

Main risks of the Dexerials Group and appropriate countermeasures

Risk category		Business risk	Risks	Countermeasures
External environment risk	Macroeconomics	Trends in economic conditions	The possibility of a widespread and long-term worldwide recession due to factors such as the economic slowdown in important economic blocks including China and other emerging countries, economic turmoil caused by soaring oil and other resource prices and other price increases, continued instability in the financial or banking sector mainly in Europe, failed attempts of governments' stimulus measures and monetary policies in Japan and other developed countries, unstable political situations in countries around the world, including the Russia- Ukraine situation, and impacts of global spread of infectious diseases.	Make initiatives for production and a sales management structure that can accurately handle a radical change in demand so that adjustments such as promptly cutting fixed costs can be made even if demand falls.
Management strategy risk	Changes in the market and competitive environment	Intensifying competition	If competitors gain a competitive edge over us in research and development, production capacity, capital and human resources, etc., there is a risk our customers will switch over to competitors as suppliers or reduce their orders from us upon their reorganization or change in their strategies.	Strengthen operations such as through development of high value-added products using differentiating technologies.
		Reliance on display products	<ul style="list-style-type: none"><li>As a large portion of sales relies on display products, there is a risk that our performance will be affected when display manufacturers change their operational or sales strategies.</li><li>Large-scale set manufacturers for smartphones and tablet PCs are limited, and factors such as these manufacturers changing their operational or sales strategies, the timing of a finished product undergoing a model update, and their sales volume will pose a risk in affecting the demand for our products by display manufacturers who are our customers.</li></ul>	Continue initiatives for an increase in the incorporation of our products in categories and products other than displays.
		Drop in sales price of products	The risk of product sales price dropping further than the range of our cost reductions or an increase in the sales ratio of products with low profitability, resulting from constant pressure from customers on pricing, overproduction in the markets for optical materials and electronic materials, shrinking demand, emergence into the high-performance products market of manufacturers providing low-priced products, and outcomes of negotiations with our customers.	<ul style="list-style-type: none"><li>Create added value, improve product quality, and maintain and improve pricing levels.</li><li>Make initiatives toward cost reduction such as by improving the production process and increasing material yield.</li></ul>
	Innovation	Technological development, etc.	<ul style="list-style-type: none"><li>Risk of our products becoming obsolete unexpectedly as a result of technological innovation and cost competitiveness, new technologies and product development of competitors, and changes in industrial standards and customer needs.</li><li>Risk of a decrease in demand for our products if competitors develop technologies that will replace our mainstay products or if competitors launch products superior to such mainstay products.</li><li>Risk of sales performance fall short of forecasts for products we develop due to changes in the market.</li></ul>	<ul style="list-style-type: none"><li>Develop new technologies and products and find paths for new applications and markets based on the medium-term development strategy, while predicting changes in the market.</li><li>Undergo investments in R&amp;D as well as plant and equipment necessary for reforming the production process.</li></ul>
	Expansion of business portfolio	M&A, business alliance, and other strategic investments	<ul style="list-style-type: none"><li>Risk of problems in target companies, new business areas, and other investments that could not be identified in advance, or significant declines in the valuation of securities and other assets held by the Group due to fluctuations in the performance of investee companies, resulting in a valuation loss or additional expenditures.</li></ul>	<ul style="list-style-type: none"><li>Carry out detailed research of target companies, new business areas, and other investments.</li><li>Evaluate economics of investment to review payback on investment and risks.</li></ul>
Business operational risk	Overseas operations	Business development overseas	Country risks associated with development of business overseas, including political instability; uncertain economic environment; problems related to laws and regulations including rules concerning the environment and safety in the manufacture, import/export, and usage of our products; labor management issues and increase in labor costs; expensive tariffs and strict trade restrictions; unpredictable establishment of and changes in laws and regulations, tax system, government policies or discrepancies of interpretation thereof; unstable infrastructure that can cause suspension or delay in fundamental services such as electricity, transport and communications; fluctuations in the exchange rate; discrepancies in laws, regulations, rules, customary business routine and practical treatment; effects of terrorism, war, global spread of infectious diseases; occurrence of boycotts, etc.	Consider and implement countermeasures at an early stage by sharing information internally regarding changes in political and economic social conditions as necessary.
	Procurement risk	Raw materials procurement	<ul style="list-style-type: none"><li>Risk of suppliers of raw materials becoming unable to fulfill their obligations under purchase contracts with the Group due to delay in supply of raw materials, short supply thereof, or any other reasons, resulting in a failure to ship our products as scheduled.</li><li>Risk of an increase in prices of raw materials and fuels, which cannot be passed on to product prices.</li><li>Risk of becoming unable to secure necessary primary raw materials due to interruption of supply resulting from, for example, the supplier being damaged from natural disasters or accidents, or its bankruptcy.</li></ul>	Enhance supply chain management so as to reduce risks of being unable to secure primary raw materials, by, for example, adopting multiple suppliers.
Management base risk	Climate change	Impacts of global warming	<ul style="list-style-type: none"><li>Risk of revenue decline caused by the introduction of carbon taxes due to tighter global warming regulations and delays in responding to low carbon or decarbonizing technologies and resource recycling.</li><li>Risk of damage to business sites due to intensified weather disasters or suspension of operations due to disruption of supply chains, which may affect business continuity.</li></ul>	<ul style="list-style-type: none"><li>Use renewable energy and develop products with reduced environmental impact.</li><li>Strengthen business continuity plan (BCP).</li></ul>
	Safety/disaster prevention	Effects from accidents and disasters	<ul style="list-style-type: none"><li>Risk of interruption of business caused by damage to infrastructure such as electricity and gas or widespread damage to the supply chain relating to procurement of materials, distribution, or the customers due to large-scaled natural disasters such as an earthquake, tsunami, and flooding as well as the global spread of infectious diseases.</li><li>Risk of the occurrence of human injury caused by fire or chemical substances in the production process.</li></ul>	Formulate a BCP based on ensuring operational safety and business continuity which were identified as materialities, hold disaster-prevention training regularly, etc.
Financial risk	Exchange/capital	Fluctuation in exchange rates	<ul style="list-style-type: none"><li>Effect on costs and prices of products and services; assets and liabilities in foreign currency denominations, assets and liabilities of affiliated companies overseas in local currency denominations due to fluctuations in the exchange rate.</li></ul>	Hedge risks with forward exchange contracts.