



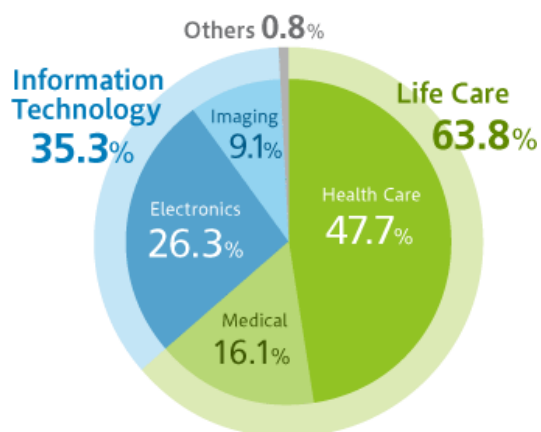
# HOYA REPORT 2016

## Business Overview

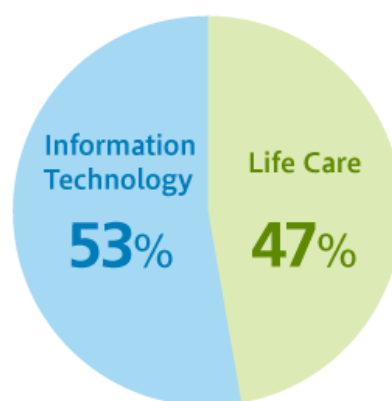
### Performance in Fiscal 2015

Sales: 505.7 billion yen, Profit before tax: 119.0 billion yen

#### Composition of Sales by Business



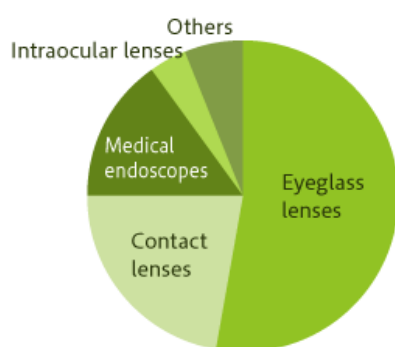
#### Composition of Profit before Tax by Business Segment



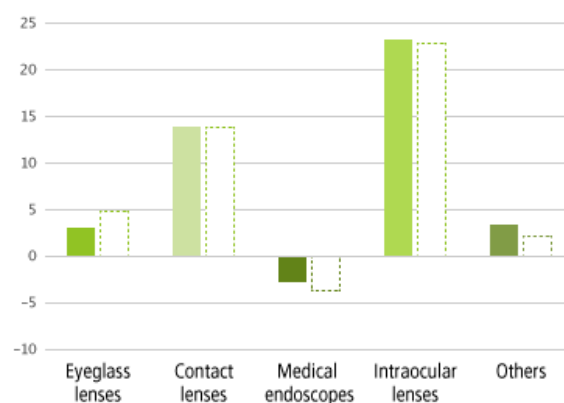
### Life Care

Sales: 322.6 billion yen, Profit before tax: 57.7 billion yen

#### Composition of Sales of the Life Care Segment



#### Percentage Increase (Decrease) in Sales by Product in the Life Care Segment



\*Dotted lines indicate figures after exclusion of the effects of foreign exchange fluctuations

## Health Care

(Information on HOYA's products may be found in the "Business Domains" section of its website. Please refer to this section for further information.)

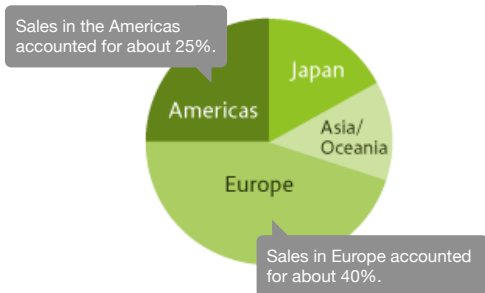
### Eyeglass Lenses

#### Performance in the Year Ended March 31, 2016

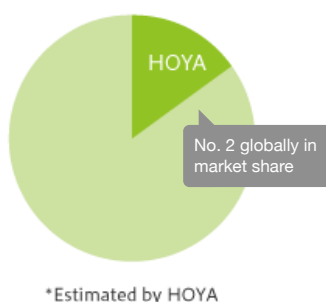
Sales of eyeglass lenses expanded at rates in the first half of the single-digit range compared with the previous fiscal year. (After the exclusion of the effects of foreign currency fluctuations, sales expanded in the middle of the single-digit range.) In the Japanese market for retail sales of eyeglass lenses, the decline in sales has become more moderate compared to the past, but declines in sales prices have continued. Trends in HOYA's sales have been influenced by the market movements, and, although sales in unit terms were slightly above the previous fiscal year, sales in value terms decreased slightly from the previous year as a result of a decline in average unit prices. In Europe, sales expanded smoothly to both independent small and medium-sized eyeglass stores and large eyeglass retail chains. Sales of SEIKO lenses, which are positioned as a premium brand, were also firm in Europe. Sales in Europe expanded in the middle of the single-digit range (on a local currency basis, which excludes the effects of foreign currency fluctuations). In the Americas, HOYA has placed special emphasis on developing customers among large retail chains in the United States and has strengthened its sales systems for these eyeglass retailers. As a result, sales of large chain retailers expanded by a relatively large margin and contributed to sales growth in the region. Also, as a result of firm sales in independent small and medium-sized eyeglass stores, rates of growth of sales in the Americas rose in the latter half of the single-digit range (on a local currency basis, which excludes the effects of foreign currency fluctuations). In the Asia/Oceania region, sales were at about the same level as in the previous fiscal year (on a local currency basis, which excludes the effects of foreign currency fluctuations). In production, HOYA took initiatives to increase production capacity through growth investments that anticipated future expansion in demand. HOYA's plant in the Philippines went into full operation.

During the fiscal year under review, Europe and the Americas drove performance, and HOYA was able to attain stable growth. In these two regions, HOYA will continue to implement marketing activities closely tailored to customer channels and work to expand market share. Expansion in sales of high-value-added products, such as progressive lenses, will bring continued improvement in the product mix. Also, along with the expansion in the volume of sales through further market development, HOYA will increase its rates of capacity utilization and improve profitability.

Sales of Eyeglass Lenses by Region in Fiscal 2016



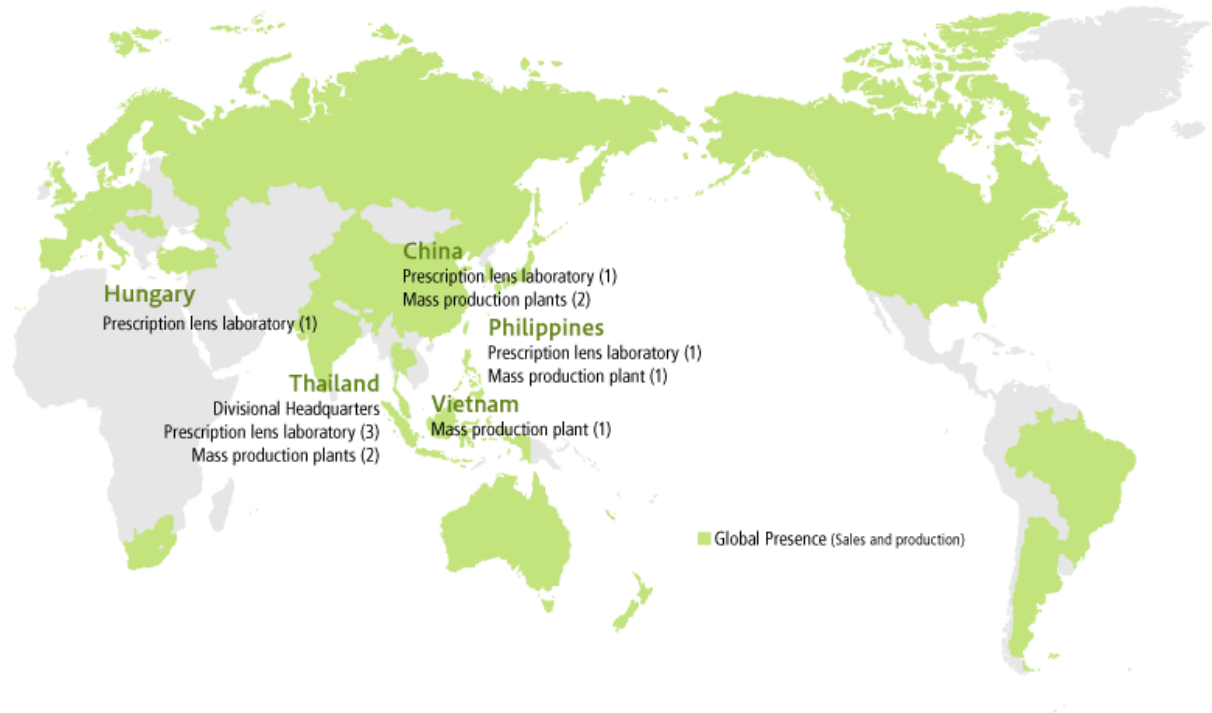
Market Share of the Eyeglass Lenses Market in Fiscal 2016





## Global Network

HOYA's eyeglass lens business covers 60 countries and has a direct sales system in 38 of those countries.

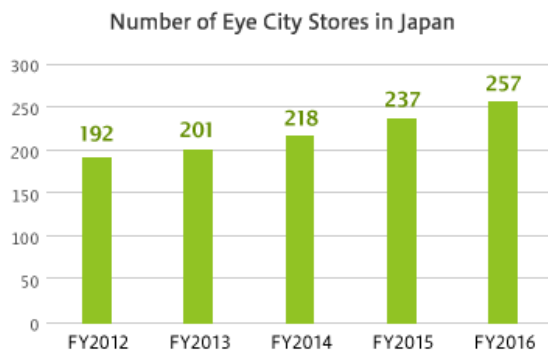


## Contact Lenses

### Performance in the Year Ended March 31, 2016

During the fiscal year under review, Eyecity, HOYA's contact lenses specialist retail store chain, actively opened new stores in urban areas and took initiatives to strengthen its sales promotion activities at existing stores. At the end of the fiscal year, Eyecity had 257 stores in Japan. Sales expanded at rates in the 10%-to-15% range compared with the previous year, when sales were adversely impacted by the increase in the consumption tax rate in April 2014 which resulted in a reactionary decline in sales. Even if we compare sales in the latter half of the previous fiscal year, which were not adversely affected by the reactionary decline, year-on-year sales growth was still in the latter half of the single-digit range. Sales growth rates in the first half of the single-digit range at existing stores (in business for one year or more), combined with contributions from newly opened stores, indicate that stable growth in this business is continuing. Eyecity offers a consulting-type sales approach, and employees interview customers about their lifestyles as well as their hopes and uncertainties about wearing contact lenses, and then make recommendations. We think that, as a result of this approach, Eyecity wins the trust of customers and, thus, has become the No. 1 contact lenses specialist store in terms of users and has secured a high market share.

As a result of detailed market research by region, including the examination of the status of the contact lens user population, competition, and Eyecity's network, we have concluded that there is considerable further room for expanding the Eyecity store network. HOYA will, therefore, aim for stable growth through the continued active opening of new stores.



## Medical

(Information on HOYA's products may be found in the "Business Domains" section of its website. Please refer to this section for further information.)

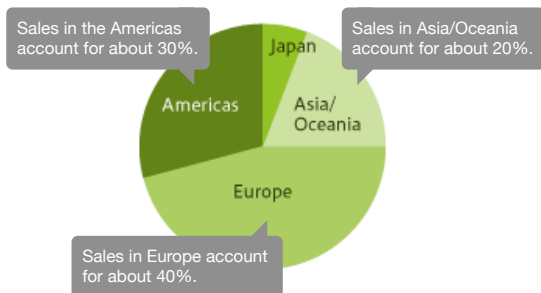
### Medical Endoscopes

#### Performance in the Year Ended March 31, 2016

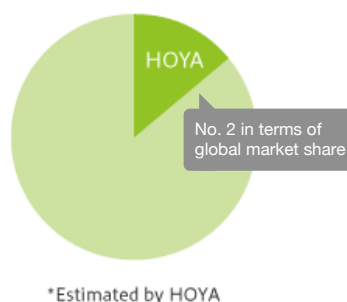
Overall sales of endoscopes decreased at rates in the first half of the single-digit range (Even after the exclusion of the effects of foreign currency fluctuations, sales declined at rates in the first half of the single-digit range). In Japan, amid highly competitive conditions, sales for the fiscal year decreased at rates in the latter half of the single-digit range. In Europe, sales were firm in Germany and Spain; and in Russia, the Middle East, Eastern Europe, and other emerging countries, progress was made in market development. On the other hand, in the United Kingdom and Northern Europe, sales declined slightly as this corresponded to a period just before the introduction of new products. In Italy, as a result of government fiscal restraints on hospital budgets, sales were weak. In the European area as a whole, sales were at about the same level as in the previous fiscal year (on a local currency basis, which excludes the effects of foreign currency fluctuations). In the Americas, HOYA gave priority in the United States to responding to inspections by the Food and Drug Administration (FDA), which is the regulatory authority for endoscopes, and sales decreased. In addition, sales in Central America and South America were influenced by sudden currency fluctuations as well as political and economic uncertainties. In the Americas as a whole, sales decreased in the 10%-to-15% range (local currency basis, which excludes the effects of foreign currency fluctuations). On the other hand, in the Asia/Oceania region, in the Chinese sphere, including mainland China and Taiwan, HOYA achieved stable growth, and fiscal 2016 was a year for securing footholds for increasing HOYA's presence in the region. In other areas, HOYA reported major increases in sales in India and the surrounding countries, and progress was made in establishing a beachhead in the countries of Southeast Asia. As a consequence, in the Asia/Oceania region as a whole, sales expanded about 10% over the previous fiscal year (on a local currency basis, which excludes the effects of foreign currency fluctuations). In the endoscopes business as a whole, in addition to a decline in sales, expenses related to quality assurance and responding to regulations increased, and, compared with the previous year, profitability deteriorated.

In the fiscal year under review, performance of endoscopes as a whole weakened as a result of lower sales in the United States. At present, HOYA is working to develop systems for continuing to launch new products with appropriate timing and, to this end, is taking initiatives to strengthen its systems for responding to regulatory and quality assurance standards. In addition, along with R&D related to endoscopes to meet the needs of the medical workplace, HOYA is focusing on R&D in fields peripheral to endoscopes, such as treatment devices, where growth is expected. The market for endoscopes is expected to grow in the long term, and there have been no changes in HOYA's policy of aiming for growth in this market and returning this business to a growth path.

Sales of Endoscopes by Region in Fiscal 2016



Market Share in Flexible Endoscopes in Fiscal 2016

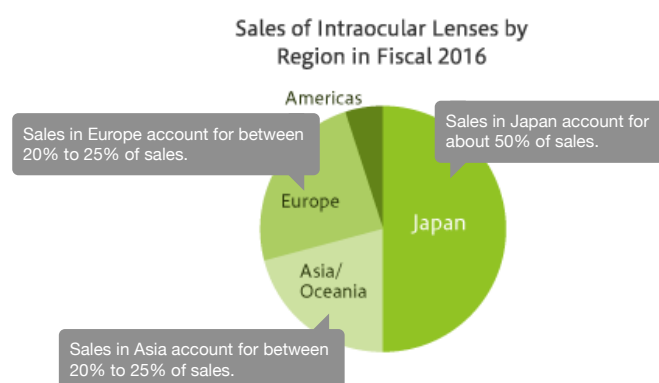


## Intraocular Lenses

### Performance in the Year Ended March 31, 2016

During the first quarter of the fiscal year under review, HOYA introduced aspherical intraocular lenses in the major markets, including Japan and Europe, made of “Vivinex,” a newly developed hydrophilic acrylic material. By using HOYA’s original surface reforming treatment on lenses made from new material “Vivinex,” these intraocular lenses are expected to restrain the appearance of Posterior Capsule Opacification (PCO). Sales of intraocular lenses during the fiscal year under review expanded more than 20% over the previous fiscal year. (Even after the exclusion of the effects of foreign currency fluctuations, the rate of expansion was about the same.) In Japan, after a voluntary recall in 2013, HOYA resumed the regular marketing of these lenses in August 2014, and, subsequently, sales have steadily recovered. In addition, as a result of the favorable performance of these lenses, sales expanded 30% over the previous fiscal year. In Europe, these lenses are driving performance in markets where they have been introduced, including France and Germany, and sales are quite favorable. In Asia/Oceania, market development has proceeded smoothly, mainly in China. In both Europe and Asia/Oceania regions, sales expanded more than 10% over the previous year (on a local currency basis, which excludes the effects of foreign currency fluctuations). In addition, profitability improved substantially compared to the previous fiscal year. HOYA’s intraocular lenses made of “Vivinex” will undergo a series of clinical evaluation to gain additional trust from patients, and we think they will contribute to expansion in this business.

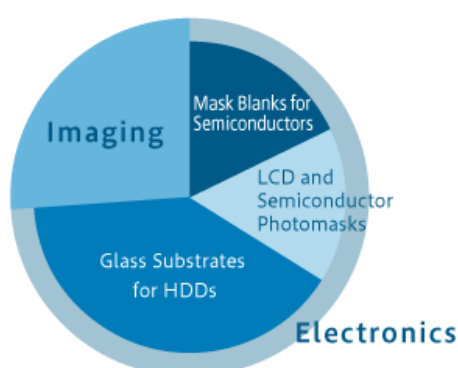
During fiscal 2017, HOYA is working to expand its production lines to meet the expected rise in demand. In the Japanese market, HOYA has targeted capturing the No. 1 position in terms of market share and aims to further strengthen its presence. On the other hand, in global markets, HOYA’s market share is still only in the single-digit range, and it does not have a high market profile. In all regions, HOYA plans to implement optimal marketing activities and accelerate its global growth.



## Information Technology

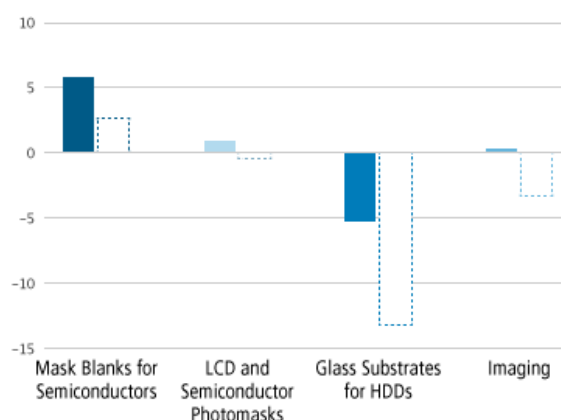
Sales: 178.7 billion yen, Profit before tax: 65.4 billion yen

### Composition of Sales of the Information Technology Segment



\*Composition of sales in photomasks is the total of LCD and semiconductor use.

### Percentage Increase (Decrease) in Sales by Product in the Information Technology Segment



\*Dotted lines indicate figures after exclusion of the effects of foreign exchange fluctuations.  
\*Percentage increase (decrease) in photomasks is the total of LCD and semiconductor use.

## Electronics

(Information on HOYA's products may be found in the "Business Domains" section of its website. Please refer to this section for further information.)

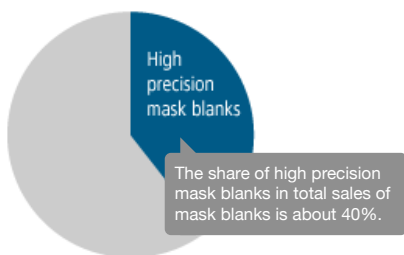
### Mask Blanks for Semiconductors

#### Performance in the Year Ended March 31, 2016

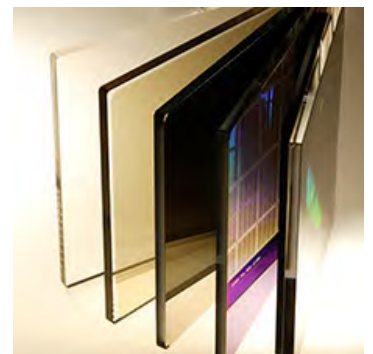
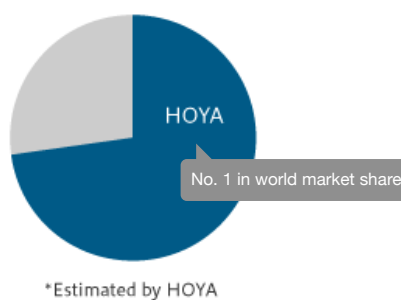
Although the semiconductor market was stagnant, with conditions deteriorating especially from the second half of the fiscal year, HOYA's mask blanks are used not only in the volume production processes for semiconductors but also at the R&D stage. For the fiscal year as a whole, HOYA captured firm R&D demand for cutting-edge semiconductors, and sales continued to be favorable, mainly for high precision products. As a result, sales of mask blanks rose over the same period of the previous year at rates in the middle of the single-digit range. (After exclusion of the effects of foreign currency fluctuations, sales expanded in the first half of the single-digit range.) Sales of high margin, high precision mask blanks expanded, and, as a result of successful activities to reduce expenses, profitability improved. Regarding the composition of the product mix for mask blanks, high-precision products accounted for about 40% of the total, and the ratio of these products increased compared with the previous year. Accompanying the further miniaturization of semiconductor circuits, customer requests have become increasingly demanding for greater smoothness and flatness as well as absence of flaws, higher exposure resolution, and durability. By responding to these technical requirements of customers, we are able to move forward with obtaining customers' qualifications, and, by responding to development demand for cutting-edge products, we are able to continue stable business growth. In addition, in the semiconductor industry, expectations of EUV (extreme ultraviolet) wavelengths of 13.5nm exposure are rising substantially, and development is proceeding for movement to volume production of cutting-edge units in the near future. HOYA has supplied mask blanks for EUV R&D use for several years. During the fiscal year under review, the percentage of total mask blank sales accounted for by mask blanks for EUV development was small, standing only in the middle of the single-digit range; however, the value of EUV mask blank sales expanded substantially over the previous year.

Continuing as in the previous fiscal year, we think that the demand for high precision blanks accompanying the further miniaturization of semiconductors will remain firm. By continuing to respond to the technical requests of customers, we will aim to realize stable business growth.

Share of High Precision Mask Blanks in Mask Blank Sales in Fiscal 2016



Market Shares of the Semiconductor Mask Blanks Market in Fiscal 2016



## Photomasks for LCDs

### Performance in the Year Ended March 31, 2016

In the photomasks for LCDs business, photomasks are used not only in the mass production process of LCDs but also in the R&D process. Accompanying the trends toward higher precision and higher resolution, the demand for photomasks continued to be firm. During the fiscal year under review, high precision photomasks were the growth driver, and sales expanded over the previous year in the middle of the single-digit range (after the exclusion of the effects of foreign currency fluctuations, sales expanded in the first half of the single-digit range). By region, sales to Taiwan, South Korea, and China expanded. During the fiscal year, photomasks for TVs and smartphones accounted for more than 70% of overall sales of photomasks for LCDs.

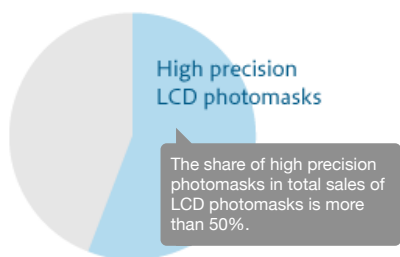
In the LCDs for TVs business, manufacturers' development activities focused not only on LCDs for 4K TVs (3,840 (or approximately 4,000) pixels) but also on developing large-scale screens. Moreover, along with the development of 4K displays for smartphones, manufacturers were active in expanding their product lineups along with the growth in the smartphone market. In addition, in the near future, a shift is forecast away from LCDs to OLEDs (organic light emitting diode displays), and OLEDs will become the mainstream products. Accordingly, display manufacturers are emphasizing the development of OLEDs.

HOYA also supplies photomasks for OLEDs, and about 10% of HOYA's photomasks for LCDs are used to make OLEDs. HOYA's strengths in the photomasks for LCDs business are its capabilities for the in-depth understanding of the technological needs of its customers, which has been gained from close communication with them and HOYA's technological capabilities, which are reflected in its speedy development of products to customer needs. Drawing on these strengths, HOYA has been able to skillfully capture customers' demand for LCD development.

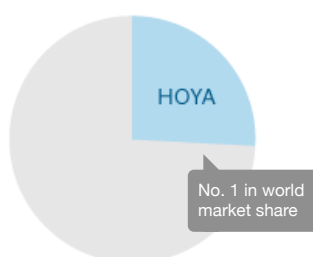
During the fiscal year, as a result of the fact that more than half of HOYA's LCD photomasks were of the high-precision type, HOYA's product mix improved, and profitability compared with the previous year rose.

The trend toward high precision LCDs, mainly for TVs and smartphones, will continue, and, along with this, we think demand for high-precision type photomasks will remain firm. By responding to customers' technological needs and meeting their schedules for delivery, HOYA will aim to maintain stable growth.

Share of High Precision LCD Photomask Sales  
in HOYA's Photomask Sales in Fiscal 2016



HOYA's Share of the LCD Photomask  
Market in Fiscal 2016



\*Estimated by HOYA





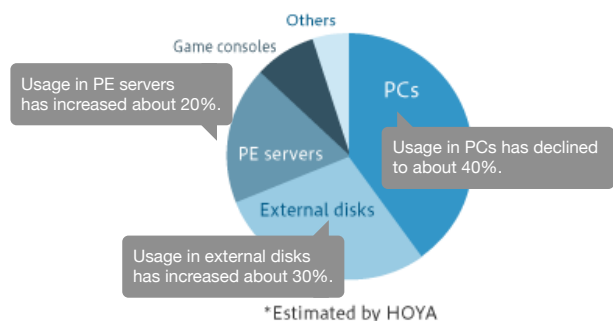
## Glass Substrates for HDDs Business

### Performance in the Year Ended March 31, 2016

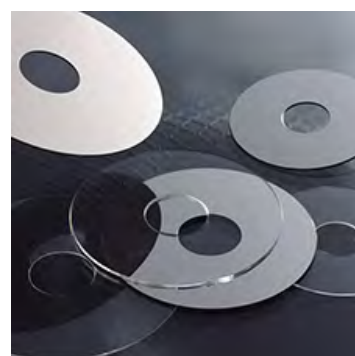
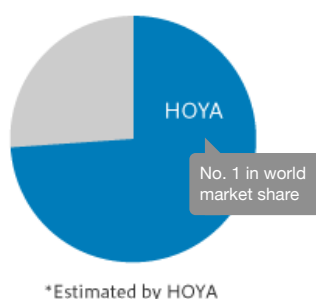
Conditions in the HDD market were not favorable during the fiscal year under review. HOYA supplies glass substrates for 2.5-inch HDDs, but demand for the use of these substrates slipped about 30% from the previous year. Reasons for this were the stagnation in demand for notebook PCs, which are the main use for HDDs, and the rising percentage of solid state drives (SSDs) installed on notebook PCs. Although demand for other uses of HDDs is rising, including external HDDs, performance enterprise (PE) servers, and game consoles, this increase in demand for these uses was not sufficient to cover for the decline in demand for notebook PC use. Sales of glass substrates for HDDs declined from the previous fiscal year at rates in the middle of the single-digit negative range. (After the exclusion of the effects of foreign currency fluctuations, the decline in sales was in the 10%-to-15% range.) According to HOYA's estimates for the fiscal year under review, about 40% of these 2.5-inch substrates were used in notebook PCs, about 30% in external HDDs, and 20% in PE servers. Compared with the previous fiscal year, the share of usage in notebook PCs decreased about 10 percentage points, while the share used in PE servers rose about 10 percentage points. However, as a result of activities to integrate and consolidate production locations, HOYA's earnings structure enables it to maintain profitability through flexible adjustments to market conditions. In addition, as a consequence of successful activities to reduce costs and other measures, profitability improved from the previous fiscal year.

In fiscal 2017 and later years, severe conditions are forecast to continue in the 2.5-inch HDD market, and the outlook is for further declines in demand for glass substrates as a result of the adverse effect of the wider use of SSDs on demand for notebook PCs and PE servers. At present, HOYA has more than a 70% market share in the market for 2.5-inch substrates and will aim to capture more market share. In addition, HOYA is taking initiatives to develop sales in markets that it does not supply at present. Currently, HOYA is aiming to enter the market for 3.5-inch substrates that are installed in near line servers used in cloud data centers and is developing substrates suited for this market.

Approximate Composition of Usage of 2.5-Inch Glass Substrates in Fiscal 2016



HOYA's Share of the 2.5-Inch Glass Substrates for HDDs in Fiscal 2016



## Imaging Related Products

(Information on HOYA's products may be found in the "Business Domains" section of its website. Please refer to this section for further information.)

### Imaging Related Products (Including optical glass, optical lenses, camera lens modules, opto-devices, and lasers)

#### Performance in the Year Ended March 31, 2016

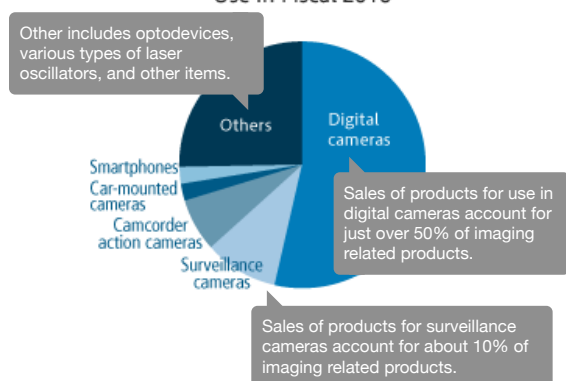
The market for digital cameras, which are the main uses of HOYA's imaging related products, includes primarily optical glass, optical lenses, and camera lens modules, is expected to continue shrinking. Amid this severe operating environment, HOYA has taken initiatives to develop the markets for products other than digital cameras and has focused on surveillance cameras, car-mounted cameras, and smartphones. Sales of products for uses other than digital cameras are expanding, especially surveillance cameras. However, growth in these other uses has not fully covered the decline in digital cameras.

Overall sales of imaging related products expanded 0.8%, in part because of the effects of foreign currency fluctuations. (After the exclusion of these effects, sales decreased 3.4%.) Within the sales of products for use in digital cameras, sales of products for compact digital cameras decreased at rates in the middle of the 10%-to-20% range. However, despite the shrinkage in the market, the sales of lenses for single-lens reflex cameras were at about the same level as in the previous fiscal year as a result of HOYA's strategy of shifting to high-value-added products. In the surveillance camera market as a whole, sales expanded more than 20%, as sales in the high end of the market, where image recognition and image analysis capabilities are required, grew, and sales of low-priced, smart home cameras also increased. In the market for car-mounted cameras, sales are expanding smoothly, and were up substantially over the previous year. In the products for smartphones business, the lens units featuring triple zoom functions developed by HOYA have been adopted for use in one type of smartphone, and this has generated sales.

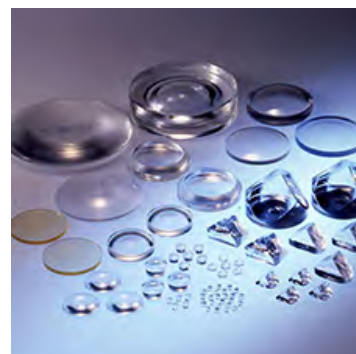
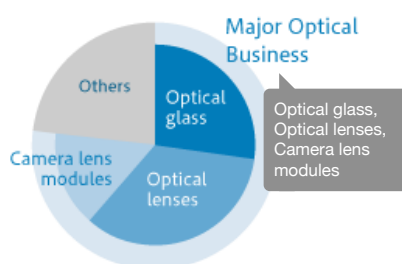
Profitability in this business improved over the previous year as a result of initiatives begun in prior years to optimize production locations and increase production yields.

We assume that the market for digital cameras will continue to shrink. On the other hand, the markets for surveillance cameras and car-mounted cameras are forecast to expand. HOYA's strengths are in high-value-added glass materials and aspherical glass lenses. In addition, HOYA is able to provide its customers with proposals for lenses units that meet their specific needs. Drawing on these strengths, HOYA is accelerating the development of new markets.

Sales of the Imaging Related Products by Use in Fiscal 2016



Composition of the Imaging Related Products Business in Fiscal 2016



President & CEO **Hiroshi Suzuki**

## Report on Results for the Fiscal Year Ended March 31, 2016

Revenues of the HOYA Group for fiscal 2016 (ended March 31, 2016) amounted to ¥505,714 million, an increase of 3.2% from the previous fiscal year. Profit before tax was ¥119,099 million, an increase of 0.7% year on year, and profit amounted to ¥93,317 million, an increase of 0.4% over the previous fiscal year.

In the Life Care field, stable growth is continuing overall, mainly eyeglass lenses, contact lenses, and intraocular lenses, and both revenues and profits expanded. In the Information Technology field, sales declined from the previous year because of shrinkage in the glass substrates for hard disk drives (HDD), lenses for digital cameras, and other businesses. On the other hand, due to expansion in each product in sales of high-value-added products and success in reducing fixed costs, the segment secured an increase in profit.

HOYA is placing a priority on its rapidly expanding Life Care segment and is proactively making forward-looking investments to capture such accelerating growth. Looking ahead, we will realize the results of our investments and boost gains in our principal businesses, spanning eyeglass lenses, contact lenses, endoscopes, intraocular lenses, and artificial bones. And in our Information Technology segment's glass substrate for HDDs and digital camera businesses, we consolidated manufacturing operations as a platform designed to circumvent the effects of a continuing downtrend in the overall market and to thereby squarely assure profitability.

### Performance in Fiscal 2016

(Millions of yen)

	FY2015	FY2016	Growth Rate
<b>Consolidated Sales</b>	489,961	505,714	+3.2%
<b>Consolidated Profit before Tax</b>	118,249	119,099	+0.7%
<b>Profit from Ordinary Operating Activities</b>	110,282	118,912	+7.8%

\* "Profit from Ordinary Operating Activities" excludes financial income/costs, share of profit (loss) of associates, foreign exchange gains or losses, and other non-recurring gains or losses from profit before tax.

## Conversion of HOYA's Business Portfolio

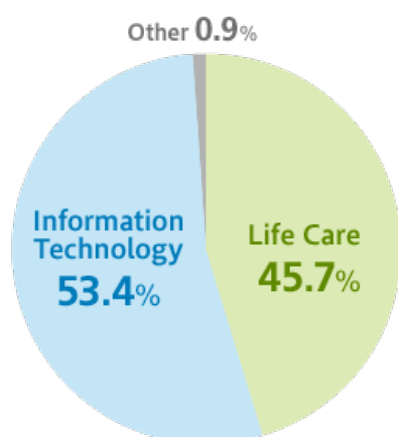
There has been no change in our policy of having growth in the Life Care field drive the growth of the HOYA Group as a whole. Within the Life Care field, HOYA's global market shares in eyeglass lenses and endoscopes are only in the middle of the 10%-to-20% range and HOYA's share of intraocular lenses is only in the single-digit range. We will redouble our efforts to achieve stronger growth in regions and customer segments where we have not penetrated significantly in the past. For example, in the eyeglass lenses business, our market share in the United States is lower than in other overseas regions, but we are working to strengthen sales systems there and conduct marketing activities that are carefully tailored to customers' needs. As a result, sales in the U.S. market expanded substantially during the fiscal year.

On the other hand, in the Information Technology field, I believe the markets are on a declining trend. However, the mission of this business is generating stable profits and remains unchanged. If businesses within the segment can expect growth in the future, then we will invest in them. In the mask blanks for semiconductors business, we think the next-generation photolithographic technology, extreme ultraviolet (EUV), will present promising business opportunities. In the optics business also, we think that products for use in surveillance cameras and car-mounted cameras are going to be main applications in the future.

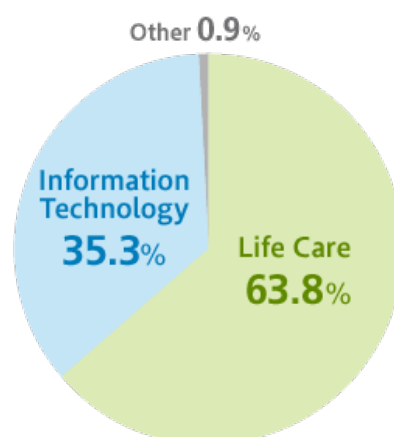
By growing the Life Care field, without doubt, the conversion in portfolios to Life Care will undergo substantial transition. In today's fast-changing world, for HOYA to continue to develop well into the future, from the perspective of dispersing risk, we think it will be necessary to take initiatives in a diverse range of businesses. If we look at other companies around the world, there are examples of companies in Asia and elsewhere that have been aware of their business portfolio and have gone through substantial change. To aim for continued growth through dynamic portfolio management, we must have a diverse business portfolio internally, and our view is that it is important to have management capabilities to manage this portfolio appropriately.

It is vital for management to make decisions not only from a corporate perspective, but also to see matters from the customer's point of view. The way we assess the value we provide is based on earning a profit from the value our customers attach to our solutions.

Composition of Sales by Business in FY2009



Composition of Sales by Business in FY2016





## Cash Allocation and M&A

Of the uses of the cash HOYA generates, growth investments in growth markets and domains have a high priority. During the fiscal year under review, HOYA took initiatives to expand production capacity in eyeglass lenses and intraocular lenses where future growth in demand is expected. In the eyeglass lenses, endoscopes, intraocular lenses, and other areas, HOYA invested aggressively in product development and in sales and marketing to develop additional markets, and in the contact lens business, HOYA opened 24 new stores. In the Information Technology business, cash was allocated mainly to the development of cutting-edge technology development and capital investments for high-value-added products.



We think that M&A should play a complementary role in attaining growth. M&A targets are in the Life Care field, but, among possible M&A candidates, important conditions are that the business to be acquired is expandable globally and that the companies should be in niche businesses where their competitiveness can be forecast to some degree. Our stance on M&A opportunities is to assess how much cash the business will generate in the future, to determine whether there are synergies with our existing businesses, and then to proceed with the deal when we are confident we can secure the required return. In

addition, as we make investments for growth on the one hand, and, on the other, when funds remain, we want to pay returns to shareholders with appropriate timing.

## Governance as the Base for Creating Corporate Value

The objective of a corporation is to create corporate value in the medium-to-long term and continue to operate core businesses. To accomplish this, the corporation must generate profits as it expands, and we think that corporate governance is the base for this to happen. The role of the directors, as the representatives of the shareholders, is to ensure that the corporation is managed to maximize profit for the shareholders. We think that how to create structures that enable the directors to accomplish this is the issue of corporate governance.

Members of HOYA's Board of Directors, with the exception of myself, are all outside directors. When the Executive Officers manage the Company in ways that damage the interests of the shareholders, my view is that the work of the Board should be to put a stop to it and exclude decision making that does not respect the interests of the shareholders. To make this happen, we have settled on the current governance framework to achieve more-effective oversight functions.

### Board of Directors (As of June 21, 2016)

Independent Directors	Attendance at Directors' Meetings
Itaru Koeda	10 of 10 (100%)
Yukako Uchinaga	10 of 10 (100%)
Mitsudo Urano	9 of 10 (90%)
Takeo Takasu	10 of 10 (100%)
Shuzo Kaihori*	8 of 8 (100%)
<b>Internal Director</b>	
Hiroshi Suzuki	10 of 10 (100%)

Independent Directors	<b>5</b>	Internal Director	<b>1</b>
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\* Newly elected at the General Meeting of Shareholders held on June 19, 2015

**Hiroshi Suzuki**  
President & CEO



Executive Officer & COO,  
Information Technology and Chief Technology Officer,  
**Eiichiro Ikeda**

## | *The Mission of the CTO*

HOYA, in the Life Care field and the Information Technology field, has established development centers globally that conduct R&D activities. The Life Care field is endeavoring to attain growth in sales, and the Information Technology field is working to secure stable earnings. To realize HOYA's management directions, my role as CTO is to set directions for our R&D departments in each product area and to see that they are implemented.

## | *R&D in HOYA's Businesses*

In the Life Care business, HOYA is conducting its R&D activities with a focus mainly on the eye-related business domain and the minimally invasive medical products business. To capture growth in these domains, R&D is under way at HOYA to develop products to increase market share in each of these areas. In the eyeglass lens business, HOYA's strengths include optical design technology related to progressive design and deposition technology related to coating. Even thus far, HOYA has expanded its offerings of special function lenses, such as progressive designs to suit individual lifestyles, and developed higher-value-added products making use of various types of coatings. Going forward also, HOYA will further evolve and expand its product lineup that applies these technological strengths. In the intraocular lens business, HOYA introduced an intraocular lens made of a new acrylic material during the fiscal year under review, and this material is expected to restrain the appearance of Posterior Capsule Opacification (PCO) which is an adverse event after surgery. Using the same material, HOYA is drawing on its optical design technology to develop new products based on optical design for toric (astigmatic) and multifocal correction. In the endoscope business, HOYA is working on a number of developments, including more compact, high resolution photographic devices, image processing technology that will prevent overlooking even extremely small diseased areas, technology for making it easier for endoscopes to enter the digestive tract, and the development of treatment devices that can remove lesions completely.

### **R&D of the Life Care Segment**

#### **Eyeglass lenses**

- ▶ Progressive lenses corresponding to individual needs

#### **Intraocular lenses**

- ▶ Developing based on new material "Vivinex" through leveraging optical design technology

#### **Endoscopes**

- ▶ High-performance endoscope with compact high-resolution image device, small-diameter scope that minimizes the burden on the patient

In the Information Technology field as a whole, the market appears to be mature, but, in reality, even within the various businesses, there are still activities where growth is expected. To give some examples, in the mask blanks for semiconductors business, such mask blanks compatible with EUV exposure technology, LCD photomasks for high precision photo masks for OLED flat panel displays, and certain other areas are growth businesses. To capture this growth, HOYA is conducting R&D in these businesses. In the glass substrates for hard disks business, HOYA is placing maximum priority on the development of products for the near line server market, which is a market where expansion is forecast but HOYA has not yet entered. In the imaging related product market, HOYA is allocating resources to developing products that can be used in car-mounted cameras. In this field, including those businesses that HOYA has not entered, I believe it is important to conduct R&D in growth fields to continue launching new products

## R&D of the Information Technology Segment

### Semiconductor mask blanks

- ▶ Mask blanks meeting requirements for EUV exposure technology

### Photomasks for LCDs

- ▶ High precision photomasks for FPD use (Including for OLED use)

### HDD glass substrates

- ▶ Products for near line servers

### Imaging related products

- ▶ Car-mounted cameras

## Technology Synergies in the Information Technology and Life Care Businesses

In HOYA's various businesses today, its core technologies are glass formation and melting, polishing, molding, cleaning, and deposition. HOYA combines a number of technologies to create value-added products. There are certain technologies used in common in the Information Technology and Life Care business fields, such as polishing and optical design technology, and we think it is possible to realize synergies in domains that have common characteristics.

As regards production technology, there are many businesses in the Information Technology field that boast high levels of production technology, and this has resulted in high levels of profitability in these businesses. An important measure will be applying this know-how to businesses in the Life Care field to improve their production technology.

In addition, in view of the Companywide policy of growing the Life Care businesses, I am aware that one of my roles is to allocate the resources of the Information Technology field, including technical personnel, to the Life Care businesses. Recently, we have converted a portion of a plant producing glass substrates for HDDs to the production of intraocular lenses. The objective of this realignment was to make the best use of production technology and technical personnel in the HDD glass substrates business, which has been adversely affected by the shrinkage in the HDD market, and reallocate these resources to the production of intraocular lenses, where demand is expanding.



## | Sources of Growth

The source of HOYA's growth is its technological capabilities, and the bearers of this technology are HOYA's technology personnel. For this reason, we select highly capable people and, by putting them in responsible positions without regard to nationality, gender, or age, we wish to accelerate growth in the number of technology personnel.



**Eiichiro Ikeda**

Executive Officer & COO,  
Information Technology and Chief Technology Officer





Outside Director **Itaru Koeda**

## *HOYA's Board of Directors*

I have served on HOYA's Board of Directors for seven years now. From the time I joined the Board until today, the atmosphere has not changed, and all Directors need to express their opinions actively. I believe it is a special atmosphere that was created by the outside directors who have gone before us. As the Lead Independent Director, I make sure that there is understanding among the Directors, while also, as I perform my role of overseeing the conduct of business activities by the Executive Officers, I remain aware of the need to prevent any collusion among them.

All the Outside Directors on HOYA's Board are corporate managers or former corporate managers, and I believe personally this is a desirable Board makeup. As the Outside Directors go about performing their roles of overseeing management, their experience in confronting and overcoming difficulties is useful to HOYA management. Regarding that point, as the chairman of the Nomination Committee, I keep this in mind when we select candidates for Outside Director.

## *Fostering Human Resources in the Context of Globalization*

Previously, after an inspection tour of HOYA's Singapore plant, I noticed that the members of management of this plant were all non-Japanese. In developing its manufacturing bases overseas, HOYA actively fosters personnel from the host countries, delegates authority to them, and appoints them to important positions.

Looking to the future, I believe it will be necessary to foster personnel who have a record of accomplishments overseas and a good understanding of the Company, and then appoint them to major positions not only overseas but also in the Head Office and in our businesses. And, I think that, when fostering and appointing non-Japanese to important positions, whether the personnel selected for these positions perform their roles and responsibilities as planned and whether the Executive Officers can follow up in detail in dialogues with these non-Japanese managers will be important.

## *Address Issues with an Eye to the Future*

An issue in the Board of Directors to be addressed in the long term is fostering a successor to CEO Suzuki. A requirement for HOYA top management will be to delegate the day-to-day conduct of operations to the management of business divisions and have the management abilities to make decisions on the direction of HOYA's overall business portfolio management. It will take the time I believe that fostering and grooming CEO candidates not only from among Executive Officers but also management of business divisions and external persons will be extremely important.

Taking account of the awareness of this issue among Board members, CEO Suzuki himself has taken the initiative in recent years to delegate authority to other Executive Officers and management of business divisions and is working to give them opportunities to grow as senior managers.

**Itaru Koeda**  
Outside Director

Outside Director **Shuzo Kaihori**

## *My Impression of HOYA's Board of Directors Since My Election Last Year*

My impression over the one year that has passed since my election to the HOYA Board of Directors is that, under the “company-with-nomination committees” management system that HOYA has adopted, Board members focus on overseeing the execution of business by the Executive Officers. Another impression I have is that the Board is made up of individuals with a wide range of experience. This diversity of experience of Board members stimulates active discussion and results in healthy conduct of Board meetings that concentrate on substance rather than formalities.

## *HOYA's Strengths*

HOYA operates a wide range of businesses, ranging from contact lenses, which is a B to C (business to customer) activity, to mask blanks for semiconductors, which is a B to B (business to business) activity. Another feature of HOYA is that, in all its businesses, it has the full range of functions from strategy formulation to manufacturing and marketing, while, at the same time, it is developing each of its businesses around the world. Based on the delegation of authority to each business, all these businesses are pursuing global development suited to the environment surrounding their respective business. I think this is one of HOYA's important strengths as it works to make its businesses stronger. Also, HOYA's Head Office organization is small and flexible, and I feel this makes it possible for the Executive Officers to make rapid decisions. When decisions are to be made, such as the entry into new businesses, it is important to do so with the right timing. My impression is that HOYA takes the initiative with a sense of speed.

## *Proposal for Growth Going Forward*

To give you one example of an issue that the HOYA Group should understand is important for its future growth and should be addressed is that, in each of its businesses, quality must be in line with high standards. Within the Life Care business, which HOYA has positioned as a growth area, one business is medical related products. HOYA's responsibilities in this business are particularly heavy because its products affect human lives and health. For this reason, as the HOYA Group develops this business globally, Group companies must work together and innovate as leaders. HOYA Group companies must also always be ahead of changes in standards and ways of thinking about quality, and respect these to an ever higher degree. In particular, as HOYA looks to further growth, in cases where it must take initiatives in new businesses as an outsider and integrate these into the HOYA Group, initiatives of this kind will become substantially more important. To some degree, I think it will be effective for the Head Office to take the leadership and raise the level of governance in each business. Looking ahead, my proposal for growth is that, when major changes occur, rather than continuing to conduct business along the same lines as in the past, we should stop and review the current status and then decisively introduce new initiatives to move in the direction that HOYA should go.

**Shuzo Kaihori**  
Outside Director

## Financial Review

### Scope of Consolidation

As of March 31, 2016, the HOYA Group consisted of HOYA CORPORATION, 119 consolidated subsidiaries (11 of which are domestic and 108 are overseas), and 9 affiliates (4 of which are domestic and the other 5 overseas).

Under global consolidated Group management, the independent management teams of the Information Technology and Life Care segments take responsibility for executing their respective management strategies and overseeing subsidiaries in various part of the world. The regional headquarters in the Americas, Europe, and Asia provide support to promote business operations by strengthening relationships with countries and areas in their respective regions, such as providing legal support and conducting internal audits. The HOYA Group has its Financial Headquarters (FHQ) in the Netherlands.

### Adoption of the International Financial Reporting Standards

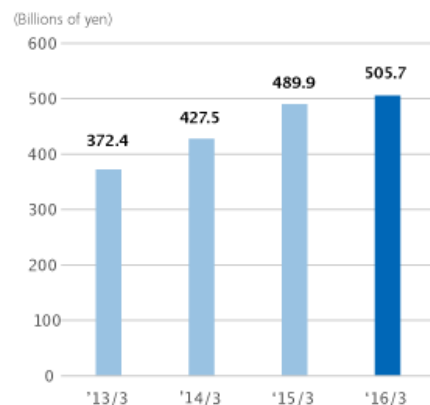
Beginning with the fiscal year ended March 31, 2011, the HOYA Group has prepared its consolidated financial statements and other documents in compliance with the International Financial Reporting Standards (IFRS) pursuant to the first paragraph, Article 120 of Ordinance on Account of Companies. Accompanying this, the HOYA Group divides its businesses into three reportable segments, based on IFRS. These are Information Technology, Life Care, and Other Businesses.

The Information Technology segment handles electronics-related products used for the production of semiconductors, liquid crystals, and hard disk drives (HDDs), and imaging-related products, such as digital camera lenses. The Life Care segment deals with health care related products, such as eyeglass lenses and contact lenses, as well as medical-related products, such as intraocular lenses and endoscopes. The Other Business segment offers mainly information system services.

### Review of Performance in Fiscal 2016

In fiscal 2016, ended March 31, 2016, both sales and profit before tax expanded. The Life Care segment is continuing stable growth, and it accounted for 64% of total consolidated net sales. HOYA is moving forward with market development for each of the products in this business, and initiatives are under way to increase production capacity in eyeglass lenses and intraocular lenses where expansion is forecast. Our view is that steady progress is being made toward having the Life Care business drive the Company's overall growth as it should. In the Information Technology segment, especially in the latter half of the fiscal year, the business environment became severe as a result of the impact of the appreciation of the yen and deterioration in market conditions. However, as a result of structural reforms begun in previous years to optimize our production bases and other initiatives, we have already transitioned to a structure where profitability can be maintained. During the fiscal year under review,

#### Sales



the segment profit ratio of the Information Technology segment as a whole was 36.5%, which was 4.7 percentage points higher than in the previous fiscal year.

Turning to the performance of the HOYA Group as a whole, consolidated sales amounted to ¥505,714 million, representing an increase of 3.2% over the previous fiscal year. The Group reported a gain on foreign currency of ¥11.8 billion in the previous fiscal year, but a loss of ¥2.6 billion during the year under review. Due in part to this, profit before tax was ¥119,099 million, up 0.7% from the previous fiscal year, and net profit amounted to ¥93,317 million, 0.4% higher year on year. The ratio of profit before tax to sales was 23.6%, which was 0.5 percentage point lower than the 24.1% reported in the previous fiscal year.

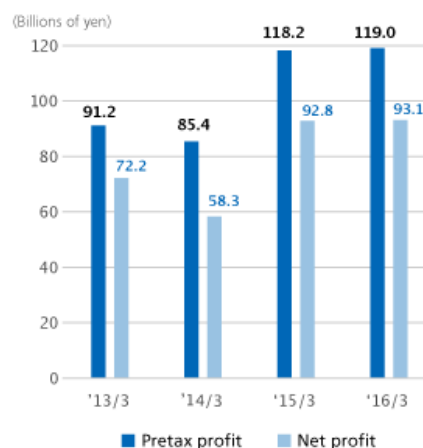
The Life Care segment recorded sales of ¥322,673 million, 5.2% higher than the previous fiscal year. Segment profit was ¥57,747 million, representing an increase of 9.1%. The segment profit ratio was 17.9% (an improvement of 0.6 percentage point over the previous year). In the eyeglass lenses business, as a result of expansion in sales in overseas markets, principally Europe and the Americas, earnings on sales were favorable. In the contact lenses business and intraocular lens business, although a substantial increase in sales was recorded, growth in endoscopes was weak. Although results for the fiscal year showed that the increases in sales and profits of the Life Care segment were generally firm, there were regions and products where sales were weak, including sales of eyeglass lenses in China and intraocular lenses in North America. In addition, in the eyeglass lenses business where expansion in demand is expected, operations began in earnest, following a preparatory period, at the Philippines factory. In the intraocular lenses business, work on expansion of production capacity for new products launched for this first time this fiscal year proceeded. In the endoscopes business, new products were launched in the latter half of the fiscal year in Japan and Europe.

In the Information Technology segment, sales amounted to ¥178,749 million, down 0.8% from the previous fiscal year. Segment profit was influenced by the sale of tangible fixed assets during the period, the losses incurred in the liquidation of a subsidiary, and other factors and amounted to ¥65,491 million, an increase of 14.3%. The ratio of segment profit to sales was 36.5%, representing a 4.7 percentage point increase improvement. Overall, in the midst of a business environment where major growth cannot be expected, performance in the first half was firm due mainly to the effects of a weakening of the yen, but, in the latter half, as a result of the deceleration in the market and the appreciation of the value of the yen, the operating environment became tougher. Sales of semiconductor-related products and LCDs rose above the previous fiscal year, and imaging-related product sales were about the level of the previous year. However,

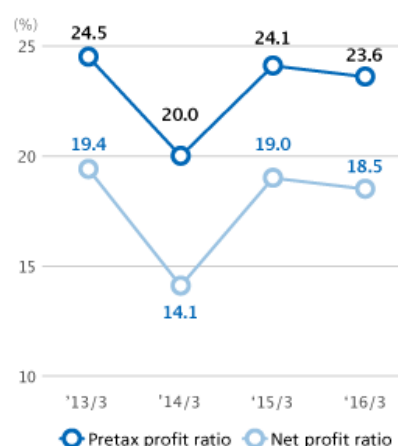
HDD glass substrates experienced difficulty because of the stagnation in the PC market and the encroachment of solid state drives (SSDs) into the HDD market; thus, sales declined from the previous fiscal year. For the business as a whole, growth in sales of high-value-added products and reductions in fixed costs helped to improve margins in this segment, and HOYA was able to secure an increase in profit.

(For further information on performance by product, please refer to the [Business Overview](#) Section.)

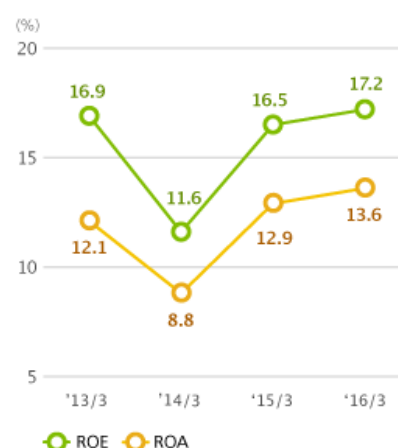
## Pretax profit, Net profit



## Profit ratios



## Profitability





## Financial Position

Total assets at the end of the fiscal year under review decreased ¥94,724 million from the previous fiscal year-end, to ¥639,007 million. Non-current assets decreased ¥15,080 million, to ¥165,086 million. This decrease was mainly due to depreciation, the decrease in value of assets due to the appreciation of the yen, and other factors, which resulted in a decrease of ¥19,440 million in tangible assets and a decline of ¥3,344 million in intangible assets.

Current assets decreased ¥79,644 million, to ¥473,922 million. This was primarily the result of a decline in cash and cash equivalents of ¥62,527 million due to the payment of dividends, buybacks of the Company's own shares, and other factors.

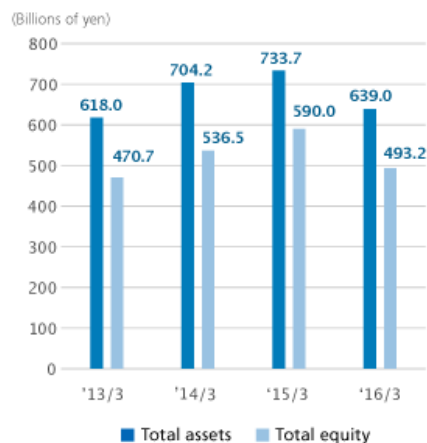
Total equity decreased ¥97,921 million, to ¥498,174 million. This was primarily due to an increase in treasury shares, which is treated as a deduction from equity, of ¥28,701 million. Retained earnings decreased ¥36,375 million, and accumulated other comprehensive income declined ¥30,453 million.

Equity attributable to the owners of the Company decreased ¥96,749 million, to ¥493,265 million.

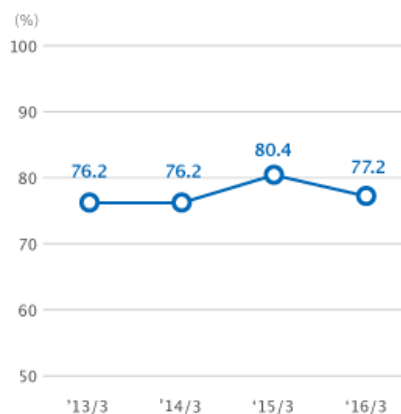
Total liabilities increased ¥3,196 million, to ¥140,834 million.

The ratio of equity attributable to the owners of the Company's total assets at the end of the fiscal year was 77.2%, which was 3.2 percentage points lower than the 80.4% at the previous fiscal year-end.

### Total assets, Total equity



### Ratio of assets attributable to owners of the Company

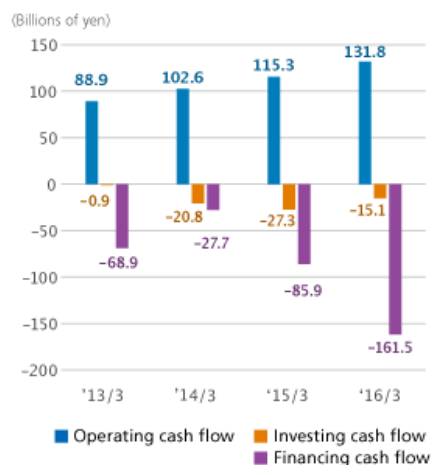


## Cash Flow

Cash and cash equivalents at the end of fiscal 2016, inclusive of ¥17,737 million due to fluctuations in foreign currency rates, were ¥286,292 million, a decrease of ¥62,527 million from the end of the previous fiscal year.

Net cash generated from operating activities was ¥131,889 million (representing an increase in net cash generated from operating activities of ¥16,509 million compared with the previous fiscal year). Factors contributing to cash from operating activities included profit before tax of ¥119,099 million (an increase of ¥850 million in pretax income compared with the previous fiscal year), depreciation and amortization of ¥33,524 million (a decrease in depreciation and amortization of ¥1,328 million compared with the previous fiscal year), a decrease in trade and other receivables of ¥2,741 million (an increase of ¥3,478 million compared with the previous fiscal year), an increase in trade and other payables of ¥355 million (a decrease of ¥669 million compared with the previous fiscal year), and other factors. On the other hand, factors resulting in cash outflow included an increase in inventories of ¥2,758 million (an increase of ¥2,057 million compared with the previous fiscal year) and income taxes paid of ¥23,206 million (a decrease in income taxes paid of ¥4,148 million compared with the previous fiscal year).

### Cash flow



## Capital Expenditures/Depreciation and Amortization

Capital expenditures of the HOYA Group in all businesses amounted to ¥20,328 million, representing an increase of ¥144 million over the previous fiscal year.

Capital investments in the Information Technology segment were ¥9,358 million, or 46.0% of the Group's total capital investments. Capital investments in the Life Care segment amounted to ¥10,756 million, or 52.9% of the total.

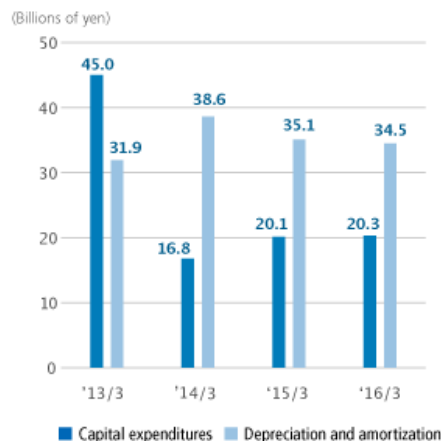
These investments were funded from internal sources.

The principal objectives of these capital investments in the Information Technology segment were the acquisition of manufacturing equipment and facilities for production of high-value-added products and investments for increasing productivity.

In the Life Care segment, investments were made in the eyeglass lenses business, where HOYA is aiming to accelerate its growth in global markets. Investments were made in production facilities in Thailand, the Philippines, and elsewhere for increasing and optimizing capacity as well as for expansion in markets that HOYA has newly entered. In the intraocular lenses for the treatment of cataracts business, sales of products launched at the beginning of the fiscal year are expanding, and investments were made in expansion of production facilities in this business in response to rising demand.

Depreciation and amortization (including impairment losses) for the fiscal year under review were ¥34,504 million, 1.8% lower than in the previous fiscal year.

### Capital expenditures, Depreciation and amortization



## Policy Regarding Retained Earnings and Dividends

The HOYA Group is expanding its business activities globally and changes its business portfolio in accord with transitions in the times and the business environment, with the objective of maximizing its corporate value.

HOYA's capital policy pursues the optimal capital composition to maintain its financial soundness and capital efficiency, while, at the same time, building retained earnings to finance the Company's future growth and maintaining an optimal balance with returning profits to shareholders.

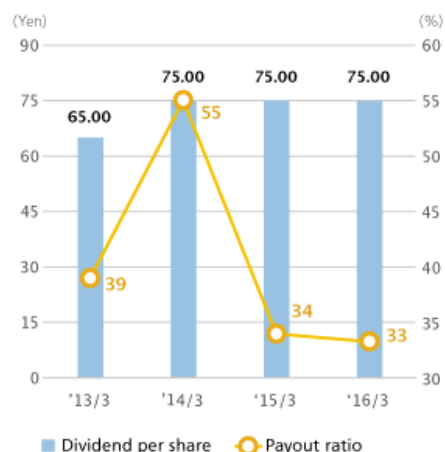
Moreover, HOYA's management stance is to emphasize return on capital and generate as much profit as possible through the efficient use of the capital that shareholders have invested in the Company. Going beyond this, HOYA practices Shareholder Value Added (SVA) management and works to raise return on invested capital as high above the cost of capital as possible and aim for maximizing corporate value.

Regarding retained earnings, resources will be preferentially allocated to investment in the Life Care business, which HOYA has positioned as a growth business. These resources are being used for increasing market share, entry into untapped markets, and developing as well as acquiring new technologies. In addition to growing existing businesses, HOYA proactively pursues various possibilities, including mergers and acquisitions, to further enrich its business portfolio and expand its business operations. In the Information Technology business field, which has been positioned as a steady source of earnings, we will continue to make capital investments that further reinforce the technological capabilities that are the source of competitiveness and investments that will contribute to the development of next-generation technologies and new products.

In determining return to shareholders, HOYA's bases for judgment are performance results and the level of retained earnings for the period, funding needs in the medium-to-long term, and the composition of capital from an overall perspective. HOYA then actively distributes dividends to shareholders and conducts share buybacks.

For fiscal 2016, HOYA declared a dividend of ¥75 per share. At a consequence, its consolidated dividend payout ratio was 33.3%. Also, in line with the dividend policy previously described, HOYA decided to conduct a share buyback program totaling ¥135.0 billion.

**Dividend per share, Payout ratio**



# **HOYA REPORT 2016**