# Takata Corporation

## Consolidated Results

### Third quarter ended December 31, 2016

The period April 1, 2016 to December 31, 2016

This document is a partial translation of Japanese financial statements (kessan tanshin) that has been prepared as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

TAKATA

# SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

## Results for the third quarter of the fiscal year ending March 31, 2017

(Results for the nine-month period April 1, 2016—December 31, 2016)

**Takata Corporation** February 10, 2017

| | | | |
|---|---|---|---|
| Stock Code: | 7312 | Listed exchanges: | Tokyo 1st Section |
| http://www.takata.com | | Inquiries: | Yoichiro Nomura |
| Chairman and CEO: | Shigehisa Takada | | Executive Director & Executive Officer, CFO |
| | | | Telephone: +81 3 6455-8405 |

| | |
|---|---|
| Scheduled submission of quarterly *hokokusho* (securities report): | February 14, 2017 |
| Scheduled date of payment of dividends: | — |
| Availability of supplementary explanatory material for third-quarter results: | Available |
| Presentation meeting for third-quarter results: | None |

### 1. Consolidated financial results for the nine-month period ended December 31, 2016

**1) Consolidated operating results**

*Millions of yen, rounded down*

Percentage figures represent changes from the same period of the previous fiscal year

| | Nine months ended December 31, 2016 | % change | Nine months ended December 31, 2015 | % change |
|---|---|---|---|---|
| Net sales | 491,646 | (9.5) | 543,423 | 15.7 |
| Operating income | 32,724 | 1.7 | 32,175 | 37.7 |
| Ordinary income | 37,052 | 26.2 | 29,369 | 5.8 |
| Net income attributable to owners of parent | (67,125) | — | 2,519 | — |
| Net income per share (¥) | (807.17) | | 30.30 | |
| Diluted net income per share (¥) | — | | — | |

Note: Comprehensive income: First nine months to December 31, 2016: (¥76,242) million (—%); First nine months to December 31, 2015: (¥3,251) million (—%)

**2) Consolidated financial position**

*Millions of yen, rounded down*

| | As of December 31, 2016 | As of March 31, 2016 |
|---|---|---|
| Total assets | 459,155 | 443,036 |
| Net assets | 47,880 | 124,586 |
| Shareholders' equity ratio (%) | 9.8 | 27.5 |
| Net assets per share (¥) | 540.12 | 1,464.67 |

Reference: Shareholders' equity as of December 31, 2016: ¥44,916 million; as of March 31, 2016: ¥121,803 million

### 2. Dividends

| | Fiscal year ending March 31, 2017 | Fiscal year ended March 31, 2016 |
|---|---|---|
| Interim dividend per share (¥) | 0.00 | 0.00 |
| Year-end dividend per share (¥) | — | 0.00 |
| Annual dividend per share (¥) | — | 0.00 |

Note: Revisions to the dividend forecasts: None

A year-end dividend forecast for the fiscal year ending March 31, 2017 has not been issued.

### 3. Consolidated full-year forecasts for the fiscal year ending March 31, 2017

*Millions of yen*

Percentage figures represent changes from the previous fiscal year

| | Fiscal year ending March 31, 2017 | % change |
|---|---|---|
| Net sales | 650,000 | (9.5) |
| Operating income | 40,000 | (5.1) |
| Ordinary income | 44,000 | 25.0 |
| Net income attributable to owners of parent | (64,000) | — |
| Net income per share (¥) | (769.59) | |

Note: Changes to the consolidated forecasts: Yes

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**<u>* Notes</u>**

**1) Transfer of important subsidiaries during the period under review:** None

**2) Adoption of simplified accounting methods or special accounting methods for the preparation of the quarterly financial statements:** Adopted

**3) Changes in accounting methods or disclosure:**

1. Changes in accounting method: None
2. Other changes: None
3. Changes in accounting estimates: None
4. Re-statement: None

**4) Number of shares outstanding (common stock)**

| | Year ending March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Shares outstanding at end of third quarter (including treasury shares) | 83,161,700 | |
| Shares outstanding at end of year (including treasury shares) | | 83,161,700 |
| Treasury shares held at December 31 | 398 | |
| Treasury shares held at March 31 | | 398 |
| Average shares outstanding during first nine months | 83,161,302 | 83,161,302 |

**IMPORTANT NOTICE**

<u>Disclosure of status of quarterly report review procedures</u>

This quarterly financial report is outside the scope of the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law. Under the Financial Instruments and Exchange Law, the review procedure for the quarterly securities report will be implemented at the time of disclosure of this quarterly financial report.

<u>Appropriate application of forecasts, etc.</u>

Forecasts in this document are based on a number of assumptions and beliefs made in light of information available at the time of issue. Actual financial results may differ materially depending on changes in the business environment and other factors.

# I. Operating results and financial position

*Note: In the following section all comparisons are with the nine-month period April 1, 2015 to December 31, 2015, unless stated otherwise.*

## 1. Operating results

Looking at global economies during the nine-month period under review, the U.S. economy trended strongly, supported by growth in consumption amid uncertainty over the shift to a new administration. In Europe, economies retained a moderate recovery, despite temporary instability in financial markets due to Britain's decision to leave the EU. In Asia, despite continued economic deceleration in China, there was steady economic growth in South East Asia and India, reflecting strong domestic demand. The Japanese economy, while somewhat lacking in strength, continued to show a mild improvement.
In the automobile industry, automobile production trended strongly in the United States, and automobile production and sales remained positive in European countries. In China, despite the ongoing economic slowdown, automobile production and sales trended positively, reflecting the ongoing effects of a reduction of tax on small vehicles. In Japan, automobile production and sales continued to decline, reflecting a slowdown in sales of light vehicles.

Takata Group's consolidated net sales for the first nine months of the fiscal year ending March 31, 2017 decreased 9.5% to ¥491,646 million, largely due to the sale of a U.S. subsidiary and effects of the stronger yen compared to the same period of the previous year. Operating income increased 1.7% to ¥32,724 million, owing to increased earnings in Japan, Europe and Asia, which outweighed a decline in the Americas. Ordinary income increased 26.2% to ¥37,052 million, influenced by foreign exchange gains resulting from a weakening of the yen at the end of the third quarter period. However, a net loss attributable to owners of parent of ¥67,125 million was recorded (compared to net income of ¥2,519 million in the previous comparable period), resulting from the recording of a special loss of ¥96,927 million relating to a settlement with the U.S. Department of Justice.

Results by geographical segment were as follows:

(1) Japan

In Japan, although vehicle production continued to decline due to the effects of a slowdown in sales of light vehicles, Takata's sales to domestic OEMs increased. Export sales to group companies also increased, resulting in a 4.4% increase in net sales to ¥101,757 million. Operating income increased 43.5% to ¥4,945 million, with an increase in recall-related expenses offset by an increase in earnings on higher sales, along with cost reductions.

(2) The Americas

In the Americas, automobile production and sales in the U.S. continued to trend positively, while conditions in Brazil began to recover. Takata's sales decreased 16.5% to ¥216,778 million, due to a reduction in sales resulting from the sale of a U.S. subsidiary and the effects of the stronger yen. Operating income decreased 23.2% to ¥9,959 million, due to a decline in sales resulting from the sale of a U.S. subsidiary, combined with an increase in recall-related expenses.

(3) Europe

In Europe, Takata's net sales declined 7.8% to ¥127,050 million, with the effects of a strong yen outweighing higher year-on-year sales on a local currency basis resulting from continued strong automobile production trends in key markets. Operating income increased 47.3% to ¥2,264 million, largely supported by an improvement in earnings in Russia.

(4) Asia

In Asia, Takata's net sales for the first nine months of the fiscal year decreased 2.3% to ¥135,159 million, with the strong yen outweighing an upward trend in year-on-year sales on a local currency basis concomitant with positive trends in automobile production, mainly in China, Thailand and India. Operating income increased 4.4% to ¥15,578 million, largely due to increased earnings in ASEAN countries, South Korea and India.

### 2. Financial position

Total assets at the end of the nine-month period under review were ¥459,155 million, ¥16,119 million higher than at the end of the previous fiscal year. The main factor influencing this outcome was an increase in cash and deposits.

Total liabilities at the end of the nine-month period were ¥411,274 million, ¥92,825 million higher than at the end of the previous fiscal year. The main factor influencing this outcome was the recording of a provision relating to a settlement with the U.S. Department of Justice.

Net assets at the end of the nine-month period were ¥47,880 million, a decrease of ¥76,705 million from the end of the previous fiscal year. This was mainly due the recording of a net loss attributable to owners of parent.

### 3. Consolidated operating result forecasts and other forward-looking information

For revisions to the consolidated operating results forecasts, please refer to “Revision of Full-year Forecasts for the Fiscal Year ending March 31, 2017,” which was released today (February 10, 2017).

## II. Notes

### 1. Adoption of special accounting methods for the preparation of the quarterly financial statements

The effective tax rate is estimated by making a reasonable estimation of the effective tax rate on net income before income taxes for the full fiscal year after the application of tax effect accounting, and applying this rate to net income before income taxes for the nine-month period under review. In these financial statements, income taxes—deferred is included in total income taxes.

### 2. Additional information

The Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26) issued on March 28, 2016, has been applied from the first quarter period.

## III. Material events, etc. regarding assumption of going concern

With the recording of special losses for airbag recall expenses, The Takata Group is currently facing events or conditions that may cast significant doubt upon its ability to continue as a going concern, including the recording of a net loss attributable to owners of parent for two consecutive fiscal years ended March 31, 2016, a turn to negative cash flow, and refinancing of some long-term borrowings that reached their repayment date in the previous fiscal year to a shorter term of repayment.
In the nine-month period under review, the Group recorded a net loss attributable to owners of parent due to factors including the recording of a large special loss relating to a settlement agreement with the U.S. Department of Justice on January 13, 2017 (U.S. time). Also, as a result of the recording of a provision in relation to a settlement agreement with the U.S. Department of Justice, as of the end of the nine-month period under review, the Group’s current liabilities exceed its current assets. Although cash flow returned to positive as a result of the sale of a U.S. subsidiary, the Group continued to face events or circumstances that could give rise to significant doubt about its ability to continue as a going concern, including continuing to refinance some long-term borrowings that have reached their repayment date to a shorter term of repayment, the future payment of US$1,000 million based on a settlement agreement with the U.S. Department of Justice,

and a possibility that the Group may be liable to bear significant costs in relation to (1) Market recalls, and (2) Lawsuits, etc. arising from airbag defects as stated in the Contingent Liability section in Items related to the consolidated quarterly balance sheet.

Net sales and operating income are continuing to trend favorably, and the Group is implementing measures as outlined below to address events and circumstances that may give rise to doubts about the assumption that the Group has the ability to continue as a going concern. However, although the payment of US$1,000 million in relation to the settlement agreement with the U.S. Department of Justice and the payment of potential significant costs in relation to market recalls and lawsuits arising from airbag defects will depend largely on the Group's restructuring plan, including the selection of a new sponsor, the Group is currently working to select a new sponsor, and is still in the midst of negotiations with stakeholders, including automakers and financial institutions, regarding the formulation of a restructuring plan, and therefore at this point in time there is considered to be significant doubt about the assumption that the Group has the ability to continue as a going concern.

1. Cooperation with authorities; activities to support continued transactions with automakers and financial institutions; establishment of the steering committee.
   The Group is making every effort to address product quality issues connected with the market recall of vehicles containing airbags manufactured by the Group, working to promote end-user safety and public confidence through collaborative testing and analysis with automakers, cooperating fully with market recalls and requests from authorities such as reaching agreement with the U.S. National Highway Traffic Safety Administration (NHTSA) on a Consent Order on November 3, 2015 (U.S. time) and an amended to the Consent Order on May 4, 2016 (U.S. time) . While working to resolve product quality issues, the Group is reforming its product development process, quality systems and service provisions to meet the needs of customers and contribute to the development of a safe and plentiful society. The Group views the pursuit of safety as its societal mission, and is in ongoing dialogue with automakers with respect to maintaining a stable supply of products manufactured by the Group underpinned by the business foundation necessary to achieve such goal. The Group is also in constant dialogue with financial institution partners to secure necessary funding resources and has gained their understanding with regard to maintaining the Group's financing. Moreover, the Group is working to ensure a transparent process for all stakeholders through the establishment in February 2016 of a steering committee, comprised of external experts, tasked with developing a group restructuring plan, including the Group's governance, capital and financial policies and procurement policies. Additionally, as part of the development of the group restructuring plan, and with the aim of addressing the airbag market recall issue, the steering committee has been commissioned to seek new investors (sponsors), and has received proposals from multiple potential sponsors. The steering committee is now holding discussions with OEMs regarding these sponsor proposals.

2. Capital expenditure and cost reduction
   The Group will work to improve cash flow through measures such as reducing capital expenditure to align with sales plans and controlling costs through shifting manufacturing and other functions to low cost countries.

3. Sale of marketable securities
   Marketable securities have been sold to improve cash flow.

4. Consideration of sale of non-core assets
   The Group has been considering the sale of assets that are not core to the Company's main business of manufacturing and selling automotive safety products, and on September 28, 2016 (U.S. time) sold part of the business of its U.S. subsidiary. The group will continue to consider sales of other businesses that are not core to its main business.

5. Review of inflator business
   The Group is comprehensively reviewing its inflator operations with the aim of ensuring the continuation and growth of the airbag business.

## IV. Consolidated Financial Statements

### 1. Consolidated balance sheets

*Millions of yen, rounded down*

| | As of December 31, 2016 | As of March 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | 83,626 | 53,712 |
| Notes & accounts receivable | 117,234 | 115,732 |
| Marketable securities | 2,855 | 4,836 |
| Inventories | 86,059 | 81,413 |
| Deferred income taxes | 12,486 | 16,489 |
| Other | 27,998 | 32,191 |
| Allowance for doubtful accounts | (3,276) | (3,617) |
| Total current assets | 326,986 | 300,759 |
| **Fixed assets** | | |
| Tangible assets | 109,045 | 113,120 |
| Intangible assets | 2,993 | 3,671 |
| Investments and other assets | 20,130 | 25,484 |
| Total fixed assets | 132,169 | 142,277 |
| **Total assets** | 459,155 | 443,036 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable | 58,165 | 71,508 |
| Short-term borrowings | 32,780 | 20,549 |
| Current portion of long-term borrowings | 17,604 | 15,297 |
| Current portion of bonds | 10,000 | -- |
| Accounts payable -other | 43,129 | 39,392 |
| Accrued expenses | 25,097 | 21,945 |
| Accrued income taxes | 6,369 | 5,253 |
| Deferred income taxes | 52 | 157 |
| Provision for U.S. Department of Justice settlement | *1 116,490 | -- |
| Warranty reserve | 15,516 | 42,755 |
| Other | 29,414 | 18,206 |
| Total current liabilities | 354,620 | 235,064 |
| **Long-term liabilities** | | |
| Bonds | 20,000 | 30,000 |
| Long-term borrowings | 3,991 | 18,208 |
| Deferred income taxes | 9,927 | 12,832 |
| Net defined benefit liability | 14,148 | 14,466 |
| Reserve for directors' retirement benefits | 721 | 668 |
| Other | 7,866 | 7,209 |
| Total long-term liabilities | 56,654 | 83,385 |
| **Total liabilities** | 411,274 | 318,449 |

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## 1. Consolidated balance sheets (cont'd.)

*Millions of yen, rounded down*

| | As of December 31, 2016 | As of March 31, 2016 |
|---|---|---|
| **NET ASSETS** | | |
| **Shareholders' equity** | | |
| Capital | 41,862 | 41,862 |
| Capital surplus | 42,579 | 42,579 |
| Retained earnings | (12,693) | 54,432 |
| Treasury shares | (0) | (0) |
| Total shareholders' equity | 71,747 | 138,872 |
| **Accumulated other comprehensive income** | | |
| Unrealized gains on available-for-sale securities | 3 | 3,712 |
| Foreign currency translation adjustments | (22,893) | (16,576) |
| Remeasurements of defined benefit plans | (3,940) | (4,204) |
| Total accumulated other comprehensive income | (26,830) | (17,068) |
| **Non-controlling interests** | 2,964 | 2,783 |
| **Total net assets** | 47,880 | 124,586 |
| **Total liabilities and net assets** | 459,155 | 443,036 |

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## 2. Consolidated statements of income and comprehensive income

### Consolidated statements of income

*Millions of yen, rounded down*

| | Nine months ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|
| **Net sales** | ¥491,646 | ¥543,423 |
| Cost of sales | 402,990 | 450,791 |
| Gross profit | 88,656 | 92,631 |
| Selling, general and administrative expenses | 55,932 | 60,455 |
| **Operating income** | ¥ 32,724 | ¥ 32,175 |
| **Non-operating income** | | |
| Interest income | 367 | 497 |
| Dividend income | 157 | 371 |
| Foreign exchange gains | 4,071 | — |
| Other | 931 | 773 |
| Total non-operating income | ¥ 5,528 | ¥ 1,641 |
| **Non-operating expenses** | | |
| Interest expenses | 756 | 773 |
| Foreign exchange losses | — | 3,332 |
| Other | 443 | 341 |
| Total non-operating expenses | ¥ 1,200 | ¥ 4,447 |
| **Ordinary income** | ¥ 37,052 | ¥ 29,369 |
| **Special gains** | | |
| Gain on sales of shares in subsidiary | 11,405 | — |
| Gain on sales of investment securities | 4,797 | 1,397 |
| Gain on sales of fixed assets | 118 | 356 |
| Total special gains | 16,320 | 1,754 |
| **Special losses** | | |
| Provision for U.S. Department of Justice settlement | *96,927 | — |
| Recall-related loss | 10,628 | 10,465 |
| Settlement package for product liability obligations | 2,857 | — |
| Loss on soil contamination countermeasures | 1,414 | — |
| Penalties | — | 8,521 |
| Settlement package | — | 3,496 |
| Business restructuring Loss | — | 130 |
| Loss on sales of investment securities | — | 120 |
| Total special losses | 111,827 | 22,734 |
| **Net income (loss) before income taxes** | ¥ (58,453) | ¥ 8,389 |
| Total income taxes | ¥ 8,112 | ¥ 5,677 |
| **Net income (loss) attributable to non-controlling interests** | ¥ (66,566) | ¥ 2,711 |
| Net income attributable to non-controlling interests | ¥ 558 | ¥ 191 |
| **Net income (loss) attributable to owners of parent** | ¥ (67,125) | ¥ 2,519 |

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## Consolidated statements of comprehensive income

*Millions of yen, rounded down*

| | Nine months ended December 31, 2016 | Nine months ended December 31, 2015 |
|---|---|---|
| **Net income (loss)** | ¥(66,566) | ¥ 2,711 |
| **Other comprehensive income** | | |
| Unrealized gains (losses) on available-for-sale securities | (3,709) | (1,048) |
| Deferred gains (losses) on hedging instruments | — | (3) |
| Foreign currency translation adjustments | (6,230) | (5,106) |
| Adjustments for retirement benefits | 264 | 195 |
| Total other comprehensive income (loss) | ¥ (9,675) | ¥(5,962) |
| **Comprehensive income** | ¥(76,242) | ¥(3,251) |
| **Total comprehensive (loss) income attributable to:** | | |
| Shareholders of Takata Corporation | ¥ (76,886) | ¥(3,331) |
| Non-controlling interests | ¥ 644 | ¥ 80 |

## 3. Notes to the consolidated quarterly financial statements

**(Notes regarding assumption of going concern)**

With the recording of special losses for airbag recall expenses, The Takata Group is currently facing events or conditions that may cast significant doubt upon its ability to continue as a going concern, including the recording of a net loss attributable to owners of parent for two consecutive fiscal years ended March 31, 2016, a turn to negative cash flow, and refinancing of some long-term borrowings that reached their repayment date in the previous fiscal year to a shorter term of repayment.
In the nine-month period under review, the Group recorded a net loss attributable to owners of parent due to factors including the recording of a large special loss relating to a settlement agreement with the U.S. Department of Justice on January 13, 2017 (U.S. time). Also, as a result of the recording of a provision in relation to a settlement agreement with the U.S. Department of Justice, as of the end of the nine-month period under review, the Group's current liabilities exceed its current assets. Although cash flow returned to positive as a result of the sale of a U.S. subsidiary, the Group continued to face events or circumstances that could give rise to significant doubt about its ability to continue as a going concern, including continuing to refinance some long-term borrowings that have reached their repayment date to a shorter term of repayment, the future payment of US$1,000 million based on a settlement agreement with the U.S. Department of Justice, and a possibility that the Group may be liable to bear significant costs in relation to (1) Market recalls, and (2) Lawsuits, etc. arising from airbag defects as stated in the Contingent Liability section in Items related to consolidated quarterly balance sheet.

The Group is implementing measures as outlined below to address events and circumstances that may give rise to doubts about the assumption that the Group has the ability to continue as a going concern.

1. Cooperation with authorities; activities to support continued transactions with automakers and financial institutions; establishment of the steering committee.
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4. Consideration of sale of non-core assets
   The Group has been considering the sale of assets that are not core to the Company's main business of manufacturing and selling automotive safety products, and on September 28, 2016 (U.S. time) sold part

of the business of its U.S. subsidiary. The group will continue to consider sales of other businesses that are not core to its main business.

5. Review of inflator business
The Group is comprehensively reviewing its inflator operations with the aim of ensuring the continuation and growth of the airbag business

However, although the payment of US$1,000 million in relation to the settlement agreement with the U.S. Department of Justice and the payment of potential significant costs in relation to market recalls and lawsuits arising from airbag defects will depend largely on the Group's restructuring plan, including the selection of a new sponsor, the Group is currently working to select a new sponsor, and is still in the midst of negotiations with stakeholders, including automakers and financial institutions, regarding the formulation of a restructuring plan, and therefore at this point in time there is considered to be significant doubt about the assumption that the Group has the ability to continue as a going concern.

The quarterly financial statements have been created based on the assumption that the Group has the ability to continue as a going concern, and the effects associated with the significant doubt about the assumption that the Group has the ability to continue as a going concern are not reflected in the consolidated quarterly financial statements.

**(Items related to consolidated quarterly balance sheet)**

***1 Additional information**

On January 13, 2017 (U.S. time), the Company reached a settlement agreement with the U.S. Department of Justice regarding the company's previously disclosed issues related to the integrity of Takata's inflator validation testing and reporting. Based on this agreement, the Group has recorded a provision of US$1,000 million as a settlement amount for payment of a fine and contribution to a restitution fund as outlined below. The amount contributed to the restitution fund is not expected to be returned to the Company.

| Outline of fine, etc. | Payment deadline | Amount |
|---|---|---|
| A criminal fine for pleading guilty to one count of wire fraud for falsifying testing data and reports that were provided to automakers | Payment in full within 30 days of guilty plea | ¥2,912 million (US$25 million) |
| Contribution to a restitution fund for individuals who suffered or will suffer personal injury caused by the malfunction of a Takata airbag inflator, and who have not already resolved their claims | As above | ¥14,561 million (US$125 million) |
| Contribution to a restitution fund for automakers who received falsified testing data and reports | Within 5 days of completion of company restructuring process (expected to be completed within 365 days of guilty plea) | ¥56,131 million (US$482 million) |
| Contribution to a restitution fund for automakers who have purchased airbag inflators from Takata containing phase-stabilized ammonium nitrate | As above | ¥42,886 million (US$368 million) |
| Total | | ¥116,490 million (US$1,000 million) |

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## 2 Contingent Liability

### (1) Market recalls

Market recalls have been implemented for certain airbag products previously manufactured by TKH, which is the Company's U.S. subsidiary. As a result, a provision for product warranties was recorded to the extent that a reasonable estimate of costs expected to be incurred is possible (for cases in which it has been definitely determined that responsibility lies with the Group as the manufacturer). With respect to airbag product market recalls for which the proportion and amount of costs allocated to the Group will be decided through discussions with automakers, as described below, it is not currently possible to make a reasonable estimate of the costs likely to be borne by the Group. Accordingly, depending on future developments in relation to the market recalls there may be a significant impact on the Group's financial position, financial performance and cash flow.

Airbag product market recalls for which the proportion and amount of costs allocated to the Group will be decided through discussions with automakers

TKH mainly has been engaged in efforts and discussions with the U.S. National Highway Traffic and Safety Administration (NHTSA) to address the issue of airbag products containing inflators manufactured by the Group. As a result, on May 18, 2015 (U.S. time), TKH filed four Defect Information Reports ("DIRs") on its airbag inflators (gas generator) with NHTSA putting the utmost importance on the safety of end users. On the same day, TKH entered into a Consent Order with NHTSA to implement additional market recalls for airbag products for which the cause of the defect was still being determined. In accordance with the Consent Order, TKH, upon mutual consultation with the affected automotive manufacturers, submitted to NHTSA a plan outlining the measures that will be taken by TKH itself and in cooperation with the affected automotive manufacturers to achieve the purposes of the National Traffic and Motor Vehicle Safety Act of 1966 as well as the Consent Order. On January 25, 2016 (U.S. time), TKH further addressed public safety concerns, filing with NHTSA two additional DIRs for inflators manufactured by the Group. In these DIRs, under the supervision of NHTSA, market recalls were stipulated for specific driver-side airbag products manufactured by the Group and incorporating non-desiccated inflators, for which the cause of the defect was still being determined, in vehicle model years up to 2014. In addition, the DIRs included a provision for the possible subsequent recall of inflators installed in vehicle models after 2014, depending on the results of investigations into the root cause. These DIRs reflected the Group's current understanding based on the findings to date from ongoing investigations regarding the root cause that a small percentage of inflators had the potential to rupture on deployment due to excessive internal pressure as a result of long-term exposure to environments of high heat and humidity along with manufacturing variability and other such factors.

On November 3, 2015 (U.S. time) TKH and NHTSA agreed to the second Consent Order under which the Group would phase out the manufacture and sale of non-desiccated Phase Stabilized Ammonium Nitrate (PSAN) inflators and would not enter into any new contracts to provide PSAN inflators.

On May 4, 2016 (U.S. time), TKH and NHTSA agreed to an amendment to the Consent Order of November 3, 2015 (U.S. time). Under this amendment, the Group will be filing Defect Information Reports (DIRs) for all non-desiccated frontal airbags manufactured by the Group and not currently under market recall in the U.S. in five stages, according to model years and the geographic regions where the vehicles are registered, focusing first on older vehicles in regions of high heat and absolute humidity. Through these market recalls of airbags products for which the root cause of the defect is still being determined, all non-desiccated frontal airbags will be under market recall by December 31, 2019.

With regard to the root cause of defects in airbag products subject to market recalls, although in July 2016 the Group received a report from an independent investigation, this report did not address the responsibility of the Company, TKH or automakers. The proportion and amount of costs allocated to the Group will be decided through discussions planned to be held with automakers. Accordingly, depending on the outcome of these discussions the Group may become liable for a certain portion of costs associated with airbags subject to recall, but it is not currently possible to make a reasonable estimate of any such costs.

As of February 10, 2017 the approximate number of Takata airbags under recall totaled 51 million in the U.S., 16 million in Japan and 4.7 million in Canada, and authorities in the U.S. and Japan had announced additional planned recalls of approximately 11 million airbags and 2 million airbags respectively.

### (2) Lawsuits, etc. arising from airbag defects

In connection with airbags manufactured by The Group, an amended Consolidated Class Action Complaint

has been filed with the United States District Court for the Southern District of Florida against the Company and its U.S. subsidiaries.
In Canada, the Company and its U.S. subsidiaries have received notices of class action lawsuits where the plaintiffs have claimed damages, etc.
The Company and its U.S. subsidiaries also received notices of respective lawsuits from the State of Hawaii and from the U.S. Virgin Islands in May 2016, seeking compensation for owners of vehicles equipped with Takata airbags.
At this stage it is not currently possible to make a reasonable estimate of the likelihood or amount of any damages or penalties, etc., arising in connection with these lawsuits, etc. Depending on future developments in relation to such lawsuits, etc., there is a possibility that The Group's financial position, financial performance and cash flows may be affected.

**(3) Matters related to anti-trust laws**

The Company and its U.S. subsidiaries have received claims for damages, including class action lawsuits in the U.S. and Canada in connection with a settlement reached with the U.S. Department of Justice for a breach of U.S. anti-trust laws. It is currently not possible to reasonably estimate the likelihood or amount of any claims for damages arising in connection with these anti-trust matters.

## (Notes to consolidated quarterly statements of income)

With regard to the total US$1,000 million which is to be paid for fines and for the establishment of restitution funds based on the settlement agreement with the U.S. Department of Justice as outlined in *(Notes to the consolidated quarterly balance sheets) *1 Additional Information* above, the Group has recorded provisions of US$862 million, which represents the difference between the total amount of the Department of Justice settlement of US$1,000 million minus US$138 million as the amount allocable in accordance with the purpose of the restitution fund (US$368 million) for automakers who have purchased airbag inflators from Takata containing phase-stabilized ammonium nitrate, from the total product warranty provisions already recorded prior to the agreement.

## (Notes regarding significant changes in shareholders' equity)

No applicable items

(Segment information)

**Nine-month period ended December 31, 2016**

1. Net sales and operating income or loss by reporting segment

*Millions of yen, rounded down*

| | Japan | The Americas | Europe | Asia | Total | Eliminations and Corporate (Note 1) | Consolidated (Note 2) |
|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | |
| (1) Sales to external customers | 59,372 | 201,681 | 120,116 | 110,476 | 491,646 | — | 491,646 |
| (2) Inter-segment sales or transfers | 42,385 | 15,097 | 6,934 | 24,682 | 89,100 | (89,100) | — |
| Total | 101,757 | 216,778 | 127,050 | 135,159 | 580,746 | (89,100) | 491,646 |
| Segment operating income | 4,945 | 9,959 | 2,264 | 15,578 | 32,748 | (24) | 32,724 |

Notes:
1. The amount of minus ¥24 million in 'eliminations and corporate' in segment operating income comprises eliminations of inter-segment sales of ¥30 million and goodwill amortization of minus ¥54 million.
2. Segment operating income is adjusted for operating income as recorded in the consolidated statements of income

2. Impairment losses on fixed assets and goodwill by reporting segment
None

**Nine-month period ended December 31, 2015**

1. Net sales and operating income or loss by reporting segment

*Millions of yen, rounded down*

| | Japan | The Americas | Europe | Asia | Total | Eliminations and Corporate (Note 1) | Consolidated (Note 2) |
|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | |
| (1) Sales to external customers | 57,900 | 243,089 | 127,780 | 114,653 | 543,423 | — | 543,423 |
| (2) Inter-segment sales or transfers | 39,546 | 16,645 | 10,049 | 23,619 | 89,861 | (89,861) | — |
| Total | 97,446 | 259,734 | 137,829 | 138,272 | 633,284 | (89,861) | 543,423 |
| Segment operating income | 3,445 | 12,965 | 1,537 | 14,926 | 32,875 | (699) | 32,175 |

Notes:
1. The amount of minus ¥699 million in 'eliminations and corporate' in segment operating income comprises eliminations of inter-segment sales of minus ¥645 million and goodwill amortization of minus ¥54 million.
2. Segment operating income is adjusted for operating income as recorded in the consolidated statements of income

2. Impairment losses on fixed assets and goodwill by reporting segment
None