

Associated Business Risks Listed in the Financial Report as of March 2014

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

(1) Optoelectronics Business

Materials produced by our optoelectronics business and 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. Our relationships with LCD panel manufacturers and touch panel manufacturers (our customers), an imbalance between supply and demand in the industry, declining prices, corporate reorganization and the switching of strategy among panel makers, technical innovation, intensified price competition due to new players entering the market, capacity limitations of materials suppliers and sharp increases in material costs could all negatively affect the performance of the Group.

(2) Overseas Operations

The Group conducts business in many countries throughout the world, actively pursuing possible future global business opportunities. Depending on the country, there are inherent unavoidable risks that can occur. Such risks include: unanticipated changes to, or discrepancies in the interpretation of laws and ordinances, taxes and regulations; differing business customs; deteriorating employment relationships; labor disputes; increasing labor costs; transportation delays; power outages; social disorder from political disturbances; and war and terrorism. If such an event were to materialize, the performance of the Group could be adversely affected.

(3) Global Politics and Economic Currents

The Group manufactures and markets its products throughout the world. Therefore, its business is affected by trends in global politics and economics, and financial system instability. Unexpected economic circumstances caused by drastic changes in global politics or fluctuations in exchange rates could have adverse effects on the performance of the Group.

(4) Mergers and Acquisitions

It is indispensable for the Group to construct 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.

(5) Raw Materials Vendors

For some key raw materials, the Group depends on specific vendors. Although it does endeavor to find multiple raw materials vendors so as to reduce the risk of being unable to procure key materials, for some raw materials we need to depend on specific vendors. Failure to obtain the necessary key raw materials due to a possible disaster, accident or bankruptcy of a vendor, an imbalance between supply and demand, or a cost increase could adversely affect the performance of the Group.

(6) Financial Standing of Our Customers

The Group deals with customers worldwide who meet its strict financial criteria. However, some customers are in rapidly changing business environments and serious financial problems could occur with such customers with whom the Group has accounts receivable. In particular, LCD-related and touch panel products represent a significantly large source of revenue compared with other products of the Group. If a default were to occur, the amount involved would tend to be quite significant.

(7) New Product Development

Aiming at 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 technologies, products, goals and markets, with research and development investment necessary for production process innovation, as well as plant and equipment investment based on our "Area Niche Top" strategy, in which we supply products meeting specific needs in the 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 management of the company.

(8) Intellectual Property

The Group owns, maintains and manages valuable intellectual property rights. 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, with the Group becoming involved in litigation. Therefore,



intellectual property rights infringements could negatively affect the performance of the Group.

(9) Product Defects

The Group manufactures products according to ISO 9000 quality standards and carries out quality assurance management, earning the trust of our customers. The business activities of the Group mainly involve the selling of parts to companies engaged in manufacturing. Although the probability of the Group being forced to directly compensate end users for its products or to conduct a product recall is low, 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.

(10) Environmental Issues

The Group regards environmental preservation measures as one of its key business policies and acts from a position whereby it accepts its social responsibility, focusing on reducing waste and preventing global warming and air pollution. The Group has not caused any serious environmental problems to date. To protect the global environment, the Group established a voluntary reduction plan, which it duly observes. However, there exists the possibility that unforeseen environmental pollution caused by an accident or natural disaster, or changes in future laws and regulations resulting in significant expenses due to environmental issues could have adverse effects on the performance of the Group.

(11) Compliance and Legal Regulations

The Group carries out business not only in Japan, but also overseas in various fields. The Group endeavors to abide by the various laws and regulations of different countries pertaining to such business. However, if these laws and regulations were to be strengthened or changed significantly, a temporary deficiency in internal control of these issues could occur and the activities of the Group might be impaired, or the Group might incur additional costs which could adversely affect its performance.

(12) 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. In addition, the Group conducts business in various countries and could go

into unexpected litigation. 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.

(13) Accidents and Disasters

The Group promotes Business Continuity Management (BCM) to protect itself from accidents and disasters by following a safety first policy. In particular, Japan has a high occurrence of earthquakes. If a large-scale earthquake were to occur in a particular area within Japan, direct damage could result or injuries could occur within the production process due to fire or chemicals. The effects of an earthquake, tsunami or flood would not be limited in-house, but would be wide-ranging, with damage to infrastructure such as electricity and gas supplies, damage to supply chains such as interruption to the procurement of raw materials and the distribution of products and loss or inconvenience to our customers, which could cause an interruption to our business. Moreover, if there were to be a massive outbreak of new infections affecting human life, depending on the nature of the outbreak, it could impact on the global economy. Any of these contingencies might influence the business results of the Group.

(14) Information System

Our information system has a critical role in the Group and is becoming more complex and highly-developed year by year. Against such a background, the risk of a major incident such as a natural disaster, fire, blackout or malicious incident such as cyberterrorism has been rapidly escalating. The group takes various measures with both hardware and software, such as improving security. However, any failure caused by a disaster or cyberterrorism occurring in our information system could negatively affect the performance of the Group.

(15) Retirement Benefit Liability

Employee accrued benefit costs and 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 may be affected. This might influence the business results of the Group.

