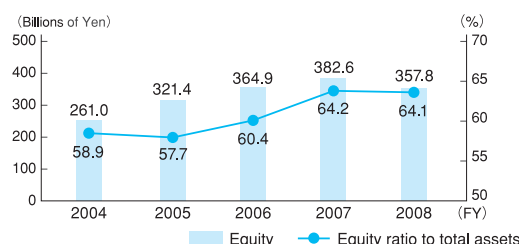


This was mainly the result of an increase of short-term loans payable of 21,046 million yen, an increase of commercial paper of 25,000 million yen, an increase of long-term loans payable of 14,850 million yen and cash dividends paid of 13,325 million yen.

■ Equity & Equity ratio to total asset



The following table shows the changes in the Group's cash flow indices:

	2005	2006	2007	2008
Equity ratio (%)	57.7	60.4	64.2	64.1
Equity ratio on a market value basis (%)	296.2	152.4	117.7	59.8
Debt redemption period (year)	0.3	0.6	0.2	1.5
Interest coverage ratio	92.1	57.1	57.6	37.5

Note 1. Respective indices are obtained by calculating the financial results on a consolidated basis with the following formulae:

Shareholders' equity ratio: shareholders' equity / total assets

Shareholders' equity ratio on a market value basis: total market value of shares / total assets

Debt redemption period: liabilities with interest / cash flow from operating activities

Interest coverage ratio: cash flow from operating activities / interest payment

- Total market value of shares is obtained by multiplying the closing price of a share at the end of the year by the number of shares issued at the end of the year, after deduction of treasury stock.
- Cash flow from operating activities and interest payment used here are those included in the consolidated cash flow statement.
- Liabilities with interest represent all the liabilities included in the consolidated balance sheet for which interest is paid.

6. Business and Other Risks

1 Optical Business (LCD related products)

The Group's optical business, the core business of the Group, achieved the top position in global market share. However, while demand for LCD TVs is anticipated to grow, there are many companies participating in this market and competition continues to be stiff. Relationships with panel

manufactures (our customers), an imbalance between the supply and demand conditions of the industry, decline in prices, corporate reorganization among panel makers, intensified price competition due to new players entering the market, 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

Business operation in North America on the whole experienced an operating loss due to deterioration of market environment for industrial products, medical related and polymer separation membrane products improved performance with the introduction of new product offerings and other factors. The Group aims to focus on the polymer separation membrane business and medical related products business while expanding sales of products for the automobile industry in hopes of further improving earnings. However, future events such as further deterioration of the environment surrounding the Company's businesses brought about by a drop in private consumption by American consumers, or a strain placed on investment and in the U.S. automobile industry, or failure to receive FDA approval for transdermal therapeutic patches in the medical products business or the occurrence of unexpected costs related to the further centralization of businesses could all negatively affect the performance of the Group.

3 Financial Standing of Our Customers

The Group works with customers who meet its strict financial criteria. However, the credit extended to customers of LCD related products is significantly large compared with other businesses. If a default were to occur, the amount would tend to 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 affected by the global economy. A longer than expected struggling global economy, fluctuations of crude oil prices and currency exchange rates 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. Depending on the area, 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. The occurrence of such events 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 businesses. 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 changes are so drastic. It is possible that another company could unexpectedly develop new technology or a new product that renders a product of the Group obsolete. The occurrence of such an event exceeding contingency expectations could affect the management of the Company.

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's property may be imitated in some areas and the Company may be involved in lawsuits. 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 management trusted by its customers. Although the

Group has products approved as pharmaceuticals, such as its products for transdermal therapeutic patches, the business activities of the Group mainly involve transactions between companies engaged in the manufacturing industry. Although the possibility of the Group being forced to directly compensate end users for its products or to conduct a product recall are slim, the Group cannot completely eliminate the risk of liability associated with product defects. If compensation exceeds 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 has been acting from a standpoint of social responsibility, focusing on reducing waste, preventing global warming and air pollution. The Group has not caused any serious environmental problems and publishes the fact that it uses large amounts of toluene in the PRTR (The Pollutant Release and Transfer Register) and discloses this in CSR reports. The Group established a voluntary reduction plan, which it duly observes. However, there is a chance there could be changes in future laws and regulations which could result in significant expenses due to environmental issues and this could negatively affect the performance of the Group.

11 Laws and Regulations

The Group operates its business not only in Japan but also overseas where the Group is governed by the various laws and regulations of various countries and strives to abide by them. If these laws and regulations are strengthened or changed significantly, the activities of the Group may be limited or the Group may incur additional costs relating to compliance which could negatively affect the performance of the Group.

12 Accidents and Disasters

The Group carries out safety measures to protect itself from accidents and disasters by following a safety first policy. In particular, Japan has a high occurrence rate of earthquakes and if a large-scale earthquake

occurred in a particular area, despite the existence of earthquake insurance, its coverage would be limited and could influence the performance of the Group. Moreover, if there were a massive outbreak of a new strain of influenza that threatened to spread across the world, depending on the nature of virus, it may not only influence the global economy, but also 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 rate and other actuarial calculations and expected returns of pension assets. When the actual results are different from the assumptions or when the assumptions are altered, effects will accumulate and be systematically recognized in the future. This may generally influence recognized costs and calculated liabilities in the future. If 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.