Risks Relating to the Group’s Business

As described in the Group’s statutory annual financial report filed as stipulated by the Financial Instruments and Exchange Act, the risks described below may impact its business and accounting conditions, and therefore could have a significant effect on investor decision-making. These risks include forward-looking statements that are based on judgments made by the Group at the end of fiscal year 2017. Further, the risks include items that will not necessarily affect investment decisions. However, based on an awareness of these risks, the Group maintains the necessary risk management structure and works to avoid risk occurrence as well as to minimize the impact of a risk should it occur.

1. Risks Relating to the Business Environment
   a. Economic conditions
   The Group mainly conducts its business activities in Japan, Asia, Europe, North America, and the Middle East. Economic trends in these markets could adversely affect its business results and financial condition.

   b. International factors
   The Group’s sales and production operations are truly international in scope, as indicated by the fact that sales generated in all markets other than Japan currently account for approximately 70% of consolidated sales. Therefore, factors in these markets, such as economic trends; exchange rate fluctuations; changes to laws and regulations relating to investment, trade, competition, taxation, or foreign exchange; differences in commercial practices or labor standards that may have cultural or religious origins; terrorist attacks, wars, cyber-attacks, natural disasters, or other unanticipated incidents; or political, social, or other elements could adversely affect its business results and financial condition.

   c. Laws and regulations
   The Group observes the laws and regulations of each country in which it operates. Changes in laws and regulations or the enactment of new laws that cannot be anticipated could adversely affect its business results and financial condition. In addition, any increase in costs required to achieve compliance with environmental protection-related legislation could adversely affect its business results and financial condition. Moreover, such legislation could impact its overall business activities, including R&D and production.

d. Fluctuations in currency exchange rates and interest rates
   The Group carries out measures to ameliorate the risk of exchange rate fluctuations. However, due to their impact on the prices and costs of products and services with transactions denominated in foreign currencies, fluctuations in currency exchange rates may adversely affect its business results and financial condition. The Group also carries out measures to ameliorate the risk of interest rate fluctuations. However, fluctuations in interest rates could still adversely affect its business results and financial condition.

e. Changes in the value of assets owned
   Changes in the value of shares, etc., owned by the Group could adversely affect its business results and financial condition. In addition, regarding the fixed assets owned by the Group, a decrease in asset value accompanying a decline in their market value or a fall in profitability could adversely affect its business results and financial condition.

2. Risks Relating to Business Activities
   a. Industrial automation and control business
   The industrial automation and control business is mainly expected to grow outside Japan in the medium to long term due to increased demand for energy in emerging and resource-rich countries. To increase its share of the global market and bolster sales and income, the Group has focused its resources on this business and strengthened systems related to R&D, production, sales, engineering, and service as well as deployment of M&As and alliances. As a result, the percentage of net sales on a consolidated basis accounted for by the industrial automation and control business has grown in recent years. Consequently, trends related to demand for plant construction and upgrades, which affect orders and sales in this business, as well as such factors as rapid fluctuations in oil prices and the success or failure of M&A transactions and alliances, could adversely affect the Group’s business results and financial condition. Moreover, if the Group is unable to procure parts or execute production as planned due to some unforeseen circumstance and product supply is delayed or stops, the Group’s business results and financial condition could be adversely affected.
b. Strategic investment
The Group makes strategic investment to strengthen the existing businesses and establish new businesses, centering on M&As and alliances. If the expected outcome cannot be achieved because of unanticipated change in the environment or for any other reasons, the Group’s business results and financial condition could be adversely affected.

c. Securing and training human resources
The Group’s growth is supported by its talented and capable personnel. The technical personnel that support its leading-edge technology in the fields of measurement, control, and information, and who assure high levels of product quality, are particularly important. Further, in the industrial automation and control business, the importance of personnel with solutions proposal capabilities as well as personnel with the project management and engineering capabilities required to work in the international market is increasing. The need to secure and train such personnel is an ongoing issue. If the Group is unable to address such issue satisfactorily, its business results and financial condition could be adversely affected.

d. Product quality
The Group provides its customers highly reliable products and services based on technologies and expertise that have been built up over many years and a rigorous quality control system. If by any chance a defect should occur in one of its products or services, and if this defect causes any damage, then this could adversely affect the Group’s business results and financial condition, and could also impact its overall business activities.

e. R&D activities
The Group has positioned the development of new technologies as one of its most important management issues and is continuously carrying out R&D including digital technology, such as IIoT and AI, in its core technology areas of measurement, control, and information. However, if R&D investments do not match planned future market needs, this could adversely affect its business results and financial condition.

3. Other Risks
a. Intellectual property
In order to maintain its competitive advantages, the Group accumulates differentiated technologies and expertise relating to the products and services that it develops, and strives to protect these intellectual property assets. However, if such intellectual property is infringed upon by a third party and the Group is therefore unable to make an expected profit, it could adversely affect its business results and financial condition.

Moreover, the Group has established systems and conduct training to ensure that it does not infringe upon the intellectual property rights of other companies. However, if due to a difference in viewpoint or some other reason the Group infringes on the intellectual property rights of another company, there is a risk that it will be subsequently disadvantaged by its inability to use important technology and/or may be held liable for compensation, which could adversely affect its business results and financial condition.

b. Information security
Through its business activities, the Group acquires personal or otherwise confidential information on its customers and trading partners. It therefore establishes systems to manage this information and provides training on information security. However, in the event that information is leaked or abused due to some unforeseen circumstance, there is a risk the Group will be held liable for compensation or the corporate image will be drastically tarnished, which could adversely affect the Group’s business results and financial condition.

c. Natural disasters, etc.
A natural disaster, such as an earthquake, fire, or flood; the outbreak of war; a terrorist attack; a cyber-attack; or a disruption in the supply chain caused by any of the aforementioned factors that makes it difficult to procure electronic parts or other materials could impact the Group’s overall business activities, including its production activities. In addition, while the Group has appropriate measures in place for responding to the outbreak of infectious diseases such as new influenza strains, such diseases could have an impact on its overall business results and financial condition.