



5. Business and Other Risks

1 Optical Business (LCD-related products)

The Group's optical business achieved the number one global position in market share. This is the core business of the Group. The Group continues to strive to improve profitability by enhancing its unique differentiated technology and efficient investment in production facilities to meet the anticipated growth in demand for large-size LCD TVs. Imbalance between supply and demand of panel manufacturers, a sharp drop in prices, intensified price competition due to competitors entering the market, the under-capacity of material suppliers and sharp increases in material costs could all negatively affect the performance of the Group.

2 Business Operations in North America

The Group still suffers an operating loss in spite of improved corporate earnings due to productivity improvements of industrial products and polymer separation membrane business at a subsidiary in North America. As for sales made to the automotive industry, the Group will expand its product line and expand sales to the "Big Three" as well as Japanese manufacturers. As for the polymer separation membrane business, the Group will concentrate on seawater desalination plants and sewage recycling plants. In relation to medical related products, the Group is working hard towards the development of new products for transdermal therapeutic patches. The Group aims to increase its profits with these measures, but further deterioration of environments surrounding its business and delays of new products approvals by the FDA could negatively affect the performance of the Group.

3 Financial Standing of Our Business Partners

The Group works with business partners who meet its strict financial criteria. However, the credit extended to customers of LCD-related products is significantly larger when compared with other businesses. If a default were to occur, the default amount might be quite significant.

4 Raw material Vendors

For some key raw materials, the Group depends on specific vendors. Although it does endeavor to find multiple raw material vendors so as to reduce the risk of failure to procure key materials, failure to obtain the necessary key raw materials could negatively affect the performance of the Group.

5 Currency Fluctuations

The Group manufactures and markets its products across the world. Therefore, its business is subject to fluctuations in exchange rates. The Group continues its efforts to limit the influence of such fluctuations in exchange rates among major currencies, including the U.S. dollar, Asian currencies and the yen, as well as any surge in crude oil prices. However, abrupt currency fluctuations and a prolonged surge in crude oil prices could negatively affect the performance of the Group.

6 Overseas Operations

The Group operates businesses in Europe, North America and Asia, actively pursuing global business operations by performing marketing activities and reducing production costs in each area. In Asia, especially, there are inherent unavoidable risks such as unanticipated changes to laws and ordinances, taxes and regulations, social disorder such as transportation delays and power outages due to incomplete social infrastructures, political disturbances, war and terrorism. Such occurrences could negatively affect the performance of the Group.

7 New Product Development

There are severe requirements for technological innovation and cost competition in the area in which the Group operates its business. The Group continues to pursue new technologies and new product development, with research and development investment necessary for production process innovation, as well as plant and equipment investment based on its "Global Niche Top" strategy. However, it is not easy to accurately forecast changes in an industry in which market change and technological innovation are so drastic. So when an unexpected situation develops, it could

affect future business management.

8 Intellectual Property

The Group owns, maintains, and manages valuable intellectual property rights. However there is a possibility that a third party might claim these rights to be invalid and the Group might not enjoy complete protection. The Group may be imitated in some areas and may be involved in lawsuits. When intellectual property rights are infringed, it could negatively affect the performance of the Group.

9 Product Defects

The Group manufactures products according to ISO 9000 series of quality standards certification. The Group does its best in quality management to manufacture goods trusted by its customers. As the main business of the Group is manufacturing goods needed for end products, there will be few possibilities for the Group to compensate the end users or recall products. However, if the Group has to compensate the end users for its products, and compensation that exceeds the coverage of products liability insurance is required, the Group would lose trust of the stakeholders and it could negatively affect the performance of the Group.

10 Environment Issues

The Group regards environmental preservation measures to be one of its key business policies, and has been acting from a standpoint of social responsibility as a means of reducing waste and to preventing global warming and air pollution. The Group has not caused any serious environmental problems. The Group publishes the fact that it uses plenty of toluene in the PRTR (The Pollutant Release and Transfer Register) and in CSR reports. The Group established a voluntary reduction plan and observes the plan. However, there is the possibility that the Group could incur significant expenses under the provisions of environmental regulations that may be enacted in the future.

11 Laws and Regulations

Products of the Group include products approved as

drugs, such as transdermal therapeutic patches (for asthma and angina pectoris) and surgical tapes (Yuki series) for medical use. In conducting its business, the Group is governed by various laws and regulations. In case these laws and regulations are strengthened or changed significantly, activity of the Group may be limited or the Group may incur additional cost relating to compliance with laws and regulations. This may negatively affect the performance of the Group.

12 Accidents and Disasters

To prevent accidents due to fires or explosions, or damage due to disasters, the Group performs facility inspections and other safety activities as well as installs safety devices, fire-extinguishing equipment and facilities to enable staff to engage in safety practice sessions. Especially, as a countermeasure against earthquakes, each plant of Nitto Denko Corporation has improved facilities including seismic retrofitting and automatic shut-off, and conducts disaster drills to protect the plant against direct damage or secondary disaster. Nitto Denko is in the process of developing a "Business Continuity Plan" for its plants as a priority given the possibility of the higher earthquake probability. However, accidents and disasters may happen in spite of these precautions. So, from fiscal 2006, Nitto Denko has contracted earthquake insurance for all its plants, but its coverage is limited and may influence the performance of the Group.

13 Retirement Benefit Liability

Employee accrued benefit costs and liabilities of the Group are calculated on the basis of assumptions such as the discount rates and other actuarial calculation and expected returns of pension assets. When the actual result is different from the assumptions or when the assumptions are altered, the influence will be accumulated and will be systematically recognized in the future. This may generally influence recognized costs and calculated liabilities in the future. In the case of where market interest rates go down or investment yields of pension assets deteriorate in the future, an increase in retirement benefit liability and a shortage of funds might occur and thus influence the business results of the Group.