%	7,005	28.1%	563	108.0%
Operating income	4,929	24.4%	6,071	22.5%	5,730	22.9%	341	106.0%
Non-operating income/loss	249		100		167		-66	
Ordinary income	5,178	25.6%	6,171	22.8%	5,897	23.6%	274	104.7%
Extraordinary income/loss	8		-50		-83		33	
Income before income taxes and minority interests	5,187	25.7%	6,121	22.7%	5,813	23.3%	308	105.3%
Net income	3,173	15.7%	3,773	14.0%	3,494	14.0%	279	108.0%
EPS (total shares)	194.23 yen		226.85 yen		209.75 yen			
Number of shares outstanding	16,341,155		16,341,155		16,341,155			
EPS (minus treasury shares)	203.91 yen		237.98 yen		220.21 yen			
Number of shares after deducting treasury shares	15,565,175		15,576,444		15,564,400			

Fiscal 2005 Sales Growth for Main Products (Full-Year)



Fiscal 2005 Full-Year Forecasts

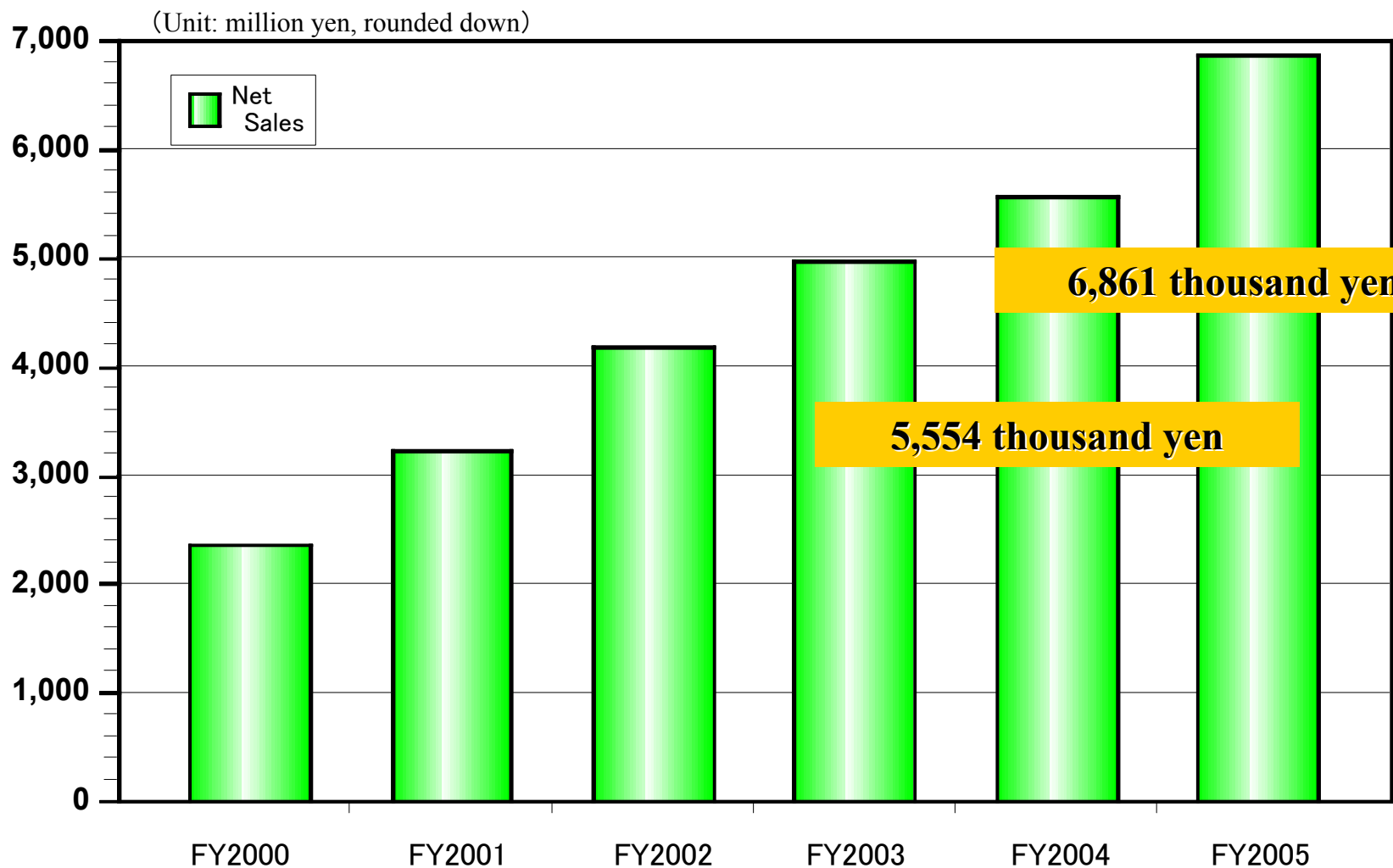
- **Net sales** : According to revised plan
Kit products expected to generate higher sales owing to steady progress of Operamaster and broader overall operating base
- **Cost of sales** : According to revised plan
- **SG & A expenses** : According to revised plan
- **Non-operating income/loss** : Foreign exchange income/loss not expected
- **Extraordinary income/expenses** : According to revised plan

Marketing Overview

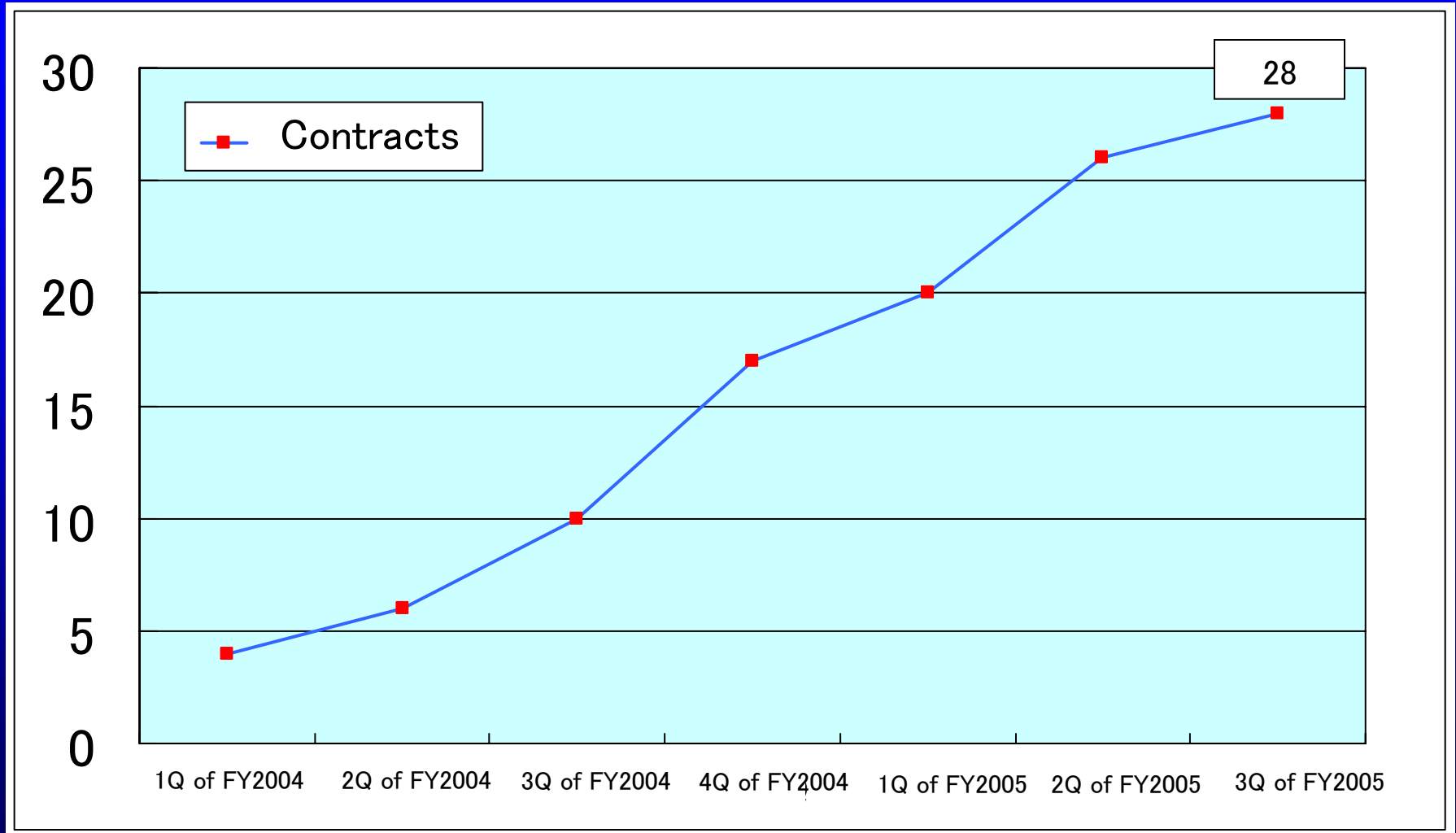
Marketing Overview

- **Sales for kit products (third quarter ended December)**
- **History of contracts for Operamaster**
- **Progress of Operemaster marketing**
- **Operamaster introduction**
 - ✓ **Cost of sales and cost-of-sales ratio by medical department**
 - ✓ **Income by type of procedure**
 - ✓ **Number of operations/materials costs by medical department**
- **Seminars**
- **Status of non-wovens (Sontara line)**
- **Effect of reforms to medical treatment remuneration system**
- **Stronger sales system**
- **Customer feedback**

Sales for Kit Products (9 months ended Dec.31)



Number of Operemaster Contracts



Progress of Operamaster Marketing

- **Number of Operamaster contracts
in force at December 31, 2005 : 28**

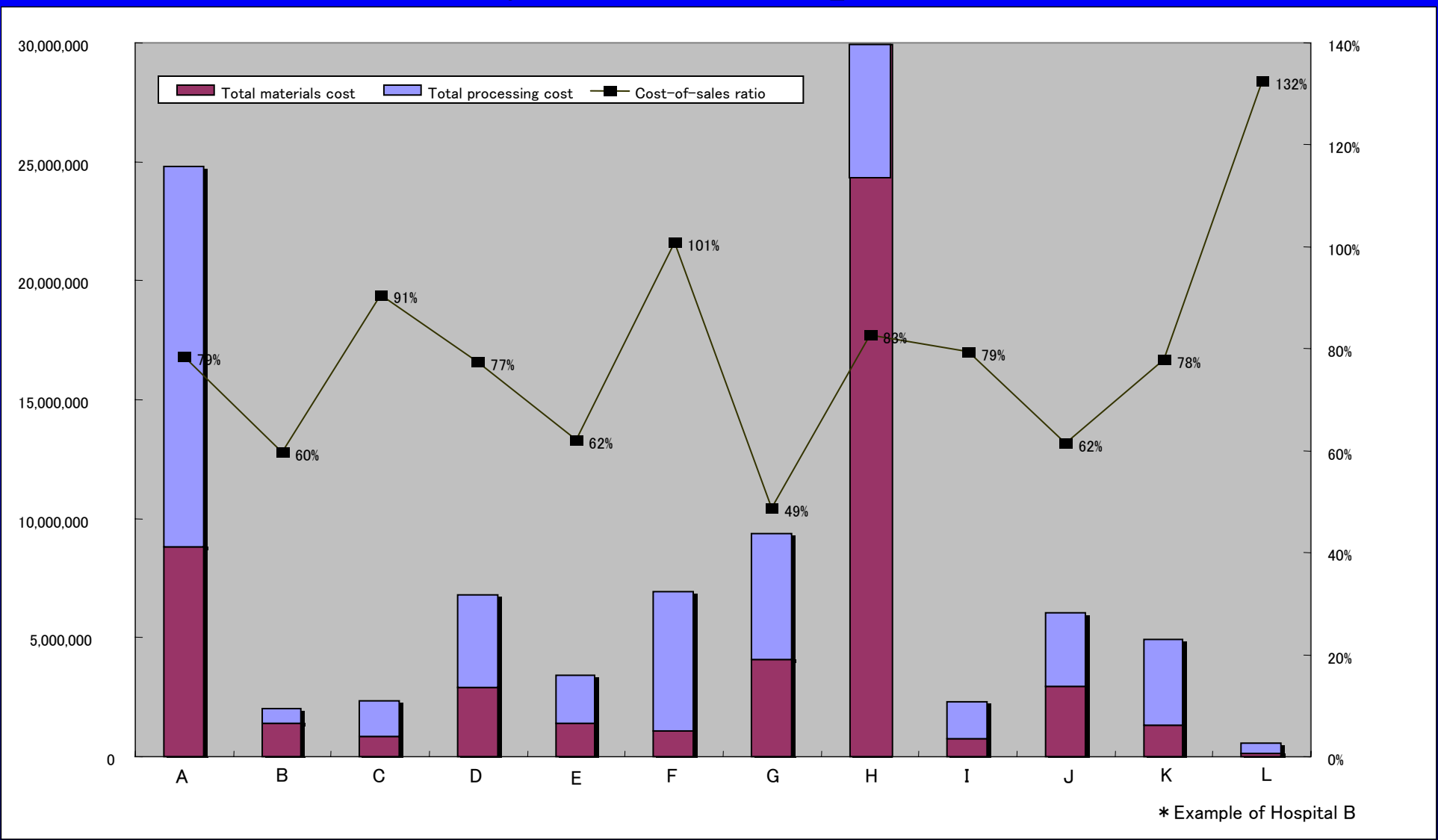
- **Sales of kit products (9 months to December 31, 2005) :
¥6,861 million (up 123.5% year-on-year)**

- **Operamaster forecasts (year to March 31, 2006)**
 - **Contracts : 41**
 - **Sales : ¥3,700 million**

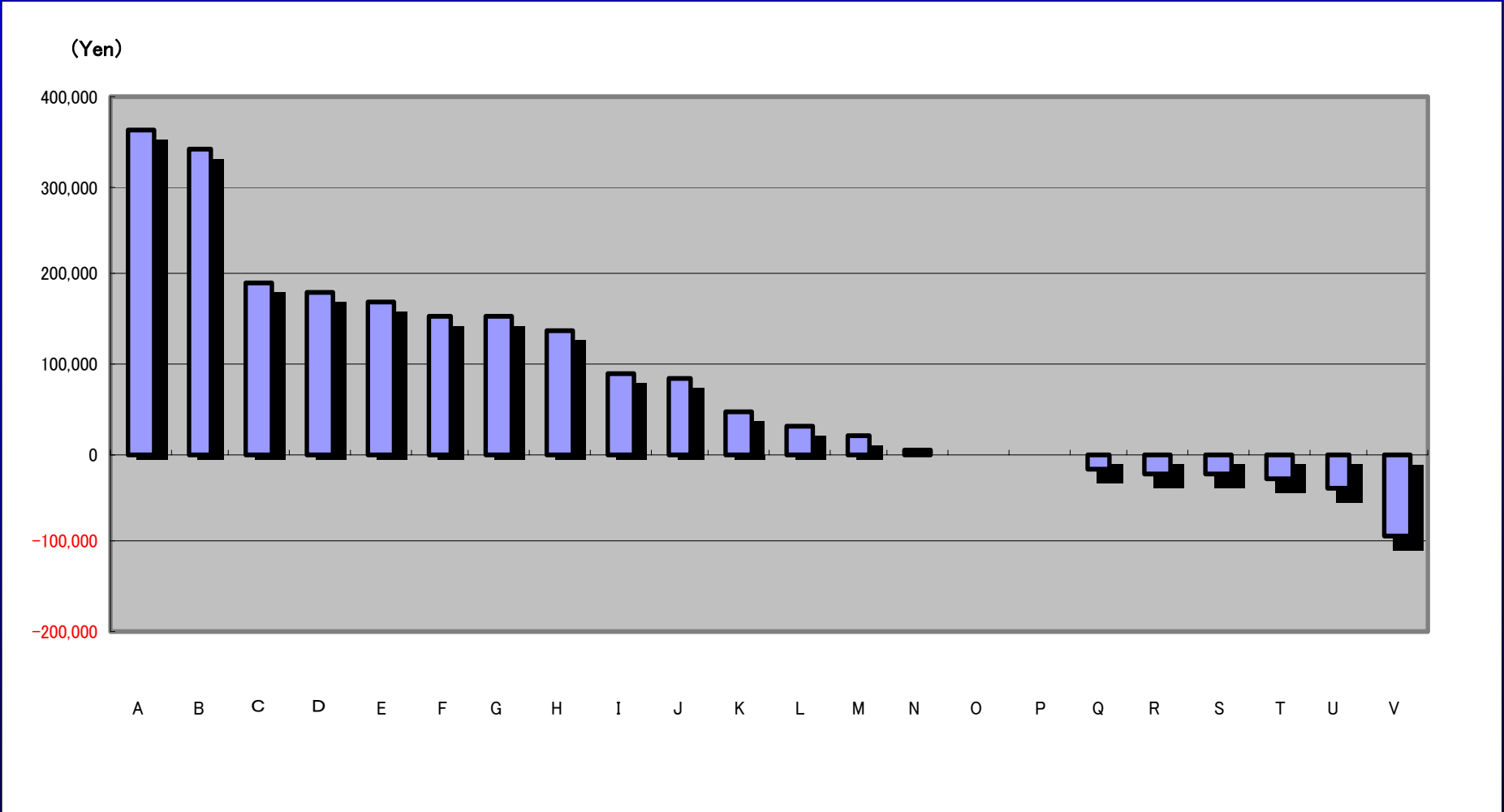
- **Kit Sales forecasts (year to March 31, 2006)**
 - **¥9,829 million (of which Operamaster to account for 38%)**

Cost of Sales and Cost-of-Sales Ratio by Medical Department

(Yen)



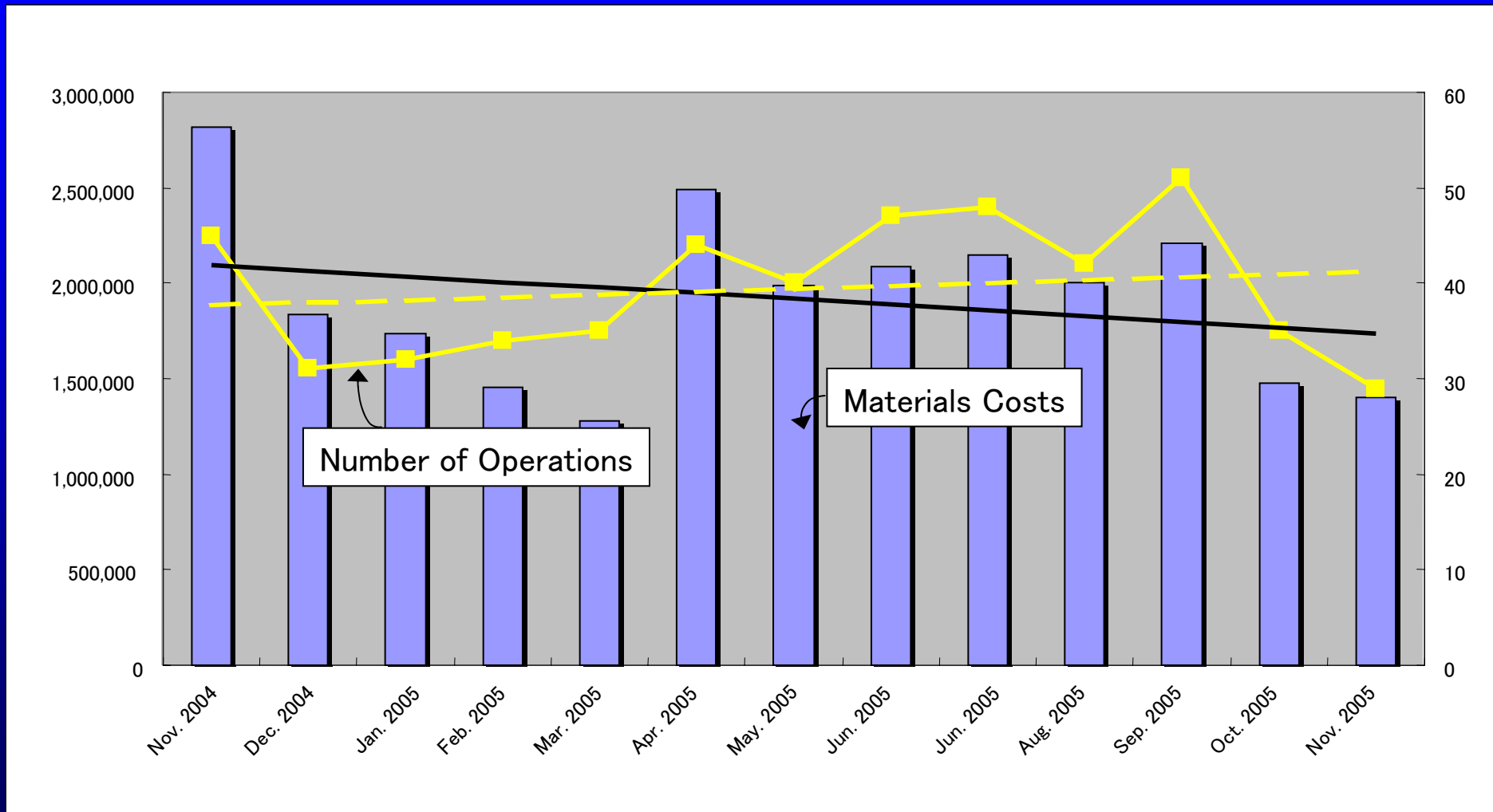
Income by Type of Procedure



*Example of Department of Surgery, Hospital B

Number of Operations/Materials Costs by Medical Department

(Yen)



*Example of Department of Obstetrics and Gynecology, Hospital B

Seminars

- ✓ Hosted seminars in various regions on how to improve hospital management (aimed at kick-starting sales of Operamaster)
 - July 9 : Tokyo head office (around 60 attendees)
 - July 29 : Tokyo head office (around 100 attendees)
 - September 30 : Osaka (around 120 attendees)
 - November 11 : Fukuoka (around 80 attendees)

- ✓ Medical society announcements highlighting benefits to hospitals using Operamaster
 - October 7-8 : 27th Annual Meeting of Japanese Association for Operative Medicine (around 450 attendees)
 - October 14 : 19th Annual Meeting of Japan Operative Nursing Academy (around 300 attendees)

Status of non-wovens (Sontara line)

- Sales of non-wovens (Sontara) (9 months to December 31, 2005)
: ¥8,333 million (down 0.2%, but up on third quarter)

- Sales of non-wovens (Sontara) bottomed out

- Boosted by upgrade of gown materials, etc.
 - Surrem, Suprel

Effect of Reforms to Medical Treatment Remuneration System

- **No effect on products handled by the Company (because no relationship with official prices)**



- **Conditions for hospital management to worsen, highlighting need for further rationalization**
- **Indirect effects possible (such as suppression of purchase prices)**
- **Opportunity to emphasize appeal of Operamaster (safety and efficiency)**
 - **Systemization and database creation will contribute to improved hospital management efficiency**

Stronger Sales System

- ✓ Targeting further improvement in customer satisfaction level
 - Number of sales departments up from 3 to 6
(from January 1, 2006)
 - Establish 2 new sales operations
(Utsunomiya, Kagoshima) (from January 1, 2006)

Customer feedback

- One hospital using Operamaster bestowed an awards on staff involved in Operamaster's introduction.

The hospital decided to officially recognize the benefits of Operamaster, which allows more operations to be performed under general anesthesia (requiring less labor), greatly reduced staff overtime, lowers hospital inventories, and has received special mention at medical society forums. Recipients of the awards have been deeply moved, expressing gratitude for the key role Hogy has played in bringing benefits to the hospital, as well as requesting further assistance from Hogy in the future.

External Business Environment and Future Plans

Downward Revision of Medical Treatment Remuneration in FY 2006

✓ Details of revision

Overall reduction of 3.16% (or ¥948 billion)

- Medical treatment down 1.36% (¥408 billion)

- Pharmaceutical prices down 1.8% (¥540 billion)

(Finished pharmaceutical prices down 1.6%, raw material prices down 0.2%)

✓ Impact on Hogy

- No direct effect

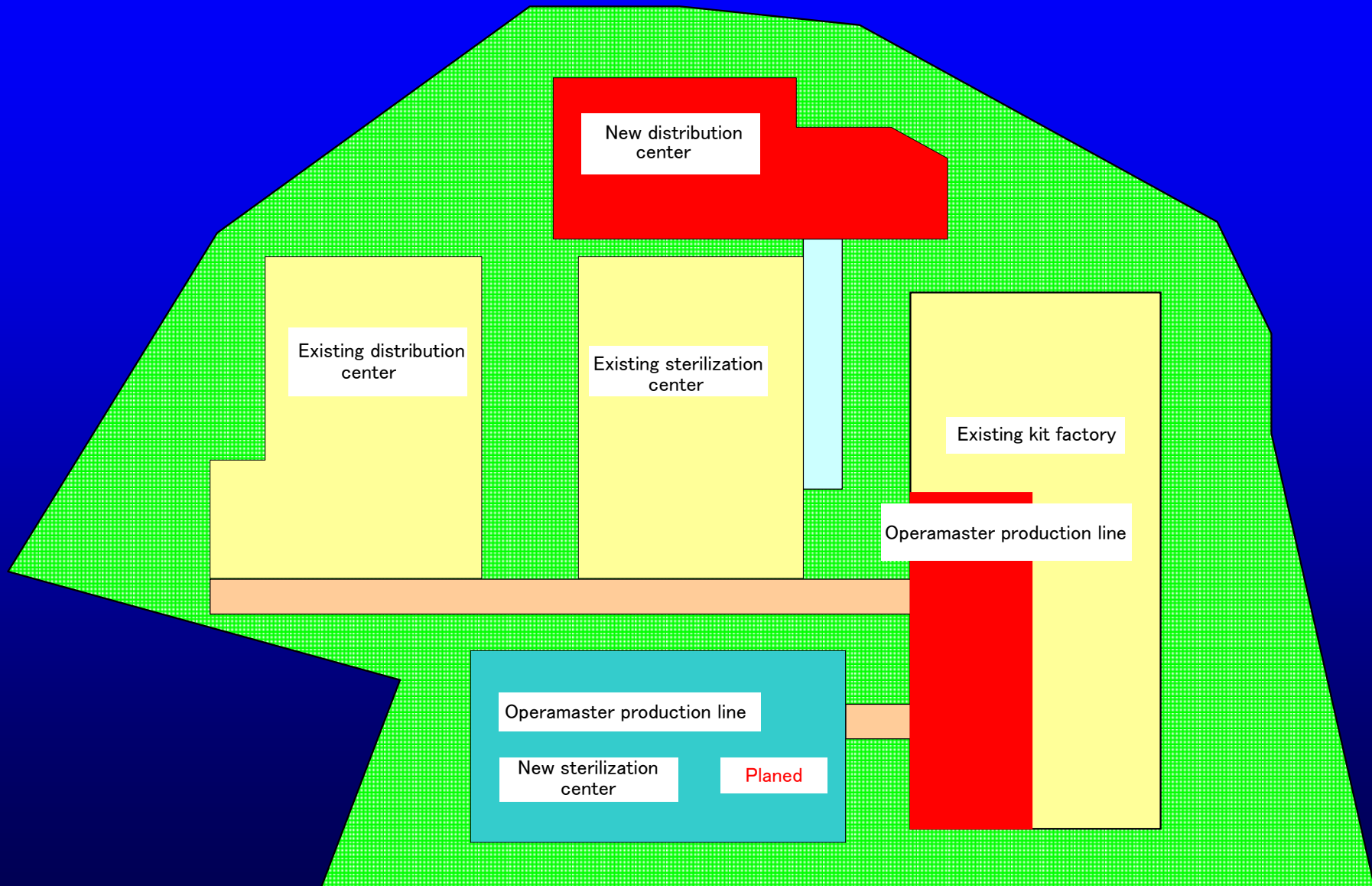
- Expect indirect impact (moves to suppress outlays in response to lower fees for medical procedures)

Downward Revision of Medical Treatment Remuneration in FY2006

✓ Hogy's response

- Undertake information campaign emphasizing the safety of Hogy's products
- Introduce the superior advantages of Operamaster in enhancing hospital management efficiency

Capital Expenditures



Operamaster Production Line and New Distribution Center

Operamaster Production Line



New Distribution Center



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