Consolidated Ten-Year Financial Summary

SUBARU Corporation and its consolidated subsidiaries
Years ended March 31

		'10/3	'11/3	'12/3	'13/3
Operating results (for the year)					
Net sales[1]	Millions of yen	¥1,428,690	¥1,580,563	¥1,517,105	¥1,912,968
Cost of sales	Millions of yen	1,152,763	1,241,427	1,222,419	1,501,809
Gross profit	Millions of yen	275,927	339,136	294,686	411,159
Selling, general and administrative expenses[1]	Millions of yen	248,577	255,001	250,727	290,748
Operating income (loss)	Millions of yen	27,350	84,135	43,959	120,411
Income (loss) before income taxes	Millions of yen	(443)	63,214	52,879	93,082
Net income (loss) attributable to owners of parent	Millions of yen	(16,450)	50,326	38,453	119,588
Depreciation/amortization[2]	Millions of yen	65,785	56,062	58,611	61,544
Capital expenditures[3]	Millions of yen	89,077	67,378	67,035	94,986
R&D expenses	Millions of yen	37,175	42,907	48,115	49,141
Financial position (at year-end)					
Net assets	Millions of yen	381,893	413,963	451,607	596,813
Shareholders' equity	Millions of yen	380,587	412,661	450,302	595,365
Total assets[4]	Millions of yen	1,231,367	1,188,324	1,352,532	1,577,454
Ratio of shareholders' equity to total assets[4]	%	30.9	34.7	33.3	37.7
Cash flows					
Net cash provided by (used in) operating activities	Millions of yen	176,734	138,208	54,865	166,715
Net cash provided by (used in) investing activities	Millions of yen	(62,656)	(51,109)	(26,602)	(71,370)
Free cash flow	Millions of yen	114,078	87,099	28,263	95,345
Net cash provided by (used in) financing activities	Millions of yen	(18,560)	(39,408)	2,586	(60,766)
Per share					
Net income (loss) (EPS)	Yen	(21.11)	64.56	49.27	153.23
Net assets (BPS)	Yen	488.58	528.88	576.97	762.87
Dividends	Yen	0	9	9	15
Other information					
Non-consolidated exchange rate	Yen to the U.S. dollar	93	86	79	82
Number of shares issued	Thousands of shares	782,865	782,865	782,865	782,865
Number of shareholders[5]	Persons	39,223	34,240	33,139	28,890
Number of employees (parent only)	Persons	12,483	12,429	12,359	12,717
Number of employees (consolidated)	Persons	27,586	27,296	27,123	27,509
Number of units					
Consolidated automobile unit sales[6]	Thousand units	563	657	640	724
SUBARU vehicle unit production	Thousand units	557	624	635	692
Domestic	Thousand units	453	459	465	511
U.S. (SIA)[7]	Thousand units	104	165	171	181

1 Change of accounting policy effective from FYE March 2019 (deduction of sales incentives from net sales); Retroactively applied to the figures for FYE March 2018
2 Accompanying a change in accounting policy effective from the FYE March 2019, change of depreciation method for certain tangible fixed assets of the Company and its major domestic consolidated subsidiaries from the declining-balance method to the straight-line method
3 Increase in property, plant and equipment and intangible assets
4 Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, effective from FYE March 2019; Retroactively applied to the figures for FYE March 2018

(Thousands of U.S. dollars)[8]

'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'19/3
¥2,408,129	¥2,877,913	¥3,232,258	¥3,325,992	¥3,232,695	¥3,160,514	$28,470,534
1,728,271	2,017,490	2,187,136	2,386,266	2,442,706	2,561,753	23,076,777
679,858	860,423	1,045,122	939,726	789,989	598,761	5,393,757
353,369	437,378	479,533	528,916	410,542	403,232	3,632,393
326,489	423,045	565,589	410,810	379,447	195,529	1,761,364
328,865	392,206	619,003	394,695	297,340	195,838	1,764,146
206,616	261,873	436,654	282,354	220,354	147,812	1,331,518
61,486	71,821	72,938	85,653	102,102	102,749	925,583
98,537	135,346	168,338	196,616	193,789	169,960	1,531,033
60,092	83,535	102,373	114,215	121,084	102,719	925,313
770,071	1,030,719	1,349,411	1,464,888	1,561,023	1,612,825	14,528,645
765,544	1,022,417	1,343,732	1,458,664	1,552,844	1,605,291	14,460,778
1,888,363	2,199,714	2,592,410	2,762,321	2,866,474	2,982,725	26,868,976
40.5	46.5	51.8	52.8	54.2	53.8	—
313,024	311,543	614,256	345,442	366,298	174,006	1,567,480
(33,903)	(172,780)	(255,676)	(254,252)	(150,711)	(158,327)	(1,426,241)
279,121	138,763	358,580	91,190	215,587	15,679	141,239
(63,011)	(110,546)	(126,190)	(189,044)	(170,937)	(96,617)	(870,345)
						(U.S. dollars)
264.76	335.57	559.54	365.77	287.40	192.78	1.74
980.98	1,310.15	1,721.90	1,902.56	2,025.31	2,093.60	18.86
53	68	144	144	144	144	1.30
100	108	121	108	111	111	—
782,865	782,865	782,865	769,175	769,175	769,175	—
51,386	70,942	79,594	76,471	132,570	133,879	—
13,034	13,883	14,234	14,708	14,879	15,274	—
28,545	29,774	31,151	32,599	33,544	34,200	—
825	911	958	1,065	1,067	1,000	—
772	887	929	1,033	1,036	977	—
609	681	693	698	687	605	—
164	207	236	335	349	372	—

5 Number of shares per trading unit: 100 shares
6 Automobile unit sales of SUBARU CORPORATION and its consolidated subsidiaries
7 U.S. production base Subaru of Indiana Automotive, Inc.
8 U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥111.01 to US$1.00, the approximate rate of exchange at March 31, 2019

Five-Year Unit Sales

Years ended March 31

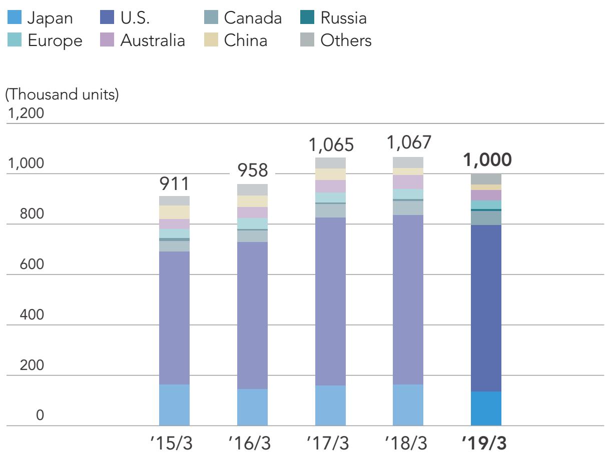
Consolidated Automobile Sales

(Number of units)

	'15/3	'16/3	'17/3	'18/3	'19/3
Domestic units					
Legacy	13,845	11,358	11,065	9,328	**5,864**
Impreza	39,462	39,794	51,592	66,748	**46,838**
Forester	21,103	22,044	24,239	18,139	**32,941**
Levorg	40,559	23,555	23,775	21,342	**12,878**
WRX	7,514	6,956	6,552	8,252	**7,060**
Exiga	1,937	4,498	4,284	3,498	**23**
SUBARU BRZ	1,890	1,995	2,253	1,879	**1,241**
OEM	1,127	884	2,066	2,889	**2,712**
Others	439	502	567	480	**147**
Passenger cars	127,876	111,586	126,393	132,555	**109,704**
Minicars	34,876	33,702	32,542	30,889	**25,615**
Domestic total	162,752	145,288	158,935	163,444	**135,319**
Overseas units by region					
U.S.	527,630	582,674	667,613	670,931	**659,702**
Canada	42,439	47,579	53,061	56,820	**56,826**
Russia	11,559	5,723	5,338	7,729	**8,120**
Europe	35,730	41,778	40,915	40,228	**32,133**
Australia	38,889	44,611	49,106	55,674	**41,731**
China	53,821	44,388	44,000	26,872	**22,776**
Others	37,875	45,824	45,574	45,231	**43,287**
Overseas total	747,943	812,577	905,607	903,485	**864,575**
Overseas units by model					
Legacy	235,791	286,979	333,339	281,846	**253,860**
Impreza	196,403	217,272	238,858	306,673	**275,089**
Forester	269,649	250,072	272,768	260,853	**226,756**
Levorg	0	7,713	6,823	3,913	**2,160**
WRX	37,982	43,120	47,185	42,739	**33,861**
Ascent	0	0	0	0	**67,177**
Tribeca	64	34	7	1	**0**
SUBARU BRZ	7,914	7,387	6,627	7,460	**5,672**
OEM	135	0	0	0	**0**
Others	5	0	0	0	**0**
Overseas total	747,943	812,577	905,607	903,485	**864,575**
Grand total	910,695	957,865	1,064,542	1,066,929	**999,894**

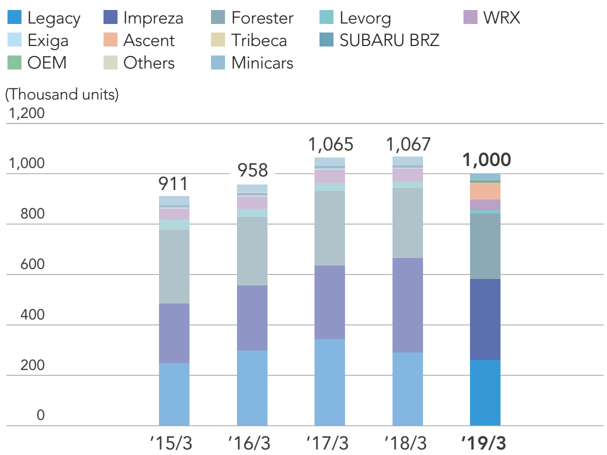
*Automobile sales of SUBARU CORPORATION and its consolidated subsidiaries

Consolidated Automobile Sales by Region



*Automobile sales of SUBARU CORPORATION and its consolidated subsidiaries

Consolidated Automobile Sales by Model



*Automobile sales of SUBARU CORPORATION and its consolidated subsidiaries

Non-Consolidated Automobile Sales

(Number of units)

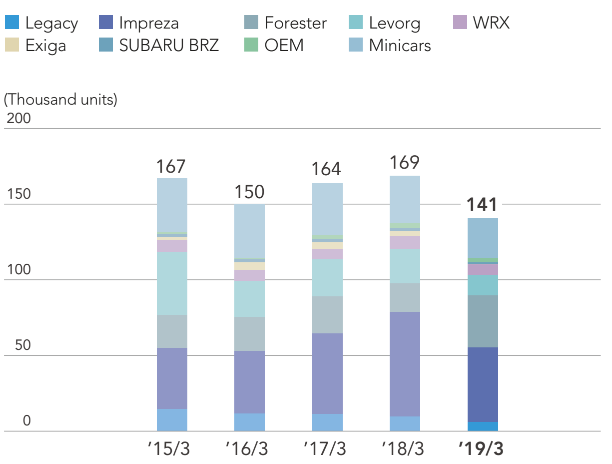
	'15/3	'16/3	'17/3	'18/3	'19/3
Domestic units					
Legacy	14,734	11,665	11,529	9,753	**6,091**
Impreza	40,277	41,137	53,136	68,937	**49,117**
Forester	21,569	22,631	24,231	19,000	**34,553**
Levorg	41,832	24,014	24,626	22,525	**13,328**
WRX	7,991	7,181	6,724	8,284	**7,206**
Exiga	2,016	4,797	4,356	3,833	**7**
SUBARU BRZ	1,941	2,070	2,394	1,999	**1,256**
OEM	1,224	904	2,575	2,862	**2,843**
Passenger cars	131,584	114,399	129,571	137,193	**114,401**
Minicars	35,563	35,642	34,124	31,717	**26,344**
Domestic total	167,147	150,041	163,695	168,910	**140,745**
Export units					
Legacy	34,344	50,353	39,719	32,122	**26,073**
Impreza	199,770	218,866	191,873	214,631	**197,657**
Forester	265,072	249,202	278,963	254,397	**230,136**
Levorg	0	7,880	6,805	3,813	**2,060**
WRX	37,865	43,177	46,730	44,053	**30,590**
Exiga	5	0	0	0	**0**
SUBARU BRZ	8,418	7,005	6,653	7,451	**4,980**
OEM	135	0	0	0	**0**
Export total	545,609	576,483	570,743	556,467	**491,496**
Complete knockdown (CKD) overseas					
Total	222,513	242,424	353,770	348,144	**402,985**
Grand total	935,269	968,948	1,088,208	1,073,521	**1,035,226**

U.S. Retail Sales (Calendar Year: January to December)

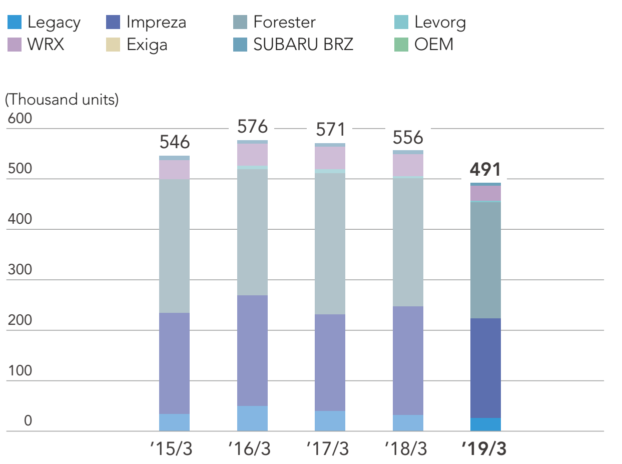
(Number of units)

	'14	'15	'16	'17	'18
Legacy	191,060	212,741	248,204	238,723	**218,963**
Impreza	128,952	155,712	150,915	196,181	**220,784**
Forester	159,953	175,192	178,593	177,563	**171,613**
WRX	25,492	33,734	33,279	31,358	**28,730**
Ascent	0	0	0	0	**36,211**
Tribeca	732	0	0	0	**0**
SUBARU BRZ	7,504	5,296	4,141	4,131	**3,834**
U.S. total	513,693	582,675	615,132	647,956	**680,135**

Non-Consolidated Domestic Automobile Sales by Model



Non-Consolidated Automobile Export Units by Model



Financial Review

Business Segments and Scope of Consolidation

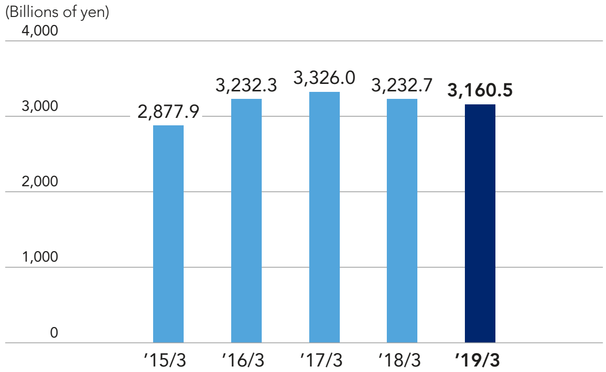
The SUBARU Group ("the Group") consists of three business segments: the core Automotive Business Unit, which accounts for approximately 95% of consolidated net sales; the Aerospace Company; and Other Businesses, consisting of businesses that do not belong to either of the other two segments. In the fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019; the "fiscal year under review"), SUBARU CORPORATION ("the Company"), 78 subsidiaries, and 10 equity-method affiliated companies were included in the scope of consolidation.

Overview of Business Performance

The global economy remained stable during the fiscal year under review, while uncertainties due to trends in trade issues caused some slowdown in the second half of the year. The Japanese economy also continued on a gradual recovery path, as the employment and income environment improved and consumer spending recovered, although concerns over the impact of the uncertainty over the world economy persisted. Meanwhile, the exchange rate was mostly stable.

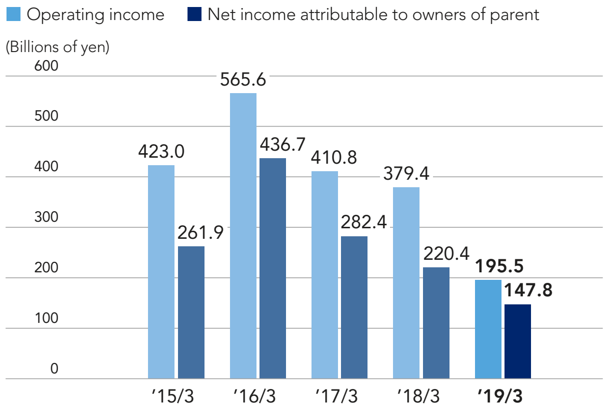
Consolidated net sales for the fiscal year under review decreased by 72.2 billion yen (2.2%) from the previous fiscal year to 3,160.5 billion yen mainly due to the fall in automobile unit sales. The increase in quality-related expenses triggered by the recall of engine parts in November 2018 and the decrease in automobile unit sales affected consolidated operating income, which dropped by 183.9 billion yen (48.5%) to 195.5 billion yen compared with the previous fiscal year. Net income attributable to owners of parent also fell by 72.5 billion yen (32.9%) from the previous fiscal year to 147.8 billion yen.

Net Sales

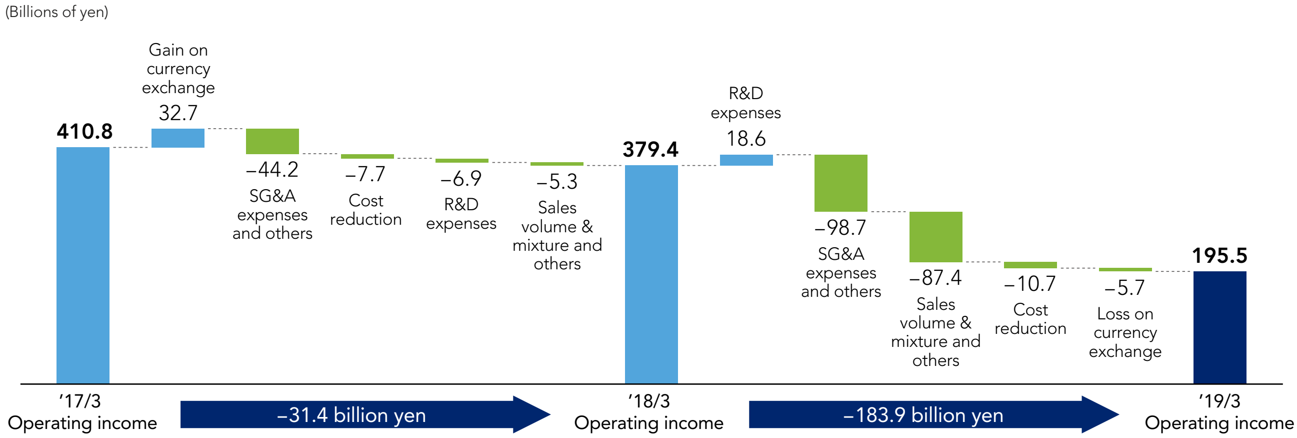


* Change of accounting policy effective from FYE March 2019
(deduction of sales incentives from net sales)
Retroactively applied to the figures for FYE March 2018

Operating Income／Net Income Attributable to Owners of Parent



Analysis of Increase and Decrease in Operating Income Changes (Consolidated)



Segment Information

Automotive Business Unit

Net sales from the Automotive Business Unit were 3,014.5 billion yen, down by 47.9 billion yen (1.6%), and segment income was 184.9 billion yen, down by 176.5 billion yen (48.8%), compared with the previous fiscal year. Consolidated global unit sales decreased by 67,000 vehicles (6.3%) year on year to 1,000,000 units.

<Domestic Market>

Total automobile demand in Japan in the fiscal year under review increased by 1.2% year on year to 5,260,000 units due to factors including continued steady sales of passenger cars and increased minicar sales compared with the previous fiscal year. The Group's unit sales in Japan decreased by 28,000 units (17.2%) year on year to 135,000 units, comprising 110,000 passenger cars (down by 23,000 or 17.2% year on year) and 26,000 minicars (down by 5,000 or 17.1% year on year). While the sales of Forester, which was fully remodeled in July 2018, grew steadily, those of Impreza, SUBARU XV, and Levorg declined.

<Overseas Market>

Total automobile demand in the U.S., which is our key market, was 17.16 million units, down by 0.9% year on year, with a decrease in passenger cars and an increase in light trucks including SUVs compared with the previous fiscal year.

The Group's overseas unit sales marked a decrease of 39,000 units (4.3%) to 865,000 units. By region, sales volume decreased by 11,000 units (1.5%) year on year to 717,000 units in North America, decreased by 8,000 units (16.1%) to 40,000 units in Europe and Russia, decreased by 14,000 units (25.0%) to 42,000 units in Australia, decreased by 4,000 units (15.2%) to 23,000 units in China, and decreased by 2,000 units (4.3%) to 43,000 units in other regions. In North America, retail sales remained stable, contributed to by the strong sales of the Ascent, a new model vehicle recently launched, although shipments declined for the Forester, which had not been fully remodeled for the first half of the fiscal year under review.

Aerospace Company

Net sales from the Aerospace Company were 131.7 billion yen, down by 10.5 billion yen (7.4%), and segment income was 6.0 billion yen, down by 6.2 billion yen (50.7%), compared with the previous fiscal year. Sales of products for the Japan Ministry of Defense declined from the previous fiscal year, mainly due to the fulfillment of the contract for the test production of a new multi-purpose helicopter for the Ground Self-Defense Force. Sales of products for the commercial sector also decreased year on year, affected by the decrease in the production of the Boeing 777.

Other Businesses

Net sales from Other Businesses were 14.4 billion yen, down by 13.8 billion yen (49.0%), and segment income was 3.8 billion yen, down by 1.2 billion yen (24.1%), compared with the previous fiscal year.

Net Sales by Segment (Billions of yen)

	'15/3	'16/3	'17/3	'18/3	'19/3
Automotive	2,699.0	3,039.4	3,152.0	3,062.3	**3,014.5**
Aerospace	142.8	152.8	138.8	142.2	**131.7**
Industrial products	29.0	—	—	—	—
Other	7.1	40.0	35.3	28.2	**14.4**
Total	2,877.9	3,232.3	3,326.0	3,232.7	**3,160.5**

Operating Income by Segment (Billions of yen)

	'15/3	'16/3	'17/3	'18/3	'19/3
Automotive	400.9	543.6	397.7	361.5	**184.9**
Aerospace	18.9	18.2	9.1	12.3	**6.0**
Industrial products	0.8	—	—	—	—
Other	1.9	3.0	3.5	5.1	**3.8**
Corporate and elimination	0.6	0.8	0.5	0.7	**0.7**
Total	423.0	565.6	410.8	379.4	**195.5**

* Change of accounting policy effective from FYE March 2019 (deduction of sales incentives from net sales); Retroactively applied to the figures for FYE March 2018
* Following the decision in November 2016 to terminate the Industrial Products business, the said business has been included in the Other Businesses segment since FYE March 2017. Figures for FYE March 2016 in the tables above have been restated to comply with the new segment classification

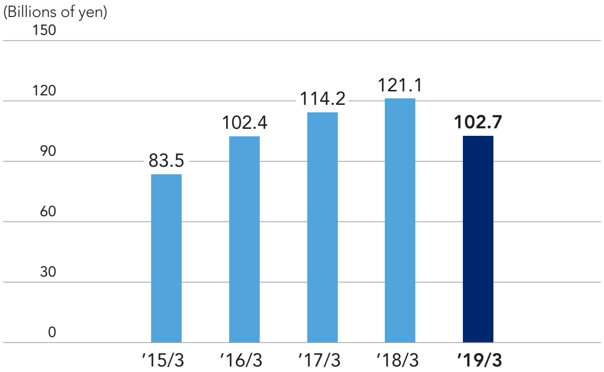
R&D Expenses

In the fiscal year under review, R&D expenses decreased by 18.4 billion yen (15.2%) compared with the previous fiscal year to 102.7 billion yen. Of that amount, 101.1 billion yen was related to the Automotive Business Unit. In FYE March 2020, the Group plans to raise its R&D expenditures spending by 17.3 billion yen (16.8%) year on year to 120.0 billion yen.

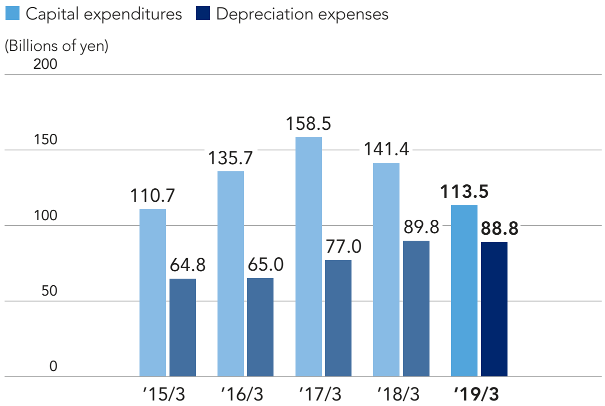
Capital Expenditures and Depreciation Expenses

In the fiscal year under review, the Group made capital expenditures of 113.5 billion yen, a decrease of 27.9 billion yen (19.7%) compared with the previous fiscal year. Among the total capital expenditures, 106.4 billion yen has been spent in relation to the Automotive Business Unit. The Company made investments of 37.7 billion yen mainly for the improvement and maintenance of production and inspection lines, production facilities for new products, R&D facilities, and sales networks. Subaru of Indiana Automotive, Inc. (SIA), our production base in the U.S., also made investments of 36.8 billion yen, mainly for the production facilities to handle new products and for production capacity expansion. Depreciation expenses in the fiscal year under review declined by 1.0 billion yen (1.1%) year on year to 88.8 billion yen. Capital expenditures in FYE March 2020 are projected to increase by 26.5 billion yen (23.4%) year on year to 140.0 billion yen, and depreciation expenses to increase by 11.2 billion yen (12.6%) to 100.0 billion yen. The actual and planned figures in this section do not include, as before, the capital expenditures and depreciation expenses related to lease transactions and intangible assets.

R&D Expenses



Capital Expenditures／Depreciation Expenses



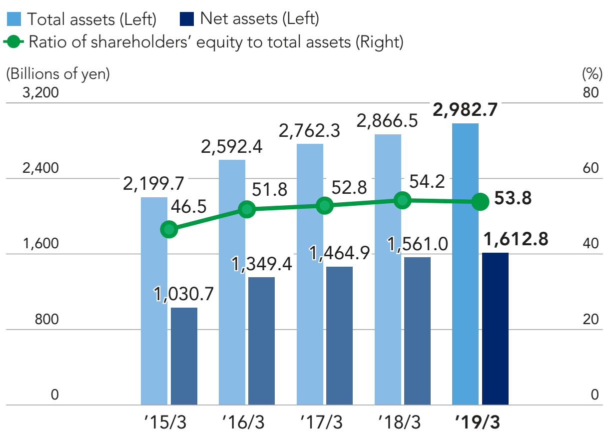
* Accompanying a change in accounting policy effective from the FYE March 2019, change of depreciation method for certain tangible fixed assets of the Company and its major domestic consolidated subsidiaries from the declining-balance method to the straight-line method

Liquidity and Source of Funds

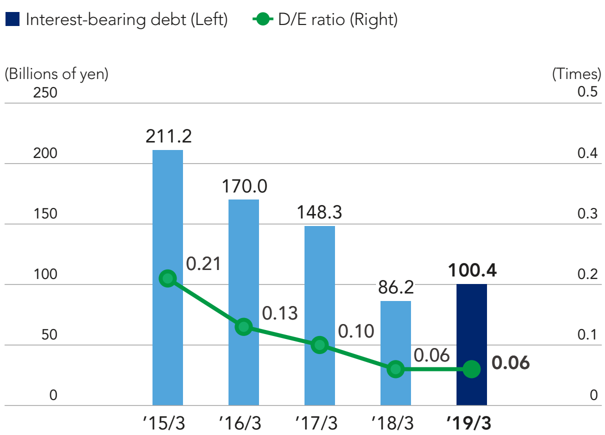
Financial Position

Total assets as of March 31, 2019 were 2,982.7 billion yen, an increase of 116.3 billion yen compared with the previous fiscal year-end. While funds in hand (the sum of cash and deposits and short-term investment securities) saw a decrease of 56.3 billion yen, there were increases in non-current assets of 60.5 billion yen, merchandise and finished goods of 47.1 billion yen, raw materials and supplies of 24.0 billion yen, work in process of 22.4 billion yen, and short-term loans receivable of 13.4 billion yen. Total liabilities amounted to 1,369.9 billion yen, up by 64.4 billion yen from the previous fiscal year-end. Although accrued income taxes and short-term loans payable declined by 40.0 billion yen and 17.7 billion yen, respectively,

Total Assets／Net Assets／
Ratio of Shareholders' Equity to Total Assets



Interest-Bearing Debt／D/E Ratio

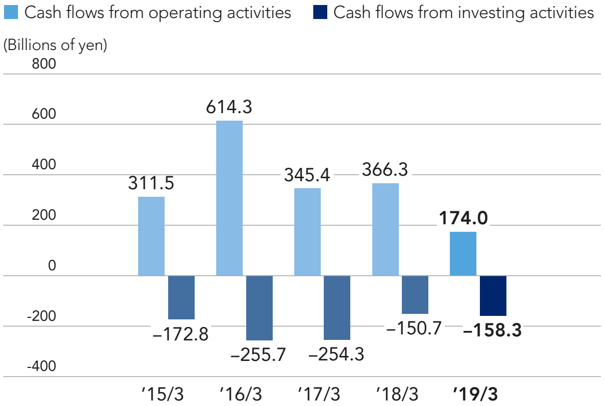


such decreases were surpassed by increases including: provision for product warranties of 58.5 billion yen, long-term debts including current portion of 31.9 billion yen, long-term unearned revenue of 25.2 billion yen, and accrued expenses of 12.7 billion yen. The fiscal year-end balance of interest-bearing debt increased by 14.2 billion yen from the previous fiscal year-end to 100.4 billion yen. The debt/equity ratio (interest-bearing debt over shareholders' equity) was 0.06, remaining at a safe level. Net assets stood at 1,612.8 billion yen, an increase of 51.8 billion yen compared with the previous fiscal year-end, mainly due to an increase in retained earnings of 36.6 billion yen. The shareholders' equity ratio resulted in 53.8%.

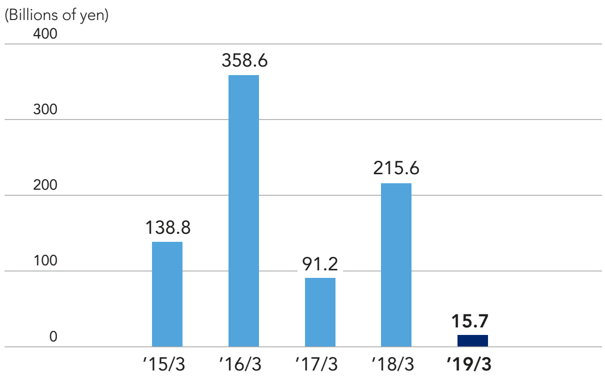
Cash Flows

In the fiscal year under review, net cash provided by operating activities was 174.0 billion yen. Major cash in-flow items were income before income taxes of 195.8 billion yen, depreciation and amortization of 102.7 billion yen, increase in provision for product warranties of 57.6 billion yen, income taxes paid of 100.3 billion yen and increase in inventories of 90.4 billion yen. Net cash used in investing activities was 158.3 billion yen. Major cash out-flow items included purchase of non-current assets (net of proceeds from sales) of 138.7 billion yen. As a result, free cash flow for the fiscal year under review resulted in a cash in-flow of 15.7 billion yen. Net cash used in financing activities totaled 96.6 billion yen. Major cash out-flow items were cash dividends paid of 110.4 billion yen and net decrease in short-term loans payable of 17.5 billion yen. On the other hand, major cash in-flow items included proceeds from long-term loans payable (net of repayments) of 31.9 billion yen. As a result of the above cash flows, including the effect of translation adjustments, cash and cash equivalents at the end of the fiscal year under review amounted to 702.3 billion yen.

Cash Flows from Operating Activities and Investing Activities



Free Cash Flow



Basic Policy on Profit Distribution and Dividends

The Company regards shareholder interests as an important management priority. Our basic measure of shareholder returns is dividend payment, and the Company applies a performance-linked approach with an emphasis on continuity, by considering the business performance of each fiscal year, investment plans, and the business environment. In our mid-term management vision STEP announced in July 2018, the Company has set its capital policy for three years to pay annual dividend payment of 144 yen per share as a basis of shareholder returns, adding agile buyback (of its own stock) when cash flow status allows. Accordingly, the Company paid an annual dividend of 144 yen per share (including an interim dividend of 72 yen per share) for the fiscal year under review, the same as the previous fiscal year. Internal reserves are allocated to investments for future growth, such as strengthening production and sales systems as well as research and development activities for the purpose of offering appealing products, while bolstering the financial position.

Outlook for FYE March 2020

The consolidated performance forecast of the Group is calculated according to the International Financial Reporting Standards (IFRS), which the Company applies voluntarily from FYE March 2020. Consolidated global unit sales are projected to be 1,058,000 vehicles in prospect of growth mainly in North America, our key market. As an aggregate decrease in expenses and an increase in the number of unit sales are expected, the Company forecasts revenue of 3,310.0 billion yen, operating profit of 260.0 billion yen, profit before tax of 270.0 billion yen, and profit for the period attributable to owners of parent of 210.0 billion, for FYE March 2020. The exchange rate assumptions used for the full-year forecast of consolidated business performance are ¥110 to US$1.00 and ¥120 to €1.00.

Business Risks

Operational and other risks that could significantly influence the decisions of investors are set out below.

Based on information available to the Group as of the end of the consolidated fiscal year under review, the enumerated risks include forward-looking statements, but do not encompass every possible risk posed to the Group.

(1) Economic Trends

Economic trends in countries and regions that comprise important markets for the Group could potentially impact the Group's business performance. In Japan and North America, key markets for the Group, economic recession, decreasing demand, or increasing price competition could undermine the sales and profitability of the Group's products and services.

(2) Currency Exchange Rate Fluctuations

The Group's ratio of overseas net sales stood at 81.1%. The Group's consolidated financial statements, which are presented in Japanese yen, are affected by translation of overseas net sales, operating income, and assets from local currencies, particularly U.S. dollars, into yen. Accordingly, in the event that discrepancies arise between projected exchange rates in full-year forecasts and actual rates at the time of account settlement, the Group's business performance and financial position may be adversely affected when the yen appreciates or positively affected when the yen depreciates.

The Company uses forward exchange rate contracts and other circumstance-appropriate risk hedges to minimize the Group's sensitivity to such currency exchange risks. However, the effect of severe fluctuations in currency exchange rates at the end of the fiscal year could result in a loss on valuation of derivatives and have a major impact on non-operating expenses.

(3) Dependence on Certain Businesses

The Group is mainly comprised of the Automotive Business Unit and Aerospace Company. However, the Automotive Business Unit accounts for the overwhelming majority of the Group's business operations. Accordingly, in the event that automobile-related demand, market conditions, price competition with other automakers, or other factors exceed projected levels, the entire Group's overall business performance and financial position could be significantly affected.

(4) Changes in Market Appraisal

The Group develops, manufactures, and releases new products based on appropriate timing and pricing in line with product planning that reflects market demand and customer needs. Such actions are the most important factors in maintaining stable increases in Group business performance. In the event that market appraisals of new model vehicles and other new products do not meet sales plan expectations, or that the obsolescence rate of current products exceeds forecasts, the Group's business performance and financial position could be significantly affected.

(5) Dependence on Specific Suppliers, Raw Materials, and Components

The Group procures raw materials, components, and other items from numerous suppliers. However, there are cases in which the Group relies on certain items and/or a limited number of suppliers. Due to tightening supply and demand or other factors, the inability to procure supplies in a manner that ensures stable costs, delivery dates and quality could seriously impact the Group's business performance and financial position.

(6) Protection of Intellectual Property

The Group is strongly committed to protecting its intellectual property in areas, such as technologies and expertise, that ensure product differentiation. However, in cases where a third party makes unauthorized use of the Group's intellectual property to manufacture similar products and in cases where a dispute relating to intellectual property arises and a decision disadvantageous to the Company is made, the Group's business results and financial condition may be significantly affected.

(7) Product Defects

The Group places the highest priority on the safety of the products it develops, manufactures, and sells. However, completely avoiding defects and recalls, etc. regarding all products and services is impossible. The substantial cost, damage to our brand image, etc. associated with a major recall could significantly affect the Group's business performance and financial position.

(8) Retirement Benefit Obligations

The Group's employee retirement benefit costs and obligations are calculated based on the following assumptions: retirement benefit obligation discount rates and the expected long-term rate of return on pension assets, both of which are established based on mathematical calculations. However, in the event that actual performance differs from the assumptions, the Group's business performance and financial position could be affected over the long term.

(9) Environmental and Other Legal Regulations

The Group is subject to various domestic and overseas legal regulations in relation to automobile fuel efficiency, exhaust emissions, energy conservation, noise, recycling, the level of pollutants emitted from manufacturing facilities, and the safety of automobiles and other products. The Group's business performance and financial position could be affected by cost increases due to future tightening of such regulations.

(10) Impact of Natural Disasters, War, Terror, Strikes, and Other Events

The occurrence of natural disasters such as major earthquakes, typhoons, etc., and diseases, wars, terrorist attacks, or other events, could impede the Group's business activities as well as delay or suspend raw material/component purchases, production, product sales/transport, and the provision of services. The Group's business performance and financial position could be affected in the event that such delays or suspensions are prolonged.

(11) International Business Activities

Though the Group focuses on the U.S., it does business in countries around the world. Business activities in overseas markets entail the following types of risk. If any of these risks materializes, the Group's business performance and financial position could be adversely affected.

- Unfavorable political or economic factors
- Difficulties arising from changes in laws or regulations
- Revisions to taxes, tariffs, or other taxation systems
- Difficulties in hiring and retaining personnel

(12) Impact of Information Security

The Group uses various kinds of information technology, networks, and systems in product development, production, sales, and other business activities. Although safety measures have been implemented with respect to information technology, networks, and systems, interruption of important work or services, data corruption or loss, leaks of confidential information, or other problems could occur due to cyberattacks, hacking, computer virus attacks, or the like. This could damage the brand image or adversely affect the Group's business performance and financial position.

(13) Compliance and Reputation

The Group considers rigorous compliance one of the most important management priorities and strives to avoid or minimize compliance risks through compliance with all laws, ordinances, and internal regulations required in corporate activities and the execution of fair and equitable corporate activities in conformity with social norms. Nevertheless, the occurrence of a material legal violation could have a significant impact on the Group and adversely affect the Group's business performance and financial position due to loss of customer confidence and trust, or damage to the Group's reputation in society.