

**D. Risk Factors.**

*If any of the risks described below actually occurs, our business, financial condition or results of operations could be adversely affected.*

**Our customer base is highly concentrated, and our sales would suffer if one or more of our significant customers substantially reduce or cancel orders for our products**

We are dependent on a limited number of large customers for a substantial portion of our net sales. Sales to our largest customer, Seagate, were approximately 12%, 11% and 10% of total net sales for the years ended March 31, 2007, 2008 and 2009, respectively. Sales to our six largest customers represented approximately 37%, 36% and 36% of our net sales for the years ended March 31, 2007, 2008 and 2009, respectively, and the six customers also represented ¥49.1 billion, or 33%, ¥47.6 billion, or 32%, and ¥36.7 billion, or 33%, of our gross accounts receivable at March 31, 2007, 2008 and 2009, respectively. Moreover, most of our sales to the six largest customers relate to motors used in hard disk drives and DVD and CD drives. As a result of customer concentration, our net sales could be significantly impacted in the event of:

- a significant reduction, delay or cancellation of orders from one or more of our significant customers;
- a decision by one or more of our significant customers to select products manufactured or technologies developed by a competitor, or its own internally developed components, for inclusion in future product generations; or
- financial difficulties affecting one or more of our significant customers.

We expect that, for the foreseeable future, sales to a limited number of customers will continue to account for a high percentage of our net sales. If current customers do not continue to place orders, we may not be able to replace those orders with orders from new customers, and this would significantly impact our business, operating results and financial condition.

In addition, because there are only a limited number of hard disk drive manufacturers in the world, if one or more of our customers merge with or are otherwise acquired by another hard disk drive manufacturer, our business could be adversely affected to the extent that the downward pricing pressure increases or actual or potential sales are lost as a result of the surviving manufacturer's decision not to purchase our products.

**We mainly depend on the computer industry for sales of our products, and our business may be adversely affected by a decline in the computer market**

Our precision motor and fan products are components used primarily in computer systems. A substantial portion of our net sales in turn depends on sales of computers and computer peripherals that incorporate our products. Revenues from hard disk drive spindle motors accounted for 32.2%, 30.6% and 29.5% of our net sales for the years ended March 31, 2007, 2008 and 2009, respectively. Although we have been diversifying our products and entering into new markets, such as motors for use in household appliances and automobiles, we expect to continue to derive a significant portion of our revenues from the sale of products for use in computers and computer peripherals. The markets for computers and computer peripherals are cyclical and have been characterized by:

- rapid technological change;
- frequent new product introductions and short product life cycles;

- significant price competition and price erosion;
- fluctuating inventory levels;
- alternating periods of over-capacity and capacity constraints due, in part, to cyclical and seasonal market patterns;
- variations in manufacturing costs and yields; and
- significant expenditures for manufacturing equipment and product development.

The downturn of computers and computer peripherals is generally characterized by lower product demand and accelerated reductions of product prices. These conditions prompted restructuring of operations by hardware manufacturers, including makers of hard disk drives, including our customers. Such restructurings involving our customers may result in our customers seeking to reduce costs and inventories, which could in turn reduce our margins or sales volumes. These customers may also switch to suppliers other than us. Such restructuring or similar moves by hard disk drive manufacturers in the future could have a material negative impact on our results of operations if we are unable to increase sales to other hard disk drive manufacturers or increase sales of spindle motors for non-desktop use.

The rate of decline in average selling price accelerates when, as is currently the case in the hard disk drive industry, competitors lower prices to absorb excess capacity, liquidate excess inventories, restructure or attempt to gain market share. During an industry downturn, manufacturers may abruptly stop purchasing additional inventory from suppliers such as us. And because many of our customers have adopted just-in-time inventory management processes, we often maintain up to more than two month's inventory at or near the customer's production facility, a practice which may force us to absorb excess inventories when growth slows. Our inventory was ¥69.8 billion at March 31, 2008 and ¥57.5 billion at March 31, 2009. Maintaining inventory increases our capital requirements and costs, complicates our inventory management strategies and makes it more difficult to match manufacturing plans with customer demand, thereby increasing the risk of inventory obsolescence and price erosion during periods of reduced demand, which could in turn have a material adverse effect on our business, financial condition and results of operations.

If our customers in the computer industry rapidly adopts non-hard disc drive memory devices such as solid state drive, our business could be harmed. Even though we believe that hard disc drive manufacturers will remain competitive for the foreseeable future, should the demand for hard disc drives decline by such a transition to non-hard disc drive memory devices, hard disc drive manufacturers may have to scale down their productions, which could have a material negative influence on our business performance, and financial situation.

**We are facing downward pricing pressure in our main product markets, and price declines could reduce our revenues and gross margins**

We expect downward pricing pressure in our main product markets to continue. The hard disk drive industry, in particular, is characterized by rapidly declining average selling prices over the life of a product even for those products which are competitive and timely to-market. Our average selling price for hard disk drive spindle motors decreased by approximately 1%, 3% and 15% during the years ended March 31, 2007, 2008 and 2009, respectively. In general, the average selling price for a given product in the hard disk drive market decreases over time as increases in the supply of competitive products and cost reductions occur and as technological advancements are achieved. There is also intense price competition among hard disk drive manufacturers and, as a result, our principal customers pressure us to lower the prices of our spindle motors. Falling prices reduce our margins, cause operating results to suffer and may make it difficult for us to maintain

profitability. If we are not able to achieve such cost reductions, develop new customized products or increase our unit sales volume, our business, financial condition and results of operations could be materially and adversely impacted.

**If our third party suppliers experience capacity constraints or production failures, our production could be significantly harmed**

We rely on third party suppliers for some of the materials and equipment used in our manufacturing processes, including connectors and electric circuit unit assemblies. Our production capacity would be limited if one or more of these materials were to become unavailable or available in reduced quantities or if we were unable to find alternative suppliers. If our source of materials and supplies were unavailable for a significant period of time, our operating results would be adversely affected.

**We face aggressive competition both in the spindle motor market and in the markets into which we are attempting to expand our business, which could have a material adverse effect on our business and results of operations**

Our major competitors in the area of hard disk drive spindle motors have aimed to maintain or expand their market share in recent periods, which has resulted in intensified competition and a reduction in prices. This trend of severe competition is likely to intensify as our competitors offer very competitive prices in order to grab larger market shares. It is also possible that ball bearing or other subcomponent manufacturers will try to enter the spindle motor market. In the area of mid-size motors for automobiles and household appliances, some of our competitors have substantially greater financial, engineering, manufacturing, marketing, service and support resources than we do and may have substantially greater name recognition, manufacturing expertise and capability and longer standing customer relationships than we do.

To remain competitive in our core business area of spindle motors and to increase our competitiveness in other motor markets in which we are attempting to expand our business, we believe that we must maintain a substantial investment in research and development and expand our manufacturing capability, marketing, sales efforts and customer service and support. We must also develop new products and enhance our existing products in a timely manner. We may not compete successfully in all or some of our markets in the future, and we may not have sufficient resources to continue to make such investments. We may not make the technological advances necessary to maintain our competitive position so that our products will receive industry acceptance. We anticipate that we may have to adjust prices on many of our products to stay competitive, and our profit margins may fall. In addition, technological changes, manufacturing efficiencies or development efforts by our competitors may render our products or technologies obsolete or uncompetitive. Our failure to maintain our competitive position could have a material adverse effect on our business and results of operations.

**We may be unable to commercialize customized products that satisfy customers' needs, or our customers may be unable to commercialize products that incorporate our products, in a timely manner and in sufficient quantities, which could damage our reputation and reduce sales**

Many of our customers work directly with component suppliers such as us to design and build customized products for specific needs. A significant portion of our contracts with these customers require us to provide customized products within a set delivery timetable. If we are unable to commercialize new product lines including design, manufacture and delivery of customized products, we may not be able to meet our customers' product needs or timetables. Although we have not had such problems in the past, any future failure to meet significant customer requirements could damage our reputation and impede our ability to expand our business in markets for these products.

In addition, if a customer fails to successfully commercialize or sell products that incorporate in them any customized product which we have invested significant resources to develop, our business and results of operations would be materially adversely affected.

**We could experience losses or damage to our reputation if any of the end-products in which our motors or other products are incorporated malfunctions, causing damage to persons, property or data**

Our small precision motors and other products are key components in many consumer electronics devices, particularly data storage devices such as hard disk drives. Widespread malfunction of such devices could lead to consumer dissatisfaction, recalls and, potentially, lawsuits. If such problems are caused by or attributed or alleged to be attributed to defects in our motors, we might be drawn into disputes with our customers, our reputation could be damaged and our results of operations might be adversely affected by lost sales or costs associated with recalls or defending ourselves against legal claims. We may suffer such losses or damage regardless of whether our products were defective.

**We rely on production in developing countries which may become politically or economically unstable and face risks affecting international operations**

We produce and sell a large percentage of our products at locations in the following developing countries: China, Thailand, Malaysia, Indonesia, the Philippines, Vietnam and Mexico. In particular, we are growing increasingly reliant on our production bases in China, where we continue to move manufacturing operations in order to take advantage of more competitive production and supply costs. These countries are still in the process of developing their economic, social and other infrastructures and are susceptible to various uncertainties. The political, social and economic situations of these countries may not continue to provide an environment in which we would be able to continue to manufacture our products cost-efficiently or at all. The governmental authorities of those areas may impose regulations or restrictions that would make it difficult, impractical or impossible, whether economically, legally or otherwise, for us to conduct our business there. Dependence on overseas production, especially in developing countries, and managing international operations exposes us to a number of additional risks associated with foreign commerce, including the following:

- economic slowdown or downturn in the relevant industries in foreign markets;
- international currency fluctuations;
- general strikes or other disruptions in working conditions;
- political instability;
- changes in tariffs;
- the difficulties associated with staffing and managing international operations;
- generally longer receivables collection periods;
- unexpected changes in or imposition of new legislative or regulatory requirements;
- relatively limited protection for intellectual property rights in some countries;
- potentially adverse taxes;

- cultural and religious differences;
- difficulty in entering local business communities and markets, including finding suitable subcontractors or parts suppliers, due to differences commercial and business customs;
- additional cost of products exported overseas, including tariffs, shipping costs may, and other duties and impositions, which may make our products less competitive in terms of price; and
- significant time and capital required for expanding overseas businesses before achieving capital return.

Any or all of these risks could adversely affect our business, financial condition and results of operations.

**Our operating results may fluctuate significantly because of a number of factors, many of which are beyond our control**

We have experienced, and expect to continue to experience, fluctuations in sales and operating results from one quarter to the next. As a result, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful, and that such comparisons cannot be relied upon as indicators of future performance. Our operating results may be subject to significant quarterly fluctuations as a result of the various factors, including:

- fluctuations in product demand as a result of the cyclical and seasonal nature of the industries in which our motor and drive technology products are sold and used, including the computer industry;
- translation effect of exchange rate fluctuations on the results of our overseas subsidiaries and monetary assets and liabilities denominated in foreign currencies;
- the availability and extent of utilization of our manufacturing capacity;
- changes in our product or customer mix;
- entry of new competitors;
- cancellation or rescheduling of significant orders, which can occur on short notice;
- deferrals of customer orders in anticipation of new products or enhancements;
- component and raw material costs and availability, particularly with respect to components obtained from sole or limited sources;
- natural and man-made disasters, including earthquakes, warfare and acts of terrorism, or unknown epidemics including a new type of influenza virus that significantly exceeds any level expected in Japan or elsewhere; and
- system failures, caused, for example, by power outages or computer viruses.

Reductions in our unit sales will not typically correspond with reductions in our relatively fixed costs. Therefore, such reductions in our unit sales will generally result in reduced or negative margins for our products.

Any or all of the above factors could have a material adverse effect on our business, financial condition and results of operations.

**Because our production and inventory are planned in advance of anticipated customer demand, and our operating expenses are relatively fixed, we may be unable to respond quickly if actual demand is significantly smaller than projected.**

We typically plan our production and inventory levels based on customers' advance orders, commitments or forecasts, as well as our internal assessment and forecasts of customer demand, which are highly unpredictable and can fluctuate substantially, especially if competition becomes more intense or the demand is reduced due to seasonal or other factors. In order to secure sufficient production scale and productivity, we may make capital investments in advance of anticipated customer demand. In addition, in response to anticipated long lead times to obtain inventory and materials from our suppliers, we may from time to time order materials in advance of anticipated customer demand. This advance investment and ordering may result in excess inventory levels, resulting in unanticipated inventory write-downs if expected orders fail to materialize.

In addition, our operating expenses are relatively fixed, and we thus have limited ability to reduce expenses quickly in response to any revenue shortfalls resulting from a decrease in demand. Consequently, our operating results will be harmed if our revenues do not meet our revenue projections.

**Our growth has been based in part on acquisitions, of or investments in other companies, and our future growth could be adversely affected if we make acquisitions or investments that fail to achieve their intended benefits, or if we are unable to find suitable acquisition or investment targets**

We have achieved much of our growth by acquiring and otherwise investing in other companies that have provided us with complementary technologies and product lines. From time to time, we intend to seek and pursue appropriate opportunities for acquiring and investing in other companies and increasing our ownership interests in the existing affiliates and joint ventures. To the extent that we are unable to make successful acquisitions or investments, we may not be able to continue to expand our product range and our growth rates could be adversely affected.

Critical to the success of our acquisitions is the ordered, efficient integration of acquired businesses into our organization, which has in the past required, and may continue to require, significant resources. There can be no assurance that our acquisitions will generate the operational and financial returns we expect. The success of future acquisitions will depend upon factors such as:

- our ability to manufacture and sell the products of the businesses acquired;
- continued demand for these acquired products by our customers;
- our ability to integrate the acquired businesses' operations, products and personnel;
- our ability to retain key personnel of the acquired businesses;
- our ability to extend our financial and management controls and reporting systems and procedures to acquired businesses; and
- accuracy of financial due diligence.

Our new and additional investments in other companies are subject to other uncertainties that may have a material adverse impact on our business. For example, the fair value of our investments in other companies may be impaired if their business results deteriorate, resulting in a decline in the fair value of their securities that is other than temporary. Changes in economic policies of local governments, laws and regulations, and accounting rules applicable to companies in which we invest may also have a significant adverse effect on our financial results. In addition, in cases where we hold a minority interest in our investees, we typically cannot control the operations and the assets of the investees or make major decisions without the consent of other shareholders or participants, or at all, and increasing our shareholding to a controlling stake may not be feasible.

Failure to succeed in acquisitions or investments, or an inability to find suitable acquisition or investment targets, could have a material adverse effect on our business, results of operations and financial condition.

**Our growth places strains on our managerial, operational and financial resources**

Our future success depends on our ability to expand our organization in line with the growth of our business, including the integration of recently added subsidiaries within the Nidec group. However, our growth has placed, and is expected to continue to place, a significant strain on our managerial, operational and financial resources. Our recent acquisitions and any further growth by us or our subsidiaries or affiliates, or an increase in the number of our strategic relationships, will increase this strain on our managerial, operational and financial resources. This strain may inhibit our ability to achieve the rapid execution necessary to successfully implement our business plan.

**We rely on our founder, President and CEO, Mr. Shigenobu Nagamori, the loss of whom could have a material adverse effect on our business**

Our continued success will depend to a significant extent on the efforts and abilities of our founder and current President and CEO, Mr. Shigenobu Nagamori. Mr. Nagamori is actively engaged in our management and determines our strategic direction, especially with regard to acquisition activities. While we are in the process of establishing a management structure designed to reduce our dependence on Mr. Nagamori, his sudden departure or reduced attention to us could have a material adverse effect on our operations, financial condition and operating results.

**Any material failure to successfully achieve our corporate objectives or business strategies due to changes in the economic environment or otherwise may have an adverse impact on our reputation and business**

One of our major corporate objectives is to contribute to society, and we endeavor to implement various policies to further this objective, including those intended to provide a stable employment environment and create new jobs. We believe such objectives and policies contribute significantly to building a positive corporate image and brand.

While endeavoring to achieve our corporate objectives, we pursue business strategies that include, among others, improving profitability primarily through cost reduction measures and simultaneously seeking growth opportunities through expansion of our customer base and product lines. We may, however, be unable to achieve the profitability or returns expected by management. Changes in the business and economic environments in which we currently operate or aim to operate and other uncertain or unforeseen factors may make it difficult for us to achieve the targets management has set.

If we are unable to achieve our corporate objectives due to such difficulty, or are compelled by economic or other factors to adopt measures that are inconsistent with our corporate objectives, we may lose credibility, and our corporate brand may be diminished, adversely affecting our business and results of operations.

**We rely on monthly financial data from operating segments that are not prepared on a U.S. GAAP basis and are not comparable between segments, which potentially reduces the usefulness of this data to us in making management decisions.**

We assess our performance and make operating decisions based on financial information received from the sixteen operating segments and others that we report in our consolidated financial statements: Nidec Corporation, Nidec Electronics (Thailand) Co., Ltd., Nidec (Zhejiang) Corporation, Nidec (Dalian) Limited, Nidec Singapore Pte. Ltd., Nidec (H.K.) Co., Ltd., Nidec Philippines Corporation, Nidec Sankyo Corporation, Nidec Copal Corporation, Nidec Tosok Corporation, Nidec Copal Electronics Corporation, Nidec Servo Corporation, Nidec Shibaura Corporation, Nidec-Shimpo Corporation, Nidec Motors & Actuators and Nidec Nissin Corporation. This segmental information is prepared in accordance with the accounting principles in each segment's respective country of domicile. For example, Nidec Corporation's operating profit or loss is determined using Japanese GAAP while Nidec Singapore Pte. Ltd. applies Singaporean accounting principles. Therefore, our segment data has not been prepared under U.S. GAAP on a basis that is consistent with the consolidated financial statements or on any other single basis that is consistent between segments. In addition, year-end closing adjustments and other items are not included in segment totals. These aspects of our segment data could make it more difficult for us to evaluate the relative performance of individual segments and our overall operations in a timely manner, as compared with segment data compiled on a uniform U.S. GAAP basis.

**We are subject to various laws and regulations, and our failure to comply may harm our business.**

We conduct our business subject to ongoing regulation and associated regulatory compliance risks, including the effects of changes in laws, regulations, policies, voluntary codes of practice and interpretations in Japan and other countries in which we conduct our business. Our compliance risk management systems and programs may not be fully effective in preventing all violations of laws, regulations and rules.

We are subject to environmental regulations such as those relating to air pollution, water pollution, elimination of hazardous substances, waste management, and soil and groundwater contamination, and may be held responsible for certain related payments or compensation. Our business activities are subject to a wide range of environmental laws and regulations in Japan, Asia, North America, Europe and other areas. These regulations may become more stringent over time. In such a case, the amount of capital expenditures and other expenses which might be required to complete remedial actions and to continue to comply with applicable environmental laws could increase and be significant, which would materially and adversely affect our business, financial condition and results of operations.

We are also subject to trade and market regulations, both local and international. In addition, as our common stock is listed on the Tokyo Stock Exchange and American Depositary Shares representing shares of our common stock are listed on the New York Stock Exchange, we must also comply with applicable securities laws and regulations. Our failure or inability to comply fully with these and other applicable laws and regulations could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorization to operate, adversely affecting our business and results of operations. In addition, future developments or changes in laws, regulations, policies, voluntary codes of practice, fiscal or other policies and their effects are unpredictable and beyond our control. Such developments and changes may require additional financial, administrative and human resources.



**We have experienced and may in the future experience difficulties implementing effective internal controls over financial reporting.**

As a public company, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations. Moreover, under the U.S. Sarbanes-Oxley Act of 2002, which applies by reason of our status as an SEC reporting company, we are required to establish internal control over our financial reporting, and our management is required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal control is effective. Our independent registered public accounting firm must also conduct an audit on the effectiveness of our internal control over financial reporting. We have also been subject to regulations on internal control over financial reporting under Japanese law since the beginning of the fiscal year ended March 31, 2009.

Designing and implementing an effective system of internal controls capable of monitoring and managing our business and operations requires significant management, human and other resources. Once we identify any significant deficiencies or material weaknesses in our internal control systems, we may require additional resources and incur additional costs for remediating such deficiencies or weaknesses. For example, as described in Items 7.B. and 15 of this annual report, during the fiscal year ended March 31, 2009, a material weakness in our internal control over financial reporting existed in connection with a related-party loan during the fiscal year that was not permitted under Section 402 of the U.S. Sarbanes-Oxley Act of 2002. As a result of the identification of the material weakness, we were required to adopt and implement remedial measures to enhance our internal control over financial reporting during the fiscal year. We have concluded that, as of March 31, 2009, we maintained effective internal control over financial reporting, although significant deficiencies and other control deficiencies existed, both relating to and unrelated to the related-party loan. There can be no assurance that management will be able to remediate these deficiencies within a reasonable amount of time.

If there is a failure in internal control over financial reporting, we may be unable to timely file reports required under the U.S. Securities and Exchange Act of 1934, and our market perception could be negatively affected. Depending on the severity of, and causes and other factors relating to, any failure in internal control over financial reporting, we could be subject to liabilities or sanctions, including enforcement action by the SEC for violations of the U.S. securities laws and by the Japanese Financial Services Agency for violations of the Financial Instruments and Exchange Law, and could be restricted in our ability to access U.S., Japan and other markets for capital raising. We voluntarily brought the issue concerning the related-party loan to the attention of the SEC. The SEC has advised that it is conducting an informal inquiry into the issue, and we are cooperating fully with the informal inquiry. We cannot assure you of the outcome of the informal inquiry or if the SEC will take further action.

**We could be harmed by litigation involving patents and other intellectual property rights**

We have patent protection on certain aspects of our technology and also rely on trade secret, copyright and trademark laws, as well as contractual provisions, to protect our proprietary rights. We face the following risks:

- we could incur substantial costs in defending against claims of infringement of the intellectual property of others and such claims could result in damage awards against us, in orders to pay for the use of previously unrecognized third-party intellectual property or in injunctions preventing us from continuing aspects of our business, which could in turn have a material adverse effect on our business, financial condition and results of operations;
- our protective measures may not be adequate to protect our proprietary rights;

- other parties, including competitors with substantially greater resources, may independently develop or otherwise acquire equivalent or superior technology, and we may be required to pay royalties to license the intellectual property of those parties;
- patents may not be issued pursuant to our current or future patent applications, and patents issued pursuant to such applications, or any patents we own or have licenses to use, may be invalidated, circumvented or challenged;
- the rights granted under any such patents may not provide competitive advantages to us or adequately safeguard and maintain our technology;
- we could incur substantial costs in seeking enforcement of our patents against infringement or the unauthorized use of our trade secrets, proprietary know how or other intellectual property by others; and
- the laws of foreign countries in which our products are manufactured and sold may not protect our products and intellectual property rights to the same extent as the laws of Japan and the United States, and such laws may not be enforced in an effective manner.

For specific information relating to the intellectual properties disputes that could have an adverse effect on our results of operations, see Item 4.B. "Business Overview—Legal Proceedings."

**Leaks of confidential information may adversely affect our business**

In the normal course of business, we hold confidential information regarding our customers and other companies and third parties, including their trade secrets. In the event that such confidential information is leaked or improperly accessed despite the security measures we have in place to protect the information, we may be subject to liability and regulatory action arising out of a failure to protect the information. In addition, such incidents could create a negative public perception of our operations, systems or brand, which may in turn decrease customer and market confidence and materially and adversely affect our business, financial condition and results of operations.

There is a risk that our confidential information may be leaked due to human or technical error, illegal conduct or otherwise. In such cases, including where our competitive advantage is lost because of the leak, our business, operating results and financial condition may be adversely affected.

**For our business to continue effectively, we will need to attract and retain qualified personnel**

Our business depends on the continued employment of our senior management, engineering and other technical personnel, many of whom would be extremely difficult to replace. To maintain our current market position and support future growth, we will need to hire, train, integrate and retain significant numbers of additional highly skilled managerial, engineering, manufacturing, sales, marketing, support and administrative personnel. Competition worldwide for such personnel is extremely intense, and there can be no assurance that we and our affiliates will be able to attract and retain such additional personnel.

**Losses relating to our pension plans and a decline in returns on our plan assets may negatively affect our results of operations and financial condition**

We have defined benefit pension plans covering substantially all employees in Japan who meet eligibility requirements. We may incur losses if the fair value of our pension plans' assets declines, if the rate

of return on our pension assets declines, or if there is a change in the actuarial assumptions on which the calculations of the projected benefit obligations are based. We may also experience unrecognized service costs in the future due to amendments to existing pension plans. Changes in the interest rate environment and other factors may also adversely affect the amount of unfunded pension obligations and the resulting annual amortization expense. In addition, the assumptions used in the computation of future pension expenses may not remain constant.

**If our goodwill and long-lived assets become impaired, we may be required to record impairment charges, which may adversely affect our financial results**

We have substantial goodwill and long-lived assets, including plants, property and equipment. In accordance with U.S. GAAP, we review goodwill annually for impairment and goodwill and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If these goodwill and long-lived assets do not generate sufficient cash flows, impairment losses will have to be recognized, adversely affecting our results of operations and financial condition.

**Our results of operations will be negatively affected if we are required to reduce our deferred tax assets**

As part of the process of preparing our consolidated financial statements in accordance with U.S. GAAP, we must assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. In the event of a deterioration in market conditions or results of operations, in which we were to determine that there is additional uncertainty regarding realization of all or part of our net deferred tax assets, an adjustment to our deferred tax assets would decrease our income during the period in which such determination is made.

**Because our sales to overseas customers are denominated predominantly in U.S. dollars, we are exposed to exchange rate risks that could harm our results of operations**

Sales to customers outside Japan accounted for 68.4%, 70.5% and 68.4% of our consolidated net sales during the years ended March 31, 2007, 2008 and 2009, respectively. A significant portion of our overseas sales is denominated in currencies other than the Japanese yen, primarily the U.S. dollar. As a result, appreciation of the Japanese yen and other currencies against the U.S. dollar will generally have a negative effect on our operating income and net income. We experience volatility in our results of operations as a result of foreign currency exchange rate fluctuations when the results of operations of subsidiaries operating in currencies other than the yen are consolidated into our financial statements, which are reported in yen. We also experience foreign exchange risk to the extent that our sales and expenses or those of our subsidiaries are denominated in different currencies. In order to mitigate against this risk, in recent years we have attempted to offset a portion of our foreign currency revenue by matching the currency of revenue with the currency of expense. For example, if revenue for a particular product is in U.S. dollars, we attempt to purchase the supplies and resources used to produce that product in U.S. dollars. We also enter into forward exchange contracts to hedge portions of our transactional exposure to fluctuations in the value of foreign currencies as compared to the Japanese yen. Nevertheless, we remain exposed to the effects of foreign exchange fluctuations.

**Interest rate fluctuations may adversely affect our financial condition**

We have long-term receivables and debt, with fixed and variable rates, and we enter into interest rate swaps and other contracts in order to stabilize the fair values and cash flows of those receivables and debts. We enter into interest rate swaps and other contracts to reduce our market risk exposure from changes in interest rates. To the extent that their effects are not hedged, we are exposed to interest rate fluctuation risks which may affect our operational costs, interest expenses, interest income and the value of financial assets and liabilities.

**An unexpected drastic decline in the global economies may result in reduced demand for our products**

Demand for our products may be adversely affected by unexpected economic trends in the countries or regions in which our products are sold. Economic downturns and resulting declines in purchasing activities in our major markets worldwide may adversely affect our sales and, consequently, our operating results and financial condition. Reduced demand for our products will negatively affect our business performance and financial condition.

**Our ability to collect on our accounts receivable may be adversely affected by our customers' worsening conditions**

While we are taking measures to mitigate and manage credit risks with respect to our customers and business partners, if changes in the economic conditions of our major markets lead to unexpected levels of bankruptcies or defaults or otherwise result in our customers being unable to pay for our products on schedule or at all, our business performance and financial condition may be negatively affected.

**Decreases in the value of Japanese or foreign stocks may adversely affect our financial results**

We hold Japanese and foreign stocks as part of our investment securities. The value of these stocks are inherently volatile and may decline substantially due to economic conditions or other factors, potentially resulting in our recording an impairment loss on such securities. Decreases in the value of Japanese or foreign stocks may also reduce stockholders' equity on our balance sheet since, in accordance with U.S. GAAP, we include unrealized holding losses on available-for-sale securities, if any, in our accumulated other comprehensive income or loss, and other-than-temporary declines in market value, are charged to income for the period when the loss occurs.

**If our access to liquidity and capital is restricted, our business could be harmed.**

We rely to a large extent on debt and equity financing to finance our operations, capital expenditures and acquisitions of other companies. If, due to changes in financial market conditions or other factors, financial institutions reduce, terminate or otherwise modify the amounts or terms of their lending or credit lines to us, and if we are unable to find alternative financing sources on equally or more favorable terms, our business may be materially adversely affected. In addition, if there is a significant downgrade of our credit ratings by one or more credit rating agencies or if investor demand significantly decreases due to economic downturns or otherwise, we may not be able to access funds when we need them on acceptable terms, our access to capital markets may become more restricted, or the cost of financing our operations through indebtedness may significantly increase. This could adversely affect our results of operations and financial condition.

**A substantial number of our shares of common stock are eligible for future sale, and the sale of these shares may cause our stock price to decline, even if our business is doing well**

As of March 31, 2009, there were 139,292,209 shares of our outstanding common stock (excluding treasury stock), including 20,067,484 shares beneficially owned by our President and CEO, Mr. Shigenobu Nagamori, representing 14.4 % of the outstanding shares. These shares and, generally, the shares owned by

other shareholders, can be sold on the Osaka Securities Exchange Co., Ltd., the Tokyo Stock Exchange, Inc. and otherwise in Japan. Additional sales of a substantial amount of our common stock in the public market, or the perception that sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our securities. Also, in the future, we may issue securities to raise cash for additional capital expenditures, working capital, research and development or acquisitions. We may also pay for interests in additional subsidiary or affiliated companies by using cash, common stock or both. We may also issue securities convertible into our common stock. Any of these events may dilute your ownership interest in us and have an adverse impact on the price of our common stock.

**Japan's unit share system imposes restrictions in holdings of our common stock that do not constitute whole units**

Our Articles of Incorporation provide that 100 shares of our stock constitute one "unit." The Company Law of Japan imposes significant restrictions and limitations on holdings of shares that constitute less than a whole unit. Holders of shares constituting less than a unit do not have the right to vote. A shareholder who owns shares representing less than one unit will not be able to exercise any rights relating to voting rights, such as the right to participate in a demand for the resignation of a director, the right to participate in a demand for the convocation of a general meeting of shareholders and the right to join with other shareholders to propose an agenda item to be addressed at a general meeting of shareholders. Under the unit share system, holders of shares constituting less than a unit have the right to require us to purchase their shares. However, holders of ADSs that represent other than multiples of whole units cannot withdraw the underlying shares representing less than one unit and, therefore, they will be unable to exercise the right to require us to purchase the underlying shares. As a result, holders of ADSs representing shares in lots of less than one unit may not have access to the Japanese markets to sell their shares through the withdrawal mechanism.

**Rights of shareholders under Japanese law may be more limited than under the laws of other jurisdictions**

Our Articles of Incorporation, Regulations of the Board of Directors and the Company Law govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties and shareholders' rights may be different from those that would apply if we were a non-Japanese company. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of other countries or jurisdictions within the United States. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in another jurisdiction. In addition, Japanese courts may not be willing to enforce liabilities against us in actions brought in Japan which are based upon the securities laws of the United States or any U.S. state.

**A holder of our ADSs will have fewer rights than a shareholder has and will have to act through the depositary to exercise those rights**

The rights of the shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to holders of record. Because the depositary, through its custodian agent, is the record holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs as instructed by the ADS holder and will pay to ADS holders the dividends and distributions collected from us. However, as an ADS holder, you will not be able to bring a derivative action, examine our accounting books and records or exercise appraisal rights in your capacity as ADS holder.

**Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell your shares of our common stock at a particular price on any particular trading day, or at all**

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

**Foreign exchange fluctuations may affect the dollar value of our ADSs and dividends payable to holders of our ADSs**

Market prices for our ADSs may fall if the value of the yen declines against the U.S. dollar. In addition, the U.S. dollar amount of cash dividends and other cash payments made to holders of our ADSs would be reduced if the value of the yen declines against the U.S. dollar.

**It may not be possible for investors to effect service of process within the United States upon us or our Directors or Corporate Auditors or to enforce against us or these persons judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States**

We are a limited liability, joint-stock corporation incorporated under the laws of Japan. Most of our Directors and Corporate Auditors reside in Japan. All or substantially all of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for investors to effect service of process within the United States upon us or these persons or to enforce against us or these persons judgment obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Japan, in original actions for enforcement of judgments of United States courts, of liabilities predicated solely upon the federal securities laws of the United States.