

Associated Business Risks Listed in the Financial Report as of March 2016

Potential risks which could have an adverse effect on our operational results, share price and financial standing are indicated below.

(1) Political, Social, and Economic Trends

The Group conducts business throughout the world. Depending on the country in which the Group operates, there are inherent unforeseeable risks that can materialize. Such risks include; deteriorating employment relationships; labor disputes; increasing labor costs; and interruption to transportation networks and electric power supplies. If such an event were to occur, the performance of the Group could be adversely affected. Furthermore, the occurrence of terrorism, war and coups caused by political instability, and market stagnation, unexpected fluctuations in exchange rates and financial instability caused by sudden changes in the world economy can all have adverse effects on the performance of the Group.

(2) Changes of Legal Regulations and Compliance

The Group carries out business in various fields overseas. The Group endeavors to abide by the various laws and regulations of each country in every activity. However, if there were to be significant changes to, strengthening of, or discrepancies in the interpretation of laws and ordinances or taxes and regulations, or a difference in business customs, the activities of the Group might be impaired, or the Group might incur additional costs, which could adversely affect its performance. Moreover, lack of compliance on the part of executive officers and employees could have adverse effects on the performance of the Group.

(3) Accidents and Disasters

The Group has drawn up a Business Continuity Plan (BCP) and promotes Business Continuity Management (BCM) in preparation for accidents and disasters, according to the policy, "We place safety before everything else". In particular, Japan has a high occurrence of earthquakes, which are often accompanied by tsunami and flooding. The effects of an earthquake, tsunami or flood could cause a blaze, leakage of chemical substances, or damage to infrastructure, such as electricity and gas supplies, which could cause disruption to supply chains over a wide area. Moreover, if there were a massive outbreak of new infection affecting human life, there could be an impact on the regional and global economies, which could interfere with continuity of our business. Any of these contingencies would impact the business results of the Group.

(4) Environmental Issues

The Group views "Integrity with a commitment to environmental preservation, both locally and globally", as one of its key business policies and has a voluntary environmental impact reduction plan in which the Group accepts its social responsibility, focusing on reducing waste and preventing air pollution and global warming. The Group has not caused any serious environmental problems to date. However, there exists the possibility that the Group might fail to meet performance targets in reduction of environmental impact or an accident or natural disaster which could cause unforeseen environmental pollution, resulting in significant expenses. Any of these contingencies influence the business results of the Group.

(5) Optoelectronics Business

Materials used in LCD-related and touch panel products constitute the core of the Group's sales. Many companies participate in this market and competition continues to be stiff. Market trends for products using materials of the Group, technical innovation, corporate reorganization and the switching of strategy among liquid panel makers and touch panel makers, declining prices due to supply demand imbalance, sharp increase in material costs caused by change due to manufacturing capacity of materials suppliers and demand can all negatively affect the performance of the Group.

(6) Research and Development

With the aim of meeting high market expectations, the Group strives toward technological innovation and competitive power of costing across all areas of our business. The Group continues to pursue the development of new products, exploitation of new applications and creation of new demand, with research and development investment, as well as plant and equipment investment based on our Area Niche Top® strategy, in which we supply products meeting specific needs in an area, in addition to our Global Niche Top® strategy. However, it is not easy to accurately forecast changes in an industry in which market changes are so drastic. It is possible that another company could unexpectedly develop a new technology or a new product that renders a product of the Group obsolete. The occurrence of such an event beyond contingency expectations could affect the future performance of the company.

(7) Procurement of Raw Materials

The Group endeavors to find multiple raw materials suppliers so as to reduce the risk of being unable to procure key materials. However, we depend on specific suppliers for some key raw materials. Failure to obtain the necessary raw materials, or a cost increase due to supply demand imbalances caused by supply decreases or stoppages resulting from circumstances beyond our control such as a natural disaster, accident or bankruptcy of a vendor, could adversely affect the performance of the Group.

(8) Product Quality

The Group manufactures primarily parts and materials according to ISO 9000 quality standards and delivers them to our customers. The Group cannot completely eliminate the risk of liability associated with product defects. If compensation were to exceed the coverage of product liability insurance, this could negatively affect the performance of the Group.

(9) Intellectual Property Rights

The Group owns, maintains and manages valuable intellectual property rights for the purpose of enhancing our market competitiveness. However, there exists the possibility that a third party could claim these rights to be invalid and the Group might not enjoy complete protection. The Group's property could be imitated in some area or the Group could be involved in litigation. Therefore, intellectual property rights infringements could negatively affect the performance of the Group.

(10) Mergers and Acquisitions

Aiming for business growth, the Group constructs relationships with other companies with superior technology in diverse ways such as through acquisitions and affiliations. If such an acquisition did not prove to be as profitable as expected, the performance of the Group could be adversely affected.

(11) Retention of Human Resources

In order to facilitate the business activities of the Group, it is necessary to recruit superior personnel in a variety of fields such as research, development, manufacturing, sales and management. We actively recruit global human resources with the aim of developing our business. However, failure to continually acquire the necessary personnel and prevent the loss of other human resources can negatively affect the performance of the Group.

(12) Financial Standing of Our Customers

The Group deals with customers who meet its strict financial criteria. However, some customers are in rapidly changing business environments and serious financial problems can occur with such customers with whom the Group has accounts receivable. In particular, customers such as liquid crystal panel manufacturers and touch panel manufacturers average a significantly large amount in accounts receivable per customer compared with those of other product manufacturers. If a default were to occur, the amount involved would tend to be quite significant, which could affect the performance of the company.

(13) Information Management

Our information system has a critical role in the Group and is becoming more complex and highly-developed, year by year. In addition, our information system is not only becoming increasingly at risk of natural disaster and fire, but also a target of malicious intent, such as in the form of cyber terrorism. The Group takes various measures against both hardware and software problems. However, any failure occurring in our information system could negatively affect the performance of the Group. Furthermore, in order to prevent leakage and abuse of technical information, client information, transaction information and personal information, we take various measures in information security. However, if any leakage or abuse of information data were to occur, the performance of the Group could be adversely affected.

(14) Lawsuits

In the business activities of the Group, there exists the possibility that the Group could become embroiled in legal proceedings with a customer or third party. The risk that the outcome of litigation did not properly reflect the opinion of the Group and thus differed from the Group's forecasts might be ineluctable and this could adversely affect the performance of the Group.

(15) Retirement Benefit Liability

The defined benefit liabilities of the Group are calculated on the basis of various experience assumptions used in actual calculations and investment yields of pension assets. In line with the devaluation of pension assets at market price, interest-rate trends and changes in the retirement allowance system and pension system, recognized and calculated liabilities could be affected. This might influence the business results of the Group.