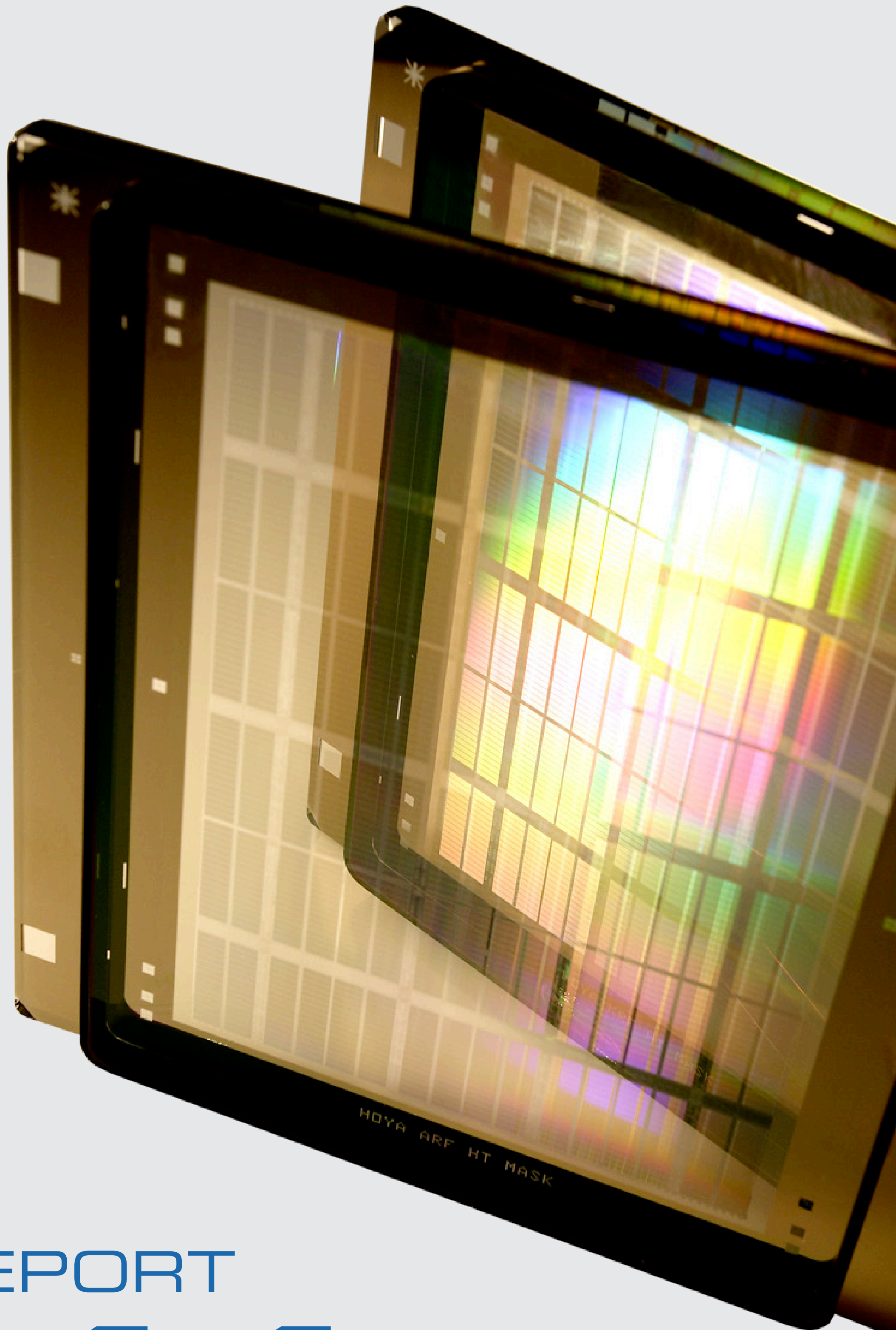
HOYA



HOYA REPORT 2014

CEO and COOs talk about

HOYA today and tomorrow

There is no end to our quest for HOYA's ideal portfolio

President & CEO Hiroshi Suzuki

Increase in sales and profit in real terms in fiscal 2013

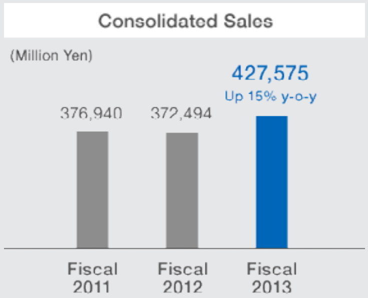
During fiscal 2014 (from April 1, 2013 to March 31, 2014), the HOYA Group increased its sales and profit in real terms and made further progress in adjusting its business portfolio to emphasize the Life Care segment. At the same time, in my view, fiscal 2014 was the year when we sharply defined the issues we face for achieving what we aim to be in the future.

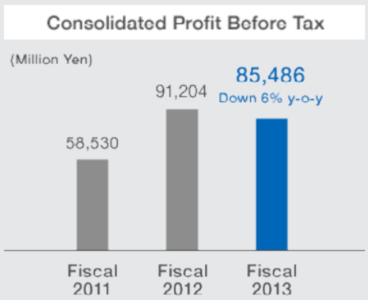
HOYA's consolidated sales amounted to ¥427.6 billion, up 15% year-on-year, while profit before tax decreased by 6% to ¥85.5 billion and net profit decreased by 17% to ¥60.1 billion. Operating profit from regular sales activities actually increased by 38% y-o-y, excluding one-time profits, such as ¥32.2 billion insurance income relating to the flood damage in Thailand and ¥2.2 billion gain on step acquisitions, associated with the acquisition of shares of an eyeglass lens manufacturing and sales subsidiary in Brazil, present Optotal HOYA Limitada.

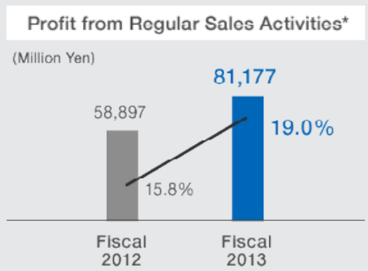
The Life Care segment, which is designated as a growth sector for HOYA, recorded sales of ¥265.5 billion, up 27% year-on-year. The Eyeglass Lens division reported a large increase in sales, supported by the recovery from the impact of the floods in Thailand and the transfer of business from Seiko Epson Corp. In addition, segment sales grew strongly due to the combination of growth in sales of contact lenses and endoscopes and the impact of yen depreciation. Segment pretax profit amounted to ¥49.7 billion, marking a decline of 23% due to a reaction to the booking of extraordinary profit a year earlier, but profit from regular sales activities increased by 55% and the segment profit margin improved to 19.3% from 15.8% in the previous year.

Meanwhile, the Information Technology segment recorded sales of ¥159.3 billion, down 1%. While sales of products for smartphones and tablet PCs were firm, sales of products for notebook PCs and digital cameras decreased as demand for those final products was sluggish. Nevertheless, as a result of our speedy structural reform in anticipation of the market shrinkage, segment pretax profit amounted to ¥35.9 billion (up 13%) and profit from regular sales activities increased by 18%, improving the segment profit margin to 22.5% from 18.8% in the previous year.

Please refer to the messages of segment COOs for further detail on segment results.







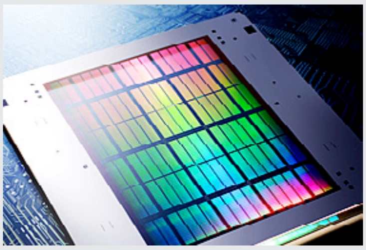
* "Profit from regular sales activities" excludes financial profit, expenses, equity income or loss, foreign

The Life Care segment has overcome challenges and aim to accelerate growth

In fiscal 2014 the Life Care segment achieved 27% sales growth. I personally feel that we could have achieved higher growth. That is, the Eyeglass Lens division, which was significantly affected by the massive flooding in Thailand, and the Intraocular Lens (IOL) division, which suspended shipments of some products and voluntarily recalled them, have overcome their respective challenges and are on a recovery path. Looking at the overall Life Care segment, however, I recognize that we have not made as much progress as planned in terms of coverage (geographical and market), which is one of our major issues.

For example, the Eyeglass Lens division focused so much on recovering the capacity utilization rate, which dropped as a result of the flood, that it failed to adopt initiatives for the growth. We need to swiftly expand further in emerging markets with significant growth potential. In case of the Medical Endoscope division, some growth was achieved, which, however, was partly attributable to the market growth and the impact of yen depreciation. In terms of expansion of coverage, I feel that we could have done it more speedily. In the midst of technological innovation in endoscopic capabilities with its focus being shifted from the diagnostic area to the therapeutic area, endoscopes have high growth potential as an imaging platform. In addition, the Intraocular Lens (IOL) division has just begun to expand globally. Each of the Life Care divisions has merely a 10-20% global share. By broadening our coverage in markets and customer segments that have been untapped, we intend to give high priority to add to our top-line growth.

The Information Technology segment has become a stable profit generator



In our view, the Information Technology segment has passed a turning point of growth and has entered a long, mature stage. With regard to mask blanks for semiconductors and photomasks for liquid crystal displays, for example, we may continue to experience some technological shift or innovation, such as a change in the structure of a chip, but I must say that the industry itself has become matured.

Despite such a situation, substrates for HDDs or optical lens will never lose their critical role. For many years, we have rigorously taken initiatives in enhancing competitiveness in the Information Technology segment. I firmly believe that this segment will be secure as a stable profit generator.

M&A activities complement coverage expansion

Having identified M&A as one of the effective tools to enhance our business portfolio, we are aggressive in studying potential M&A targets, particularly in the Life Care segment, an area of growth for HOYA. In the existing businesses, we look for M&A opportunities to expand coverage into untapped markets, expand market shares, and acquire new products or new technologies in the peripheral areas. This is because HOYA has not yet established a strong position in the Life Care market, where growth can be reliably projected. We thus need first and foremost to expand our shares and coverage. We believe that M&A activities would allow us to accomplish that more speedily. Our M&A accomplishment in fiscal 2014 includes making Wassenburg Medical Devices, a leading firm in automated endoscope reprocessors

(AERs), and Seiko Optical Products Co., Ltd. HOYA's consolidated subsidiaries. Both companies are expected to greatly contribute to reinforcing our existing businesses.

Let me add that the mature markets of the Information Technology segment also present M&A opportunities for us to raise market shares and enhance businesses.

In fiscal 2014, we could not accomplish as much in M&A as we initially planned in the Life Care segment, partly because valuations were obstacles. From the viewpoint of investing shareholders' capital in areas which would definitely generate return, we remain diligent and careful in considering M&A opportunities now and will be so in the future.

Targeted M&A Opportunities

- Expand coverage in untapped markets
- Expand market share in existing markets
- Acquire new products or new technologies

Aim to be "a big fish in a small pond"

HOYA aims at sustainable growth by changing business formats in response to changes in the times and the environment and by reinventing itself. Nevertheless, there is one thing we have not changed since our foundation: Namely, our philosophy of being "a big fish in a small pond." We focus on niche markets or products where we have special strength, work to establish a dominant advantageous position in each of them, and thereby maximize profits. The Life Care segment may appear to be engaged in an immense market. However, segmentation into small slices has enabled us to select niche markets matching our strength (= small ponds) and become big in those niche areas (= acquire high market shares). Globally, countries and regions may have different market structures, which may require us to adapt business models accordingly. I believe that the HOYA Group is more than ever required to accurately comprehend the environment and areas where we can prevail, and to accordingly execute our "a small fish in a big pond" strategy. In contrast, in the Information Technology segment, we have already become a big fish in some businesses and can be able to survive even if the pond itself may shrink.

Further progress in the corporate governance structure

Enhancement of a corporate governance structure is another theme, which we have emphasized for many years. At the Ordinary General Meeting of Shareholders of June 2014, Mr. Yuzaburo Mogi (Honorary CEO and Chairman of the Board of Kikkoman Corporation), resigned as an outside member of our Board of Directors. Since 2001 when he assumed the post, he became chair of the Nomination Committee and had took a leading role in the Board. I am immensely appreciative of his enormous contribution of many years. HOYA has adopted the "company with committees" management system. The Nomination Committee, comprised of six outside directors, selects candidates for director posts and submits nominations to the General Meeting of Shareholders for approval. In order to enable the Board to make an impact on the company, candidates for outside directors are required to be persons who can express their valuable opinions on management issues and make an impact thereby, on the basis of extensive experience in business management. One such person is Mr. Takeo Takasu, former President and Representative Director of Namco Bandai Holdings Inc., who was nominated and approved by our General Meeting of Shareholders in 2014. We look forward to Mr. Takasu's contributions to raising HOYA's corporate value.

Board of Directors
(Approved at the Ordinary General Meeting of Shareholders of June 18, 2014)

Director (Independent)	Yukiharu Kodama
Director (Independent)	Itaru Koeda
Director (Independent)	Yutaka Aso
Director (Independent)	Yukako Uchinaga
Director (Independent)	Mitsudo Urano
Director (Independent)	Takeo Takasu
Director	Hiroshi Suzuki

6 Outside Directors
1 Internal Director

Rewarding shareholders through dividend hikes and share repurchase

As CEO, I recognize that an effective use of the cash component of our balance sheet is an important challenge. In the past several years, we have actively but cautiously considered various M&A opportunities, as M&A is one of the ways to grow our business. However, the high valuation of targeted companies tends to be a major obstacle and has caused us to achieve far less success than anticipated. In the coming years, we will keep looking for possibilities and wish to fill in gaps in our business portfolio one by one.

There is no need to keep accumulating more cash than needed. In fiscal 2014, we raised the annual dividend from 65 yen in the previous year to 75 yen and executed a share repurchase program with a maximum of 10 million shares and ¥30 billion. We forecast that the HOYA Group´s amount of capital expenditures will be far less than the amount of depreciation in the foreseeable future, as the Life Care segment, due to the nature of its products, requires only about one-third of the amount of capital expenditures of the Information Technology segment, where we will minimize capital investments mainly for the purpose of maintaining advanced technologies. Moreover, the Life Care segment is expected to generate stable and growing sales and profit, which will allow us to remain cash-rich for some years. We plan to actively allocate resources in M & A opportunities and R & D investments. Further, we intend to use excess cash to reward shareholders, with appropriate timing.

Shareholders return in fiscal 2013

Concluding message

HOYA has achieved many years of growth by constantly modifying its business portfolio and offering products and services which satisfy the needs of the times. In fiscal 2014, the profit which was steadily generated in the Information Technology segment was injected into the Life Care segment, which then became better prepared to expand coverage and accelerate global growth. I feel strongly that our business portfolio has become closer to how it ought to be. I am determined to keep managing the HOYA Group with a sense of speed.

HOYA is able to maintain its youthfulness and adapt to changes in the environment by keeping each business segment in as good condition as possible and by constantly shuffling and optimizing its business portfolio. In this sense, there is no end to our quest for HOYA's ideal portfolio.

As a person who was entrusted the precious assets of our shareholders, I am determined to make my utmost efforts in managing the company. I thank you for your continuing support and understanding.

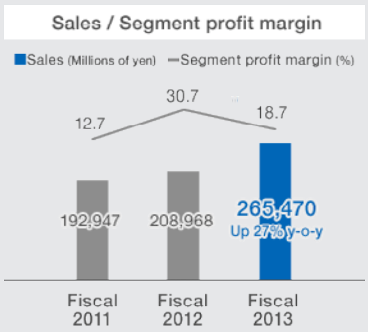
Hiroshi SUZUKI
President & CEO

I am confident that we can increase our business growth potential

Executive Officer and Life Care COO
Girts Cimermans

Life Care businesses achieved revenue and profit growth in real terms

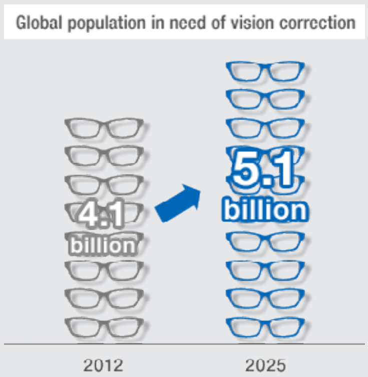
The Life Care segment recorded revenue of ¥265.5 billion (up 27% year-on-year). The eyeglass lenses business reported a large increase in revenue, supported by the recovery from the impact of the floods in Thailand and the transfer of the business from Seiko Epson Corp. In addition, segment revenue grew strongly due to the combination of growth in sales of contact lenses and endoscopes and the impact of yen depreciation.
Segment pretax profit amounted to ¥49.7 billion, marking a decline of 23% due to a reaction to the booking of unusual profit a year earlier, but profit from regular sales activities increased by 55%.



We expect steady long-term growth, underpinned by expansion of the global market

HOYA Life Care is well positioned to meet the needs of both mature and emerging markets. The population in the mature markets is aging. The middle class in emerging markets expands, and drives demand for improved access to healthcare as well as provides more spending power for high end products and services. Each of the Life Care divisions provides a portfolio of products that meet the specific demographic development and is thus helping patients worldwide to lead healthy and comfortable lives.

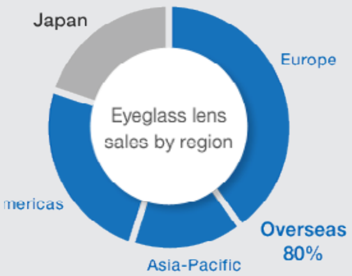
The Life Care divisions work mainly in two care areas. In particular, needs for products associated with eyes, namely, eyeglass lenses, contact lenses and intraocular lenses, are likely to grow steadily with the increase of aging population. In emerging markets improvement in the disposable income allows more people to buy eyeglasses, or to buy more sophisticated eyeglasses that better meet their vision correction needs. The population that requires vision correction is projected to increase from 4.1 billion at present to 5.1 billion in ten years. Furthermore, as the middle-income class population in emerging markets is estimated to grow from 1.8 billion to 4.9 billion by 2030, the worldwide population that requires vision correction is projected to increase from here on.



In the field of minimally invasive surgery, while the aging population drives demand for healthcare, governments in many countries have started to take measures to reduce medical expenditures as a part of overall drive to curb public spending. HOYA´s endoscopy products and intraocular lenses will contribute simultaneously to the enhancement of medical services and a reduction in medical costs, as a form of minimally invasive medical treatment. They are also generating strong expectations about possibilities in the future. For example, early endoscopic diagnosis and early treatment can significantly improve positive outcome of the treatment at a significantly lower cost than late stage intervention. Going forward, we believe the enhancement of the quality of medical services and the reduction of medical costs as well as the ability to achieve these two factors simultaneously will become increasingly important, and will further drive the development of minimally invasive surgery.

Aiming to grow at a higher rate than the market for eyeglass lenses

Ayutthaya plant in Thailand



The eyeglass lenses business posted an increase in revenue compared to the previous year due to the recovery from the floods in Thailand in October 2011, the acquisition of new customers, the effect of higher sales from the acquired Seiko Epson Corp. in February 2013, and the impact of the weaker yen. In contrast, pretax profit declined but this was because, in the previous fiscal year, HOYA posted insurance income of ¥32.2 billion relating to the flood damage in Thailand and one-time profits such as a ¥2.2 billion gain on step acquisitions, associated with the acquisition of shares of an eyeglass lens manufacturing and sales subsidiary in Brazil. Actual profit based on normal business activities increased compared to the previous year.

The global eyeglass lens wholesale market is estimated to be growing at a rate of several percent, but in the fiscal year under review, HOYA´s eyeglass lenses business achieved sales growth that substantially outpaced this. This growth was driven by overseas markets, which account for 80% of sales, including Europe, Asia, the United States, and South America.

The rate of profit growth, which temporarily declined due to the flooding in Thailand, improved steadily throughout the year. This is mainly attributable not only to the recovery of customers that were lost due to the Thai floods but also the maintenance of high factory utilization rates through the second half of the year amid a sharp increase in transaction volume stemming from the start of trading with new customers.

The global eyeglass lens market has become polarized between high-end products, such as progressive lenses (PAL) that utilize advanced design technology and customized lenses that are made to suit individual life styles, on one hand, and low-priced eyeglasses, especially single-focus lenses, on the other. HOYA´s excellent optical design technologies and coating technologies display strong competitiveness, particularly in the high-end market. Moreover, by raising productivity in the manufacturing of progressive lenses to single-focus lenses, we are delivering products efficiently to customers around the world. In the fiscal year ended March 31, 2015, we plan to construct a mass production plant (capacity expansion). In anticipation of demand growth associated with the global aging population and economic growth in emerging markets, we intend to accelerate sales expansion globally.

Acquisition of eyeglass lens development and manufacturing business from Seiko Epson

In February 2013, HOYA acquired an eyeglass lens development and manufacturing business from Seiko Epson. At the same time, we progressively acquired shares of Seiko Optical Products Co., Ltd., which sells Seiko brand eyeglass lenses, completed the acquisition of a 50% shareholding as of March 31, 2014, and turned it into a consolidated subsidiary of HOYA. Going forward, we will make use of HOYA´s global manufacturing and sales network to expand sales of Seiko brand eyeglass lenses, which have high worldwide recognition, into a global market. In manufacturing and development as well, there is great potential to combine each other´s technologies and develop them into new products.

Eyeglass lenses business of Seiko Epson Corp.

Going forward, we will focus on expanding coverage

HOYA´s strengths in eyeglass lenses are its unique optical design technologies and world´s top-class coating technologies. Another strength is our sales network, which has global reach, and our efficient production system that supports it. In the Japanese market, we have displayed these strengths and already acquired a high market share, but in overseas markets there are still many untouched markets such as Central and South America and Eastern Europe. There is still also plenty of room to increase our market share in developed countries. Going forward, while developing a direct sales organization in untapped markets, primarily in overseas markets, we intend to expand our coverage with the aim of acquiring new customers and boosting market share in developed countries. Sustaining organic growth is one of our key priorities for this division.

Eyecity, HOYA's chain of contact lens specialty stores, continues to grow

In the contact lens business, sales volume increased due to the opening of new Eyecity stores and stronger sales promotion at existing stores, while revenue grew year-on-year in March owing partly to rush demand prior to the consumption tax increase.

Japan´s contact lens retail market itself is not growing due to the low birth rate and aging population but HOYA has continued to expand its market share. A rise in the average unit price per customer resulting from the development of high-value-added products and services, including efficient advertising, sales promotion, the opening of stores in good locations, and the introduction of the regular delivery service "Eye passport", contributed to the increase in revenue. We are also looking into expanding into specialty stores, catering to the needs of a specific customer group. We have opened, for example, a store aimed at women who are particular about their life style and fashion in Kichijoji, an exclusive residential area in the suburbs of Tokyo.

Profitability is also showing a steady trend by benefiting from the reinforcement of sales of high-value-added products and economies of scale, being a chain of contact lens specialty stores with the largest number of customers in Japan.

The challenge going forward is to accelerate store openings in regional cities and suburban areas of Japan where our coverage is low. Even in Japan, we believe there are still sufficient areas to open new stores. In the fiscal year ended March 31, 2014,

eyecity

we opened 19 new stores on an annual basis, and this fiscal year, we plan to open even more. While leveraging our No. 1 brand power in Japan and high market share, we will focus on further expanding our store network by also considering mergers and acquisitions.

Medical endoscopy focused on the global market

In the medical endoscopy business, revenue increased year-on-year due in part to favorable sales of new high-end products that were launched in the fall of 2012 and the impact of the weaker yen. The entire global medical endoscope market is said to be growing at a rate of several percent, and HOYA achieved growth that surpassed the market in the year under review. Nevertheless, as we are aiming for annual sales growth of 10% in this business, this business has by far not exhausted it´s potential.
Looking back on sales by region, the United States achieved sales growth of more than 10%. Sales of endoscopy systems and scopes, especially the mainstay EPK-i 5010 for digestive endoscopy use, grew favourably. In Europe, sales were buoyant in major markets such as the United Kingdom, Germany, and the Netherlands, but owing to decrease in healthcare spending in Russia last year, sales in Europe as a whole remained flat year-on-year. In the Asia-Pacific region, revenue rose on the back of brisk sales in China, South Korea, and India. We established direct presence in China in 2012, and this investment started to yield return. Our share in Japan is small, but in the fiscal year under review, we adjusted out go-to-market strategy and achieved strong results.

Top: EPK-i 7000
Under: Retro View (EC-3490TLi)

Wassenburg Medical Devices

In November 2013, HOYA acquired majority share in Wassenburg Medical Devices, a Dutch firm specializing in automated endoscope reprocessors (AERs). This allows us to provide customers with a broader range of excellent products for the endoscopy field. We also expect this tie-up to generate synergies in marketing and product development.

Catering to global needs

HOYA is the only endoscope manufacturer with a global R&D network. Working through R&D centers of excellence in Japan, USA, and Germany, we are well positioned to take into account the customers' specific needs, and also leverage the R&D talent worldwide. The coming few years will bring an array of new products that are the result of global team work.

Intraocular lenses for cataract treatment

In the intraocular lens (IOL) business, as higher than expected rates of inflammation and/or endophthalmitis were reported in the market for some products, we suspended shipments of the products concerned in January 2013 to put the greatest priority on ensuring patients' health and safety. In the following February, we also carried out a voluntary recall as an additional measure. Subsequently, we conducted an investigation to determine the cause and made changes to manufacturing and quality processes, and resumed sales in August 2013 in major countries of Europe and Asia. In Japan, in December 2013, with the acceptance of the administration and relevant organizations, we launched trials at limited facilities in advance of normal marketing activities from 2014 onward. In regard to this matter, we would like to take this opportunity to sincerely apologize for causing anxiety and inconvenience to many customers. We will continue to strive to supply safe, high-quality products while putting priority on patients´ health.
Intraocular lenses are artificial lenses that are implanted after surgically removing lenses that have become cloudy due to cataracts. The global market is worth more than $2.9 billion and is projected to continue to expand in response to worldwide aging and population growth.
In the Japanese market, which has been strongly influenced by the voluntary recall, we intend to steadily promote full-fledged sales of mainstay products and focus maximum efforts on restoring the trust of doctors. Outside Japan, we will invest in the organization and distribution in order to improve our coverage and make our products available to more patients worldwide.

The role of the COO

My role as the Life Care segment COO is to draw up and execute the strategy of the entire segment beyond business boundaries. As the respective divisional heads bear responsibility for the performance of each business, my role as COO is to ensure the clarification of targets for each business within the direction of Life Care as a whole, monitor progress against those targets, and provide leadership to enable steady achievement. I also play the role of accelerating the speed of growth by identifying opportunities for synergies among businesses and efficiency improvements.
In my career so far, I have dared to set high targets in sectors that I have been in charge of. In regard to HOYA´s Life Care segment as well, we aim to be a ¥500 billion business by 2020.

The strategic focus areas in order to achieve this, are the following:

1. In mature markets, to accelerate organic growth that exceeds market growth by reinforcing marketing competencies and stronger salesmanship
2. In emerging markets, to achieve high growth by broadening our coverage and expanding the HOYA footprint
3. To attract and retain the best talent in the market, through talent management systems and managed career development plans
4. To maintain HOYA´s technology leadership by developing and acquiring new technologies that will help us fulfil unmet customer needs
5. To embrace the concept of continuous improvement and continuously optimize our business processes
6. To identify, leverage, and realize cross divisional, cross functional, and cross country strengths.

Potential for organic growth

We are among the top players in each market segment where we compete, our market share nevertheless still allows us to grow organically. Key opportunites for organic growth lie in our sales and marketing as well as coverage.
The historical strength of HOYA is our technological prowess and product appeal. In the years to come, we shall aim to complement this strength with strategic marketing, and transition from a “Product” company to a “Product & Marketing” company, making it easier for our customers to see the benefits our products provide to them and their patients.
Similarly, there are still many areas around the world where customers have limited access to HOYA products. Improving our reach in both developed countries such as the United States and various European countries and emerging markets such as Central and South America and Eastern Europe is another strong source of organic growth.

To realize this, we are focusing on the following three core strategies:

1. Be a global company, at the same time acting locally, catering to the local needs
2. Reinvest the savings generated through ongoing review of operational efficiency, and cross-divisional synergies into sales and marketing
3. Strengthen our marketing competencies to evolve from a “Product” company to a “Product & Marketing” company

Conclusion

As I previously mentioned, I believe that the stance of aiming for even higher targets than those one believes can be achieved fosters qualities that are indispensable to the achievement of our goals, namely, a spirit that is focused on success, speed, and creativity.
In the Life Care segment, where growth can be reliably projected, I am convinced that we can further enhance the growth potential of businesses by implementing several best practices that I have learned from past experiences.
I look forward to the ongoing support and understanding of our shareholders.

Girts CIMERMANS
Executive Officer & COO, Life Care

Profile

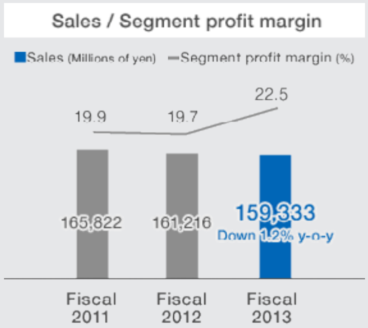
Girts CIMERMANS
After serving in high-level management positions mainly in the European market at medical equipment manufacturers such as GE Healthcare and KaVo Dental GmbH, Girts Cimermans took up the post of President EMEA at Pentax, HOYA’s Endoscope Division, in July 2011. Subsequently, he was appointed COO in charge of Life Care in June 2013. He aims to establish Life Care segment as the growth engine of HOYA.

Aiming for top global market share for all products

Executive Officer & COO, Information Technology
Eiichiro Ikeda

Profit growth achieved in fiscal 2013 due to effects of restructuring

In fiscal 2014 (from April 1, 2013 to March 31, 2014), the Information Technology segment recorded sales of ¥159.3 billion, down 1.2% year-on-year. Sales of semiconductor related products, LCD related products, and glass disks for hard disk drives (HDDs) were strong, but digital camera related products posted weak sales due to sluggish demand. In contrast, as HOYA actively undertook restructuring measures in the face of a shrinking market outlook, the earnings structure improved further and segment profit (profit before tax) reached ¥35.9 billion, up 12.7%, and the segment profit margin improved 2.8 basis points to 22.5% from 19.7% in the previous year.



Information Technology businesses operate in mature markets

Markets for HOYA's major products in the Information Technology segment are tending to contract, as these products depend on the final products of notebook PCs and digital cameras and demand in these final markets is shifting toward smartphones and tablets. On the other hand, semiconductor related products are maintaining stable earnings because HOYA has high market share and the same applies to LCD related products thanks to abundant development demand in the 4K and large TV domains. Nevertheless, we expect growth to slow or the size of markets to tend to contract, as these markets are mature, and sales are therefore likely to continue to decline in the Information Technology segment in the near term. As HOYA's Information Technology businesses operate in such markets, we have focused on creating a structure that can generate stable cash flow over the long term by further improving our competitiveness while both curbing investment and cutting costs. The results of this endeavor have already become apparent in fiscal 2014, and I intend to direct this business segment by continuing to focus on the "maximization of cash flow" from the current fiscal 2015 onward.

Strategic policies
Aim for stable earnings in mature markets

1. Maintain dominant leading-edge technological capability and competitiveness
2. Expand earnings through exhaustive cost cutting
3. Concentration and selection
4. Maximize cash flow

HOYA

Semiconductor related products

In fiscal 2014, sales of semiconductor related products increased due to a rise in sales volume for products used in smartphones and tablets combined with the effect of a weaker yen. The semiconductor market is growing at a moderate pace, but we do not expect substantial market growth for mask blanks for semiconductor production because of limited leading-edge development activities at semiconductor makers, which are the main earnings driver. However, HOYA is maintaining stable earnings by virtue of its strong technological capabilities and high market share, and in fiscal 2014 as well, we achieved high earnings through product development in cutting-edge fields and continued cost-cutting measures.

Mask blanks and photomasks for the production of semiconductor chips

LCD related products

LCD related products also recorded an increase in sales, driven by continued demand for small and medium-sized photomasks with high precision and high resolution for smartphones and tablets as well as demand for large photomasks used for 4K and large-screen TVs. At present, as panel makers in Japan, South Korea, Taiwan and China are all promoting the development of high-resolution panels, there is an increasing tendency to demand photomasks with unprecedented high quality. By leveraging our expertise in the production and development of semiconductor photomasks, we are focusing on providing unrivalled high-value-added masks, and in fiscal 2014, we also sharply boosted profitability by raising productivity at manufacturing plants.

Large-sized photomasks for the production of LCD panels

Glass disks for HDDs

Although the market for notebook PCs equipped with HDDs is declining in tandem with growing demand for tablets, sales of glass disks for HDDs (substrates) were supported by replacement demand for Windows XP in the corporate sector, and sales related to non-notebook PC applications, such as next-generation game consoles and servers, were robust. In fiscal 2014, our market share rose further due to the progress of industry reorganization, and profit increased year-on-year, as we rapidly promoted consolidation of our production bases to cope with market contraction.

Glass disks for HDDs (substrates)

Imaging related products

The markets for compact digital cameras and interchangeable lenses are shrinking rapidly mainly due to growing demand for smartphones and a slump in sales stemming from China´s economic slowdown. HOYA´s business performance was weighed down in particular by a substantial drop in sales of molded lenses and lens modules for compact digital cameras. Faced with such an environment, we stepped up efforts to boost sales of high-value-added glass materials and high-end medium- and large-diameter lenses for SLR cameras and high-end compact cameras. Moreover, although we endeavored to expand sales of optical products for products other than digital cameras, namely, car-mounted cameras, sports cameras and smartphones, we were unable to offset the decrease in digital camera related sales, and overall sales of imaging related products consequently declined. In terms of profit, however, as we rapidly reduced costs to address the rapidly shrinking market, we managed to maintain the level of profit.

Optical glass

Lens modules

The role of COO in the Information Technology segment

In regard to the Information Technology segment, my role is to generate stable earnings in mature markets, as part of HOYA's business portfolio management, and I aim to increase the profitability of each product and maximize cash flow. As many existing products have entered a mature phase in their growth cycle, we need to continue to be "a big fish in a small pond." by further strengthening our competitiveness or achieving differentiation from our competitors. To that end, as the Information Technology COO, I am promoting firstly expansion of market share, secondly restructuring, and thirdly the use of existing technologies in growth areas.

Regarding the first objective of expanding market share, in order to reap the benefit of being a survivor in mature markets, we need to have high market share. At present, in each business in the Information Technology segment, we are drawing up business strategies focused on becoming "a big fish in a small pond." Specifically, we are promoting the kind of initiatives that will put HOYA far ahead of its competitors in all areas, such as technology, quality, cost, and delivery. There are some businesses where we have high market share of 80% or 90%, but there are also businesses where even the top market share is at a level of 30%, so we intend to continue to make efforts there.
I experienced the sale of a business while I was head of the HDD Glass Media Strategic Business Unit (SBU) (the business transfer to US-based Western Digital Corporation in 2009). I think this was a reasonable decision from the viewpoint of the entire HOYA Group, but as an interested party of the business, I still regret the fact that we were unable to acquire top global market share before the sale. Based on this experience, I will manage all the products that remain in our Information Technology businesses with the aim of achieving top global market share.

Regarding the second objective of restructuring, we have attempted to shift to a structure where we can maintain profitability, even while markets are contracting and sales are declining, through selection and concentration. As a result, sales have decreased by 27% from ¥218.4 billion in fiscal 2010, but the segment profit margin has risen from 21.3% at the time to 22.5%. In fiscal 2014, we strove to improve profitability in the HDD substrate and imaging related businesses, in particular, mainly by consolidating overseas production bases and reducing the cost of sales. As for restructuring, we have almost managed to realize the targets we advocated when I was appointed a year ago.

In the case of the third objective of using existing technologies in growth areas, we will seek business opportunities in new markets that we have not ventured into yet by applying the advanced technologies that HOYA possesses. Products that we are specifically considering at present include lens units for smartphones, lenses for security cameras, car-mounted camera lenses, and HDD glass disks for servers. They are all large markets, but I believe there are areas in these markets where we can display HOYA's strengths. In the short term, I do not think these products will compensate for the decline in sales of mature products, but in the long term, we intend to boldly take on the challenge of these markets with the aim of strongly nurturing these products into core earnings sources.

To improve profitability and maximize cash flow:

1 **Expand market share**
Beat the competition in all areas, such as technology, quality, cost, and delivery

2 **Restructuring**
Consolidate production bases and reduce cost of sales

3 **Use existing technologies in growth areas**
Develop new markets and new applications

Strengths of HOYA's Information Technology segment

The strengths of HOYA's Information Technology businesses are the technologies that have been cultivated since the Company's foundation and the high market share that is underpinned by these technologies. By narrowing down the target to fields where we can display our high technological capability and its strengths, we will be able to become "a large fish in a small pond" that has an overwhelming competitive edge in niche markets. I think it is fair to say that this way of thinking has permeated to the extremity of each business division. In terms of the culture within the segment, I believe that an environment that raises the motivation of employees is also a strength; this includes the attitude of hiring talented people regardless of their age or nationality and adopting good proposals regardless of the position of the proposer. I also gained management experience from when I was young and experienced working overseas for 18 years from 1996, but at HOYA there is no sense of doing business only with Japanese people. We have many people that were recruited in mid-career and we are becoming an increasingly globalized company. I think this has become a great strength in terms of global expansion and the diversity of ideas.

Concluding message

Finally, in fiscal 2015 ending March 31, 2015, as well, we intend to undertake restructuring

while remaining vigilant in the Information Technology segment, based on the recognition that raising profitability and increasing cash flow will lead to a rise in HOYA's corporate value (equivalent to shareholder value) in the medium to long term. Furthermore, instead of limiting our operations to shrinking markets, I intend to create more robust Information Technology businesses by cultivating new markets and establishing an advantageous position by leveraging HOYA's outstanding technological capability.
I look forward to the ongoing support and understanding of our shareholders.

Eiichiro IKEDA
Executive Officer & COO, Information Technology

Profile

Eiichiro IKEDA
Eiichiro Ikeda joined HOYA in 1992. After working at the R&D Center, in the MD Business Division, and the Optical Lens SBU, he was appointed Information Technology COO in June 2013. For many years, he was in charge of production technology at overseas production bases and played a leading role in production efficiency and quality control. In addition, he is not only knowledgeable about technology but also has a successful track record in business execution and management of overseas employees, such as concluding the sale of the HDD glass media business to Western Digital Corporation.

Financial Review

Scope of Consolidation

As of March 31, 2014, the HOYA Group consisted of the HOYA CORPORATION, 121 consolidated subsidiaries (10 of which are domestic and 111 overseas) and 8 affiliates (4 of which are domestic and the other 4 overseas).
The HOYA Group is operated and managed through global consolidated group management. The independent management teams of business segments, including Information Technology, and Life Care, are responsible for executing management strategies.
Regional headquarters in the Americas, Europe and Asia support business operations by strengthening relationships with countries and areas in the respective regions, such as by providing legal support and conducting internal audits. In particular, the HOYA Group has its Financial Head Quarters (FHQ) in the Netherlands.

Adoption of the International Financial Reporting Standards

Beginning with the 73rd fiscal year, 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 the Ordinance on Accounting of Companies. With respect to reportable segments presented in the overview of operation by business category, the HOYA Group divides its business into three reportable segments, based on IFRS. These segments 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 in 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 Businesses segment offers mainly information system services.

Sales

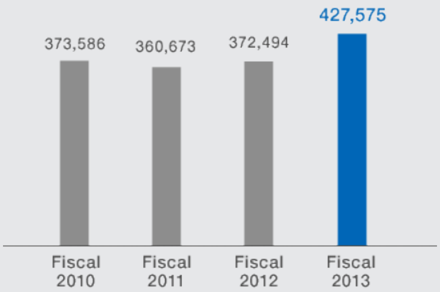
During the consolidated fiscal year under review, the global economy remained caught in a state of uncertainty. This was reflected in the fact that while the U.S. economy posted a gradual recovery and Europe turned around to start to pick up, though moderately, there were fears of economic slides arising from continued civil wars in the Middle East and a slowdown of growth in China and other emerging countries. The Japanese economy shared a gradual recovery as economic measures taken by the government and others led to corrections of the appreciation of the yen and rising stock prices and hence a steady improvement in business confidence.
As for the HOYA Group, in the Information Technology segment, products related to smartphones and tablet computers performed well. However, there was a conspicuous slowdown in products related to laptop computers and digital cameras, which are undergoing a slump in demand. These products had driven the performance of the HOYA Group and consequently sales of this segment

declined. On the other hand, in the Life Care segment, eyeglass products posted a dramatic growth in sales due to the recovery from the impact of the flooding in Thailand and the addition of sales from the eyeglass lenses business absorbed from Seiko Epson Corporation. Sales of the segment climbed significantly also because of solid performance by the contact lens and endoscope businesses and the positive impact of the depreciation of the yen.

As a result, sales of continuing operations for the fiscal year under review amounted to 427,575 million yen, a 14.8% increase year on year.

Sales

Millions of yen



Profit

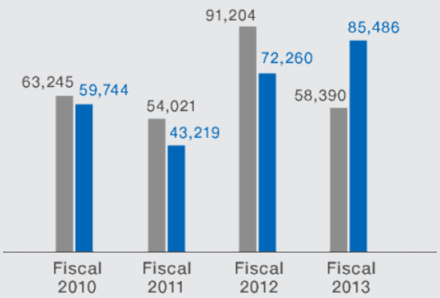
Profit before tax was 85,486 million yen; while profit for the year was 60,140 million yen. This represented a significant drop of 6.3% and 16.9% compared to the previous consolidated fiscal year. These are a result of extraordinary profits being recorded, including 32,187 million yen in insurance proceeds related to the handling of damages from the flooding in Thailand in the previous consolidated fiscal year and 2,238 million yen tied to gains related to the stop acquisition of sharesin OPTOTAL HOYA LIMITADA. Without these provisional revenues, there were real increases in profits.

The ratio of profit before tax to sales was 20.0%, a 4.5 percentage point decrease from the preceding consolidated fiscal year's 24.5%.

Pretax Profit / Net Profit

Pretax Profit Net Profit

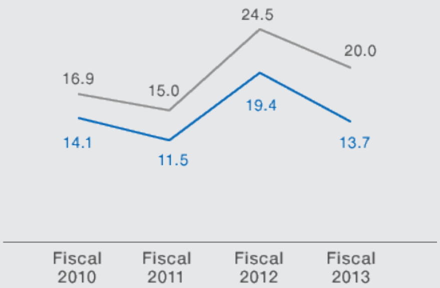
Millions of yen



Profit Ratios

Pretax profit ratio Net profit ratio

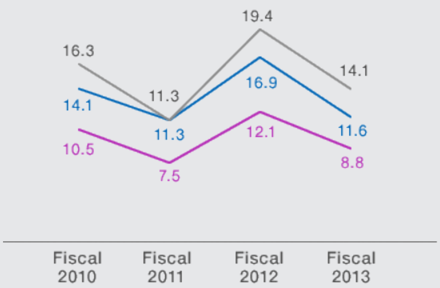
%



Profitability

Net profit ratio ROE ROA

%



Outline of consolidated results by business segment

Information Technology segment

Electronics related products

Sales of semiconductor related products increased over the preceding consolidated fiscal year due to the expansion of the sales volume of leading-edge products and middle to low-end products for smartphones and tablet computers, as well as to the impact of the depreciation of the yen.

As for liquid crystal related products, small and medium-sized high precision and high resolution masks for smartphones and tablet computers experienced continued demand. Further, there was also increased demand for large photomasks for 4K and large screen TVs. Consequently, sales of liquid crystal related products grew over the preceding consolidated fiscal year.

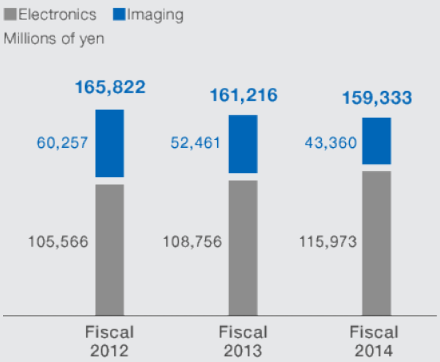
On the other hand, glass disks for HDDs (substrates) experienced an increase in sales over the preceding consolidated fiscal year. This is because while the expanding demand for tablet computers led to a decrease in demand for laptop computers with hard disk drives, corporate demand for replacement of Windows XP offset the negative factor, while sales for applications other than laptop computers such as next generation game machines and servers were robust.

Imaging related products

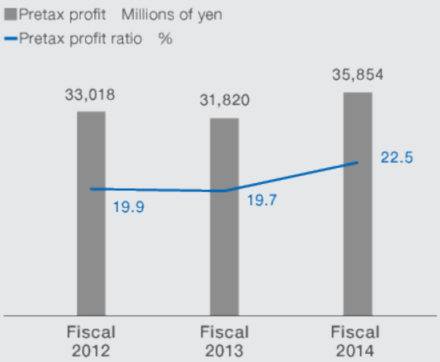
There has been a large decrease in sales unit in the compact digital camera market and interchangeable lens markets due to the market encroachment by smartphones and sales slumps caused by the economic slowdown in China. Under these conditions, the HOYA Group endeavored to expand sales of high value added glass materials, high-end mid to large diameter lenses and products for applications other than digital cameras. Despite these efforts, sales of imaging related products decreased overall from the preceding consolidated fiscal year.

As a result, the Information Technology segment posted sales of 159,333 million yen, a 1.2% decrease over the preceding consolidated fiscal year. However, the segment profit increased by 12.7% from the preceding consolidated fiscal year to 35,854 million yen.

Sales and profit



Pretax profit / Pretax profit ratio



Life Care segment

Health Care related products

Sales of eyeglass lenses posted a large increase from the preceding consolidated fiscal year. This was due to the recovery in sales from the impact of the flooding in Thailand in October 2011, the additional sales from the eyeglass business acquired from Seiko Epson Corporation during the fourth quarter of the preceding consolidated fiscal year, the depreciation of the yen and the last-minute demand before the rise in consumption tax rate. On the other hand, HOYA posted a large drop in profit before tax, as a result of the factors in the preceding consolidated fiscal year, which include extraordinary profits of 32,187 million yen from insurance proceeds for the flood damages in Thailand and 2,238 million yen in gains related to the step acquisition of shares of subsidiary. These were recorded in the profit before taxes as extraordinary profit and therefore, profits in real terms increased from the preceding consolidated fiscal year.
Sales of contact lenses increased due to new store opening of “Eyecity” specialty stores and reinforcing promotional campaigns at existing stores. Last-minute demand toward the rise in consumption tax rate helped boost sales above those of the preceding consolidated fiscal year.

Conclusion of an Agreement on Transfer of Eyeglass Lens Manufacture Business and Alliance in Marketing

On November 16, 2012, HOYA Corporation concluded an agreement with Seiko Epson Corporation to transfer Seiko Epson's eyeglass lens development and manufacture business to HOYA, and on February 1, 2013, executed the transfer of the business as planned.
At the same time, HOYA concluded an agreement with Seiko Holdings Corporation (hereinafter referred to as "Seiko"), with the aim of a global strategic alliance in the marketing business of eyewear-related products between the two companies, to acquire 30% of the shares in Seiko Optical Products Co., Ltd., which engages in the said business as a wholly-owned subsidiary of Seiko, on February 1, 2013 and an additional 20% on March 31, 2014.
It must be noted that the originally scheduled share transfer on February 1, 2013 was delayed as greater than expected time was needed to conduct the Anti-Trust Act review in the People’s Republic of China. Upon completion of the review, HOYA received 30% of the shares on June 1, 2013 and the additional 20% on the originally scheduled March 31, 2014. As a result, Seiko Optical Products Co., Ltd. is now a consolidated subsidiary of HOYA.
This will bring together the expertise of the three companies for developing, producing and marketing eyeglass lenses and eyewear-related products, which has been accumulated separately, and we will endeavor to enhance the products and services to satisfy our customers and dealers around the world.

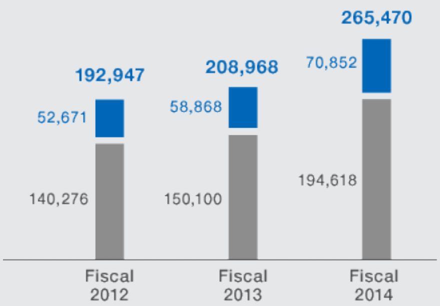
Medical related products

Sales of medical related products trended favorably to post an increase from the preceding consolidated fiscal year thanks to sales growth of new high-end series products, which was launched in the fall of 2012, as well as the depreciation of the yen. While sales were strong in major advanced countries in Europe, overall sales in Europe dropped due mainly to sales erosion in Russia, which extended sales in the preceding consolidated fiscal year. On the other hand, sales in the Asia Pacific did well, particularly with strong sales in China and Southeast Asia. In the North American market, sales grew considerably over the preceding consolidated fiscal year for video colonoscopy processors and scopes.
During the fourth quarter of the preceding consolidated fiscal year, production of some intraocular lens (IOL) products was suspended and a voluntary recall of the product was

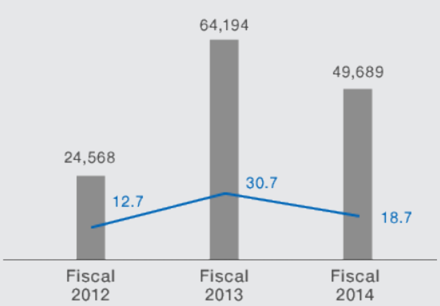
conducted. Production of the IOLs resumed in the second quarter of the consolidated fiscal year under review and full-fledged sales activities resumed in overseas markets during the third quarter of the consolidated fiscal year under review. Approval of sales was then obtained for the Japanese market, a key market, and sales were gradually re-launched. However, a cautious approach to the market led to a decline in annual sales below the preceding consolidated fiscal year.

As a result, the Life Care segment reported sales of 265,470 million yen, a 27.0% increase over the preceding consolidated fiscal year. The segment profit before tax was 49,689 million yen, a significant decrease by 22.6% from the preceding consolidated fiscal year due to reporting the before-mentioned extraordinary profits in the preceding consolidated fiscal year.

Sales and profit



Pretax profit / Pretax profit ratio



Other

The Other businesses segment mainly consists of information system services offered to the HOYA Group and outside customers as well as new business development. Revenues from this segment stood at 2,739 million yen, which is equal to a rise in revenue of 20.7% from the previous year. The segment´s profit totaled 602 million yen, a decrease of 27.5% compared with the previous year.

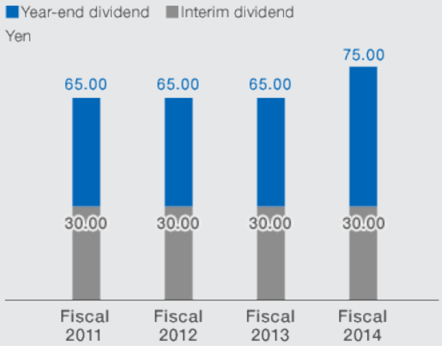
Dividend Policy

The Company manages group businesses from a global perspective and aims to maximize corporate value by promptly adapting business portfolios to address changes in the era and environment. As for the paying out of retained earnings as dividends, our basic policy is to determine what we will do after considering the performance during the current fiscal year, demand for capital in the medium to long term and the balance between returning profits to shareholders and the need for a rich balance of retained earnings to enable future corporate growth.

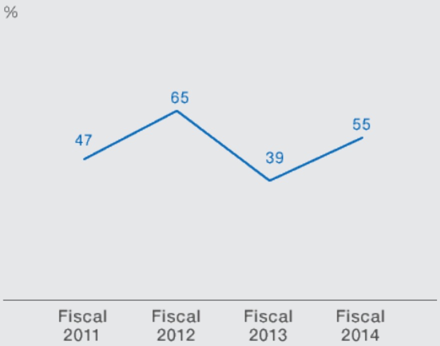
With respect to internal reserves, resources will be preferentially appropriated to investment in the Life Care business field, which we have positioned as a growth business, for market share expansion, entry into untapped markets, and nurturing and obtaining new technologies. In addition to growth of existing businesses, the Company will also proactively pursue possibilities including mergers and acquisitions to further enrich our business portfolio and to speedily expand business operations. As for the Information Technology business field, which has been positioned as a steady earnings business, we will continue to make capital investment that further reinforce the technological abilities that become the source of competitiveness, and development investment that will contribute to developing next-generation technologies and new products.

As a result of this thinking, the Company set the end-of-year dividend for the consolidated fiscal year under review at 45 yen per share, a 10 yen increase from the preceding fiscal year. Coupled with the interim dividend of 30 yen per share already paid, the annual dividend will be 75 yen per share. The consolidated dividend payout ratio is 55.4%.

Dividend Per Share



Payout ratio



Financial Position

Total assets at the end of the fiscal year under review increased by 86,199 million yen from the end of the preceding fiscal year to 704,283 million yen. Non-current assets decreased by 6,356 million yen to 189,571 million yen. This is primarily due to goodwill increasing 2,595 million yen from the acquisition of a subsidiary, etc., an increase in intangible assets by 4,758 million yen and a decrease in property, plant and equipment by 11,234 million yen due to depreciation and amortization and impairment.

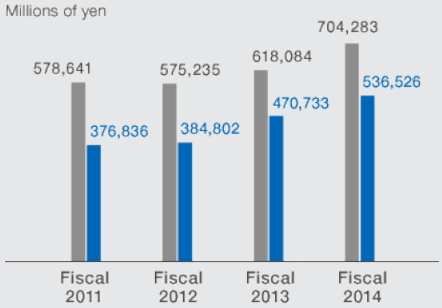
Current assets increased by 92,555 million yen to reach 514,712 million yen. This is primarily due to a rise in cash and cash equivalents by 82,198 million yen. Total equity increased by 72,101 million yen to 542,648 million yen.

This is primarily due to an increase in retained earnings of 30,407 million yen and the occurrence of other comprehensive income totaling 34,091 million yen. Equity attributable to owners of the company increased by 65,793 million yen to reach 536,526 million yen.

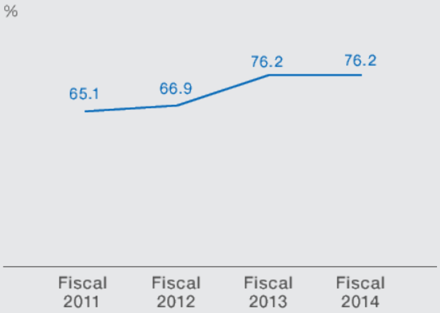
Liabilities increased by 14,098 million yen to 161,635 million yen.

The ration of equity attributable to owners of the company to total assets as of the end of the consolidated fiscal year under review reached 76.2%, unchanged from the end of the preceding consolidated fiscal year.

Total Assets / Total Equity



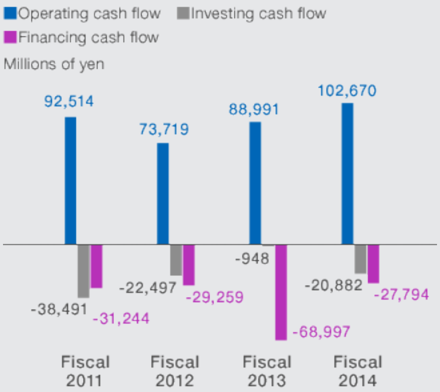
Ratio of Assets Attributable to Owners of the Company



Cash Flow

Cash and cash equivalents at the end of fiscal 2014 increased by ¥82,198 million from the end of the previous year to ¥331,094 million, including the effects of exchange rate changes of ¥28,204 million.
Net cash provided by operating activities amounted to ¥102,670 million, an increase of ¥13,680 million from the end of the previous year. This was mainly attributable to profit before tax from continuing operations of ¥85,486 million (down ¥5,718 million year-on-year), depreciation and amortization of ¥33,891 million (up ¥3,019 million), and decrease in inventories of ¥11,785 million (down ¥6,755 million), which were partly offset by factors such as an increase in trade and other receivables of ¥4,548 million (up ¥3,669 million) and a decrease of trade and other payables of ¥2,171 million (down ¥5,521 million).
Net cash used in investing activities amounted to ¥20,882 million, an increase of ¥19,934 million in capital outflow compared with the end of the previous year. The capital inflow stemmed from proceeds from sales of property, plant and equipment of ¥950 million (down ¥6,623 million) and other factors, while the capital outflow included payments for acquisition of property, plant and equipment of ¥16,546 million (down ¥26,504 million) and net cash outflow on acquisition of subsidiary of ¥6,390 million (down ¥3,737 million).
Net cash used in financing activities amounted to ¥27,794 million, a decrease of ¥41,203 million from the end of the previous year. This was mainly due to ¥28,101 million in dividends paid (up ¥29 million).

Cash Flow



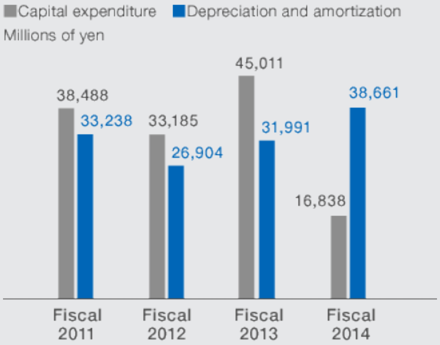
Capital Expenditures / Depreciation and Amortization

The total capital expenditures of all operations of the HOYA Group amounted to 16,838 million yen during the consolidated fiscal year under review, a decrease of 28,173 million yen over the preceding consolidated fiscal year.
In the consolidated fiscal year under review, investment in the Information Technology business amounted to 8,735 million yen and investment in the Life Care business amounted to 7,834 million yen, which account for 51.9% and 46.5%, respectively, of the total capital expenditures by the Group.
The investment was covered by internally generated funds.
Capital investment was made in the consolidated fiscal year under review in the Information Technology business to heighten the efficiency of the production system and to improve productivity so that changes in the market environment can be dealt with swiftly. Capital investment was also conducted to diversify production bases, a need that was keenly felt following the Great East Japan Earthquake of March 2011, and to heighten competitiveness in cutting-edge areas. As for the Life Care business, and in particular the eyeglass lenses business, investment to reinforce capabilities at

lens manufacturing plants around the world, including the mainstay plants in Thailand, was conducted to resolve tight production conditions that have developed due to a solid growth in demand. During the previous consolidated fiscal year, significant investments were made into the Thai plants to completely replace all production facilities for eyeglasses that were flooded and consequently forced to shut down due to the great flooding that hit Thailand in October 2013. However, capital investment was much smaller in the consolidated fiscal year under review than the previous consolidated fiscal year since the massive investment of the preceding consolidated fiscal year was completed.

Depreciation and amortization (including impairment loss) for the fiscal year under review increased 20.8%, to ¥38,661 million. Both the Information Technology segment and the Life Care segment spent about one-half each of the total amount.

Capital Expenditure
and Depreciation and Amortization



HOYA REPORT

2014