

Associated Business Risks Listed in the Financial Report (for the Year Ended March 2017)

Described below are potential risks that could have an adverse effect on the Nitto Group's business results, stock prices, and financial positions.

(1) Political, social, and economic trends

Because the Nitto Group operates across the globe, there are always inherent risks in the various countries that it operates in, such as deterioration of employment relationships, labor disputes, rising labor costs, and interruption of transportation services and electric power supply. When such risks emerge, the performance of the Nitto Group can be adversely affected. Furthermore, the Nitto Group's performance can be adversely affected by the occurrence of terrorism, wars, and coup d'états triggered by sudden turns in political situations, as well as market stagnation, unforeseeably large forex fluctuations, and financial instability that are brought about by abrupt changes in the global economy, such as the rise of "our country first" policies.

(2) Changes in laws/regulations and compliance

The Nitto Group carries out business in various fields and territories, and so it endeavors to abide by the laws/regulations of each host country in everything that it does. In the event of tightening of or significant changes in relevant laws/regulations and tax systems, discrepancies in their interpretation, or differences in business practices, the activities of the Nitto Group might be restricted and additional costs might be incurred, which in turn could adversely affect its performance. Moreover, failure to comply with the relevant laws/regulations on the part of executives and employees could also have adverse effects on the performance of the Nitto Group.

(3) Accidents and disasters

In accordance with the policy of "placing safety before everything else," the Nitto Group has drawn up a Business Continuity Plan (BCP) and promotes Business Continuity Management (BCM) in preparation for work-related accidents and natural disasters. Earthquakes, which are often accompanied by tsunami and floods, are particularly frequent in Japan, and can result in fires, chemical leaks, and damage to infrastructures, such as electricity and gas supplies, thereby causing disruptions of supply chains across a wide area. Also, regional and global economies would almost certainly be affected by massive outbreaks of new infectious diseases with a serious impact on human lives, and such occurrences could interfere with the continuity of the Nitto Group's business. Any of these contingencies would impact the performance of the Nitto Group.

(4) Environmental issues

The Nitto Group views "integrity with a commitment to environmental preservation on both a local and global basis" as one of its key business policies, and it has drawn up a voluntary environmental impact reduction plan that is geared toward reducing waste and preventing air pollution and global warming in an effort to fulfill its social responsibility. The Nitto Group has not been the cause of any serious environmental problems to date; however, there exists a possibility that it might fail to reduce environmental impact as planned, or that an unexpected accident or a natural disaster might lead to unforeseen environmental pollution, which would result in significant expenses. Any of these contingencies would influence the performance of the Nitto Group.

(5) Optoelectronics business

Materials used in LCD-related and touch panel products form the core of the Nitto Group's business. This market is crowded with many players that engage in fierce competition. Market trends for products using such materials, technical innovations, realignment and strategy changes of customer LCD panel / touch panel manufacturers, price erosions due to supply-demand imbalances, and sharp rises in material costs due to suppliers' capacity constraints or changing demands can all negatively affect the performance of the Nitto Group.

(6) Life science business

The Nitto Group is pouring an increasing amount of resources into the new business of life science. Many factors involved in this business, including rigorous screening and resultant approval by regulatory authorities in the countries/regions concerned and suspended sales and/or recalls in the event of adverse drug reactions, can negatively affect the performance of the Nitto Group.

(7) Research and development

With the aim of meeting the high expectations for technological innovation and cost competitiveness in many of the markets in which it is involved, the Nitto Group remains committed to the development of new products and applications and the creation of new demand by means of the Area Niche Top® strategy, wherein it supplies products that cater to the specific needs of each region, in addition to the Global Niche Top® strategy. Accordingly, the Nitto Group carries out all necessary research and development investments and capital expenditures. Nevertheless, changes in some markets are so rapid that it is difficult to predict them. Furthermore, new technologies or products from competitors can suddenly render the Nitto Group's offerings obsolete. Should such an event develop,

the performance of the Nitto Group could be negatively affected.

(8) Procurement of raw materials

The Nitto Group endeavors to reduce the risk of becoming unable to procure its key raw materials by sourcing such materials from multiple suppliers. However, some raw materials are sourced from specific individual suppliers. If the supply were to decrease or be disrupted due to unavoidable circumstances on the part of those suppliers, such as damage from natural disasters, accidents, or bankruptcy, the supply-demand balance could be disturbed, resulting in failure to procure necessary raw materials or an increase in costs. Any of these contingencies could influence the performance of the Nitto Group.

(9) Product quality

The Nitto Group manufactures components, devices, and other products in compliance with international quality standards and delivers them to its customers. Nevertheless, it is virtually impossible to completely eliminate liability risks associated with product defects. If the amount of compensation were to exceed the coverage of product liability insurance in such cases, the performance of the Nitto Group could be negatively affected.

(10) Intellectual property rights

The Nitto Group owns, maintains and manages a large amount of intellectual property rights for the purpose of enhancing its market competitiveness. However, it is possible that a third party could claim that such rights are invalid, or such rights could be inadequately protected, imitated, or involved in litigation in some regions. Should the protection afforded by intellectual property rights be seriously lost, the performance of the Nitto Group could be negatively affected.

(11) Mergers and acquisitions

With the aim of sustaining its business growth, the Nitto Group forges relationships with other companies in various ways, such as acquisitions of and alliances with companies possessing superior technologies. If such acquisitions or alliances do not produce their expected outcomes, the performance and financial positions of the Group could be adversely affected.

(12) Retention of human resources

In order to promote the business activities of the Nitto Group, it is necessary to recruit talented people in a variety of fields, including research, development, manufacturing,

sales, and administration. The Nitto Group proactively recruits global-minded human resources who will drive its business in the global arena. Nevertheless, failure to continually hire necessary personnel or to prevent the drain of such talents could negatively affect the performance of the Nitto Group.

(13) Financial position of customers

The Nitto Group makes it a rule to closely investigate the financial positions of its customers before starting business. Nevertheless, serious financial problems could develop at some customers with whom the Nitto Group holds accounts receivable due to major changes in their operating environments. Should such receivables become irrecoverable at any one of its largest customers in the fast-changing electronics and life science sectors, the amount to be written off could be enormous, which in turn could negatively affect the performance of the Nitto Group.

(14) Information management

Information systems play a crucial role in every aspect of the Nitto Group's business activities. Such systems become increasingly complicated and advanced with each passing year, and are often subject to cyberterrorism attacks and other forms of human-caused risk. The Nitto Group takes various security measures against both hardware and software problems in order to prevent leakage and unauthorized use of technical, customer, transaction, and personal information. However, if such systems should fail to prevent leakage or unauthorized use of such information, the performance of the Nitto Group could be adversely affected due to response to those situations.

(15) Litigation

In the course of performing business activities, the Nitto Group might become involved in litigation with its business partners or third parties. There is no telling whether or not the outcome of such litigation will be in accord with its assertions or predictions. Should such risks become a reality, the performance and financial positions of the Nitto Group could be negatively affected.

(16) Defined benefit liabilities

The Nitto Group's defined benefit liabilities are calculated on the basis of various assumptions used in actuarial calculations and investment yields of pension assets. As such, fluctuations in the market value of pension assets, interest rate behaviors, and changes in retirement allowance systems and pension plans can affect the amount of such liabilities that are recognized or reported, thereby having an impact on the performance of the Nitto Group.