TOYO TIRES
driven to perform

# Annual Report 2012

Year Ended March 31, 2012

TOYO TIRES
Turnpike

# Profile

Since its establishment in Osaka in 1945, TOYO TIRE & RUBBER CO., LTD. (Toyo Tires) has been guided by its corporate philosophy: "A commitment to creating new value through innovation in advanced, proprietary technologies."

Leveraging our core tire and anti-vibration rubber technologies, we manufacture and sell automotive tires through our Tire Business, and automotive anti-vibration rubber, urethane products, industrial rubber and other products through our DiverTech Business. We have consistently worked to develop innovative new technologies and products, and our business now spans more than 100 countries and regions worldwide.

In May 2011, we released "Vision 2020," our vision for the company in 2020, and "2011 Medium-Term Business Plan," a road map ending in 2015 that outlines the first five years of our efforts to realize "Vision 2020." Guided by this road map, we are working to reinforce the Group's earnings base by actively expanding our operations overseas.

## Consolidated Financial Highlights

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| (FY) | 2007 | 2008 | 2009 | 2010 | 2011 |
| **For the Year:** | | | | | |
| Net sales | 357,233 | 328,371 | 287,726 | 294,093 | **320,570** |
| Operating income (loss) | 13,168 | (2,964) | 8,665 | 12,182 | **12,893** |
| Net income (loss) | 6,137 | (10,722) | 2,958 | 521 | **6,704** |
| Depreciation and amortization | 18,937 | 20,093 | 18,840 | 16,961 | **18,322** |
| Capital expenditures | 20,153 | 29,221 | 13,215 | 28,325 | **29,768** |
| R&D expenditures | 9,619 | 8,763 | 8,316 | 8,556 | **8,313** |
| **At the Year-end:** | | | | | |
| Total assets | 333,893 | 304,769 | 293,208 | 305,290 | **336,983** |
| Net assets | 92,605 | 71,356 | 85,024 | 79,607 | **86,553** |
| Interest-bearing debt | 96,265 | 138,113 | 109,820 | 118,130 | **127,863** |
| Number of employees | 7,248 | 6,972 | 6,862 | 8,536 | **9,523** |
| Number of shares outstanding (thousand shares) | 209,284 | 229,284 | 254,358 | 254,358 | **254,358** |
| **Per Share Data (¥):** | | | | | |
| Net income (loss) | 29.36 | (48.96) | 12.14 | 2.05 | **26.39** |
| Net assets | 432.04 | 304.30 | 325.83 | 305.19 | **330.02** |
| Cash dividends | 9 | — | 3 | 5 | **5** |
| **Ratios (%):** | | | | | |
| Operating margin | 3.69 | (0.90) | 3.01 | 4.14 | **4.02** |
| Net income margin | 1.72 | (3.27) | 1.03 | 0.18 | **2.09** |
| Net income to shareholders' equity (ROE) | 6.61 | (13.40) | 3.88 | 0.65 | **8.31** |
| Operating income to total assets (ROA) | 3.94 | (0.93) | 2.90 | 4.07 | **4.01** |
| Capital ratio | 27.04 | 22.86 | 28.23 | 25.40 | **24.88** |
| D/E ratio (times) | 1.07 | 1.98 | 1.33 | 1.52 | **1.53** |

## Contents



Feature

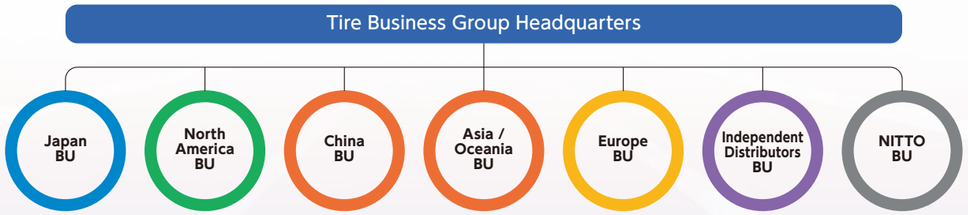
# Taking on the Global Market

Global demand for tires continues to expand as motorization in emerging markets gathers pace. Since FY2010, we have been steadily working to build an optimal global supply chain structure through initiatives in our "2011 Medium-Term Business Plan." This new structure will lift the Group's tire supply capacity from 29 million units in FY2010 to 45 million units in FY2015.

This will give us the capacity to meet buoyant global demand for tires, as well as reduce lead times and boost price competitiveness. Ultimately, we plan to increase the Group's overseas production ratio from around 10% in FY2010 to about 40% in FY2015.

Furthermore, we adopted a new business unit structure in April 2012 in order to deliver rapid and steady global growth. This structure clearly defines operational authority and responsibility for each region to ensure faster strategy planning in line with local market conditions. It will also help us to boost sales. We now have the framework to take on the global market.

### Business Unit (BU) System in the Tire Business



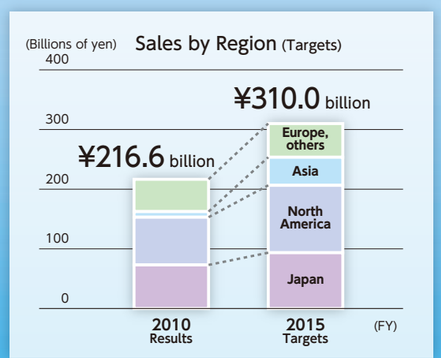

# Aiming to Expand Sales in Growth Markets Worldwide


## Integrating production, sales and technology divisions will enable rapid strategy implementation in line with local market conditions

Until now, the Toyo Tires Group has been divided into three business groups: domestic O.E. tires, domestic replacement tires, and overseas replacement tires. Under the new BU structure, operations in the Tire Business are now divided into seven clearly defined units: Japan, North America, China, Asia / Oceania, Europe, Independent Distributors and NITTO.

Clear lines of authority and responsibility in each region underpin an integrated production and sales framework, enabling us to rapidly and forcefully implement strategy in line with conditions in local markets.

The Independent Distributors BU will work to boost sales in Southeast Asia, the Middle East and South America, while the NITTO BU will aim to increase sales of NITTO-branded tires in Asia and other markets, in addition to the existing North American market.




## Building an optimal global supply chain by increasing production capacity centered on Asia

We have made good progress in building an optimal supply chain. In December 2010, we acquired Malaysian company Silverstone Berhad. Chinese company Shandong Silverstone, a manufacturer and distributor of truck and bus tires, also became part of the Group in June 2011. We completed the third phase of expansion at our tire plant in North America in August 2011 and opened a new plant in China the following December. In May this year, we also broke the ground on a new plant in Malaysia, which is due to start production in April 2013.

Our new plant in China will produce 2 million tires annually for supply to the local market, mainly for passenger cars and light trucks. The plant is equipped with technology from our new tire production process A.T.O.M., giving it the capability to manufacture high value-added tires.

The new plant in Malaysia will initially have an annual production capacity of 2.5 million tires, but we intend to raise this to 5 million in FY2015 and to 10 million over the longer term.

Through these initiatives, we plan to increase the Group's global tire supply capacity to 45 million units by FY2015.

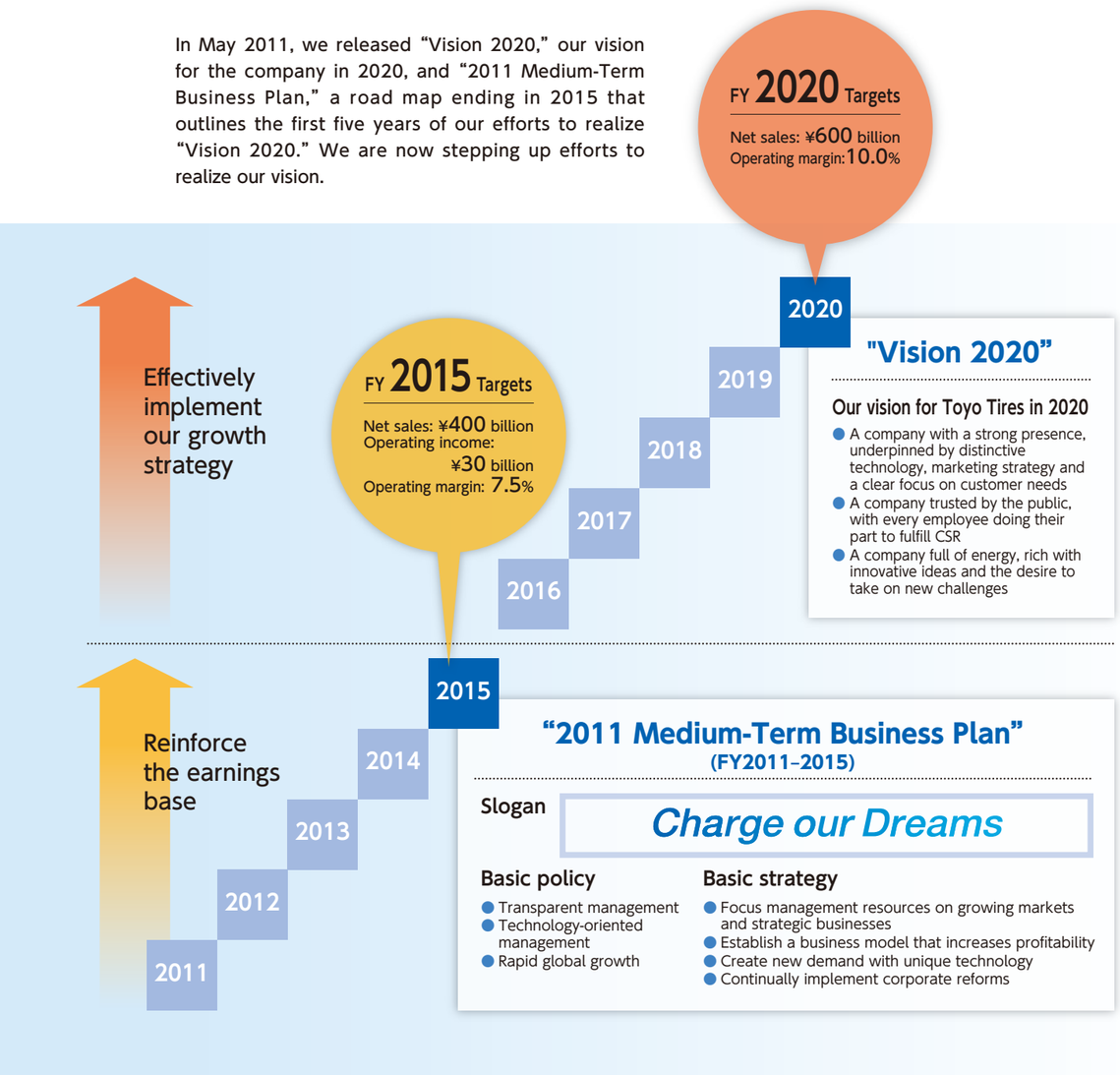
# Brand Statement

## driven to perform

"Driven to Perform" is our brand statement. It expresses the determination of each of our employees to excel at what they do, so that we can continue to be a company that is publicly recognized for our high-performance and high-quality products and services.

## "Vision 2020" and "2011 Medium-Term Business Plan"

In May 2011, we released "Vision 2020," our vision for the company in 2020, and "2011 Medium-Term Business Plan," a road map ending in 2015 that outlines the first five years of our efforts to realize "Vision 2020." We are now stepping up efforts to realize our vision.




# Message to Stakeholders

## We are harnessing all the Group's resources to take on the global market

In FY2011, the first year of our new five-year plan, "2011 Medium-Term Business Plan," we faced a challenging environment due to the aftermath of the Great East Japan Earthquake, high raw material prices and the flooding in Thailand.

Against this backdrop, we restored production at all three of our earthquake-damaged plants by May 2011 and steadily implemented the initiatives in our new business plan. As a result, the Tire Business reported sales and profit growth ahead of our expectations due to strong sales in North America and Asia and price hikes to counter the rise in raw material prices. We also made good progress in building an optimal supply chain structure with the completion of our new tire plant in China and other projects.

The DiverTech Business also stepped up efforts to extend its global reach, forming alliances with business partners in China and setting up a subsidiary in Thailand.

With the optimal supply chain structure for the Tire Business now in place, we shifted to a new organizational structure in April 2012, which will underpin our efforts to take on the global market. This new business unit framework has created clear lines of authority and responsibility in each region, enabling us to rapidly and forcefully implement strategy in line with conditions in local markets. Also, we have combined the Tokyo and Osaka head offices in Osaka to bring together planning, administration, and supply-demand management functions and eliminate any overlap. With these reforms, we have created an organization that enables faster decision-making to support overseas business expansion. Also, effective from FY2012, Toyo Tires will move to a December fiscal year-end, bringing the parent company in line with its overseas subsidiaries. We decided to adopt a unified fiscal year-end for the whole Group in order to gain a more accurate picture of Groupwide operating performance and implement management decisions more quickly.

In December last year, Toyo Tires led the tire industry with the launch of products that meet some of the highest standards in Japan's new tire labeling system. We now offer a number of products certified to the highest level. I believe our mission as a manufacturing company is to devote ourselves to technology and the heights of what it can achieve. By enhancing our technological capabilities without compromise and by taking pride in our technology, we can add a greater depth of value to our products during the development process. This will help our products be recognized as market leaders, which will also have a positive knock-on effect for brand value.

FY2012 will be a year of big change for us. It will be an important year for initiatives to help us achieve the goals of the "2011 Medium-Term Business Plan," as we overhaul production, sales and management systems and put technology at the center of everything we do, in order to boost the corporate value of Toyo Tires on the global stage.

September 2012

Kenji Nakakura
President and Chief Executive Officer

## Q1 Please review FY2011 and tell us about your targets for FY2012.

**A**

The operating environment in FY2011 was very challenging. We had to contend with the strong yen, persistently high prices for natural rubber, which is an important raw material for our business, and surging crude oil prices. Operating rates at car manufacturing plants also declined due to the Great East Japan Earthquake and the flooding in Thailand. Against this backdrop, we fully restored production at three earthquake-damaged plants by May 2011 and made good progress with our global expansion strategy. Specifically, in the Tire Business, we announced plans to build a new plant in Malaysia, completed the third phase of expansion at our plant in North America and started up a new plant in China. In the DiverTech Business, we started supplying anti-vibration rubber for railway carriages in China and implemented a number of other initiatives.

The Tire Business reported sales and profit growth ahead of our expectations. This reflected higher sales of high value-added products in Asia and North America, price hikes to counter the rise in raw material prices, and an earnings contribution from Malaysian company Silverstone Berhad, which became part of Toyo Tires Group. The DiverTech Business reported higher sales but a drop in profits. Although demand for transportation equipment turned up during the year under review and sales of rigid urethane undiluted solution in the thermal insulation materials business grew on the back of earthquake rebuilding demand, profits declined due to the impact of lower sales of waterproof materials in the first half of the fiscal year. As a result of the above, the Toyo Tires Group reported FY2011 net sales of ¥320,570 million, an increase of 9.0% year on year, and operating income of ¥12,893 million, up 5.8%.

We expect this growth to continue into FY2012,

particularly in the Tire Business. Sales in this business are likely to be steady in the domestic market, but we estimate sales volume will rise by around 20% year on year overseas, centered on North America and China, as we boost sales in China and other parts of Asia and increase sales by introducing the NITTO tire brand into more markets worldwide. FY2012 will run for only nine months (April through December)* because we are changing the fiscal year-end from March to December. Although we expect net sales to decline to ¥304,000 million, due to the shorter fiscal year, we forecast operating income of ¥15,200 million, much higher than the level in FY2011, despite three fewer months.

### Net Sales and Operating Income by Business Segment

| | Millions of yen | | | |
|---|---|---|---|---|
| | Net sales | | Operating income | |
| | FY2012 (Apr – Dec) Plan* | FY2011 (Apr 2011 – Mar 2012) Results | FY2012 (Apr – Dec) Plan* | FY2011 (Apr 2011 – Mar 2012) Results |
| Tire | 240,600 | 241,709 | 13,000 | 10,325 |
| DiverTech | 63,400 | 78,814 | 2,200 | 2,074 |
| Other | — | 301 | — | 121 |
| Adjustment | — | (254) | — | 373 |
| Total | 304,000 | 320,570 | 15,200 | 12,893 |

*FY2012 forecasts are based on nine months (Apr-Dec 2012) for domestic consolidated companies and 12 months (Jan-Dec 2012) for overseas consolidated companies.

## Q2 What were the main successes of the "2011 Medium-Term Business Plan" in FY2011?

**A**

In the Tire Business, we made great progress in building an optimal supply chain structure with the expansion of our plant in North America and the start up of the new plant in China.

We also announced a new global brand for fuel-efficient tires called NANOENERGY. Our first product marketed under this brand, NANOENERGY 1, was launched in Japan in February 2012, and was certified as AAA for rolling resistance performance and b for wet grip performance under a new labeling system to promote fuel-efficient tires. We followed this up with the AAA/c certified NANOENERGY 2 in June and the NANOENERGY 0 in July. Under the new labeling system, NANOENERGY 0 has secured the highest grades for both rolling resistance performance and wet grip performance (AAA/a), making it the first product with this level of performance to be launched on a full-scale basis in Japan.

In sales, we pushed ahead with efforts to make it easier for management to see how operating income is being generated across the Group. We revised the sales incentive system by tire size and market and encouraged distributors to consciously focus on high value-added products. This led to some early signs of improvement in profit margins.

NANOENERGY 0

In the DiverTech Business, we took a number of steps to expand the urethane and railway car parts businesses in global markets. Specifically, we established two joint ventures in China, one to supply urethane parts for passenger cars and other transportation equipment, and the other to supply air springs for railway cars. We also set up a manufacturing and sales subsidiary in Thailand to supply urethane parts for OA equipment. These moves to build a local business base in China are aimed at enhancing our ability to respond to the growing number of local product specification needs. We are also looking at the feasibility of establishing a local R&D structure, not just production, with a view to expanding our business in China using the networks of our local partners if necessary.

Also, in a move aimed at optimizing management resources, we plan to merge all development, production and sales activities related to railway car parts, OA equipment parts, and industrial, construction and waterproof materials into wholly owned subsidiary Toyo Chemical/Industrial Products Sales Corporation. The company will then resume business under a new name, Toyo Chemical/Industrial Co., Ltd. (tentative), on January 1, 2013.

## Q3 What further steps do you plan to take to optimize the supply chain in the Tire Business?

**A**

In order to boost sales in the growing Asia region, we will continue to actively upgrade our manufacturing framework, mainly in Asia.

We have brought our new plant on line in the fast-growing China market, where private car ownership has broken through the 100 million mark. Using the latest manufacturing technology, we are aiming to produce 2 million passenger car and light truck tires each year at this facility, which will supply high value-added products to the Chinese market.

The same plant is manufacturing PROXES C100, a new tire launched exclusively for the Chinese market in August 2012 aimed at mid-range and premium passenger cars.

We also plan to start up a new plant in the Malaysian state of Perak in April 2013. The plant will initially have the capacity to produce 2.5 million tires for passenger cars and light trucks annually, supplying them to customers in Malaysia, neighboring ASEAN countries and other markets. We plan to boost annual output to 5 million tires in FY2015. The site for the

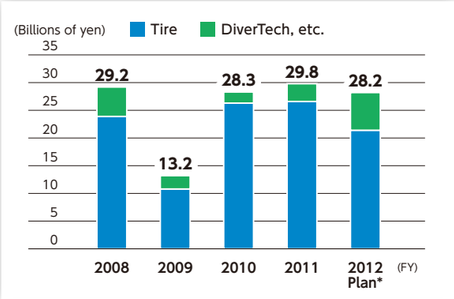

Our new plant in China

PROXES C100

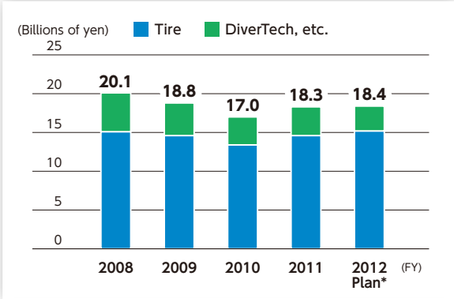
new facility is close to the Malaysian plant of Group company Silverstone Berhad. We are targeting efficient operations by pursuing synergies between both plants.

Under our "2011 Medium-Term Business Plan," we have budgeted ¥150 billion in capital expenditure over five years to create an optimal supply chain structure. We intend to spend ¥28.2 billion of this budget in FY2012*, mainly on the new tire plant in Malaysia. Our goal is to increase the overseas production ratio to around 40% in FY2015 by expanding production overseas. This will allow us to reduce manufacturing costs and cut distribution costs, leading to an improvement in the earnings structure.

Capital Expenditures




Depreciation and Amortization



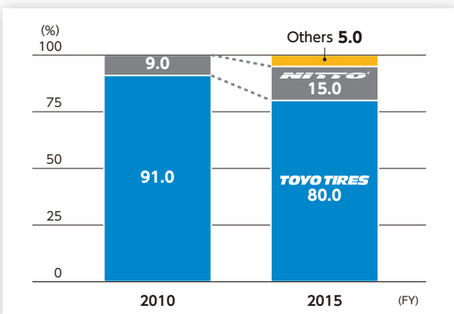

*FY2012 forecasts are based on nine months (Apr-Dec 2012) for domestic consolidated companies and 12 months (Jan-Dec 2012) for overseas consolidated companies.

## Q4 How do you plan to increase sales in the Tire Business in growth and profitable markets?

**A** As you would expect, our target market is Asia, especially China. Our new manufacturing base in China will play a key role in efforts to develop the Chinese market. Until now, our sales strategy in China has been to import products from Japan. However, from 2013, the new plant will give us the capacity to supply nearly 90% of the tires we need for China. This will reduce delivery times, increase price competitiveness and allow us to supply products and services that deliver even higher levels of customer satisfaction. In China, we will eschew a strategy of capturing market share and instead focus on sales of high value-added products aimed at mid-range and premium vehicles made in Europe and elsewhere. In 2011, we sold 1 million tires in China, but we aim to lift this 50% to 1.5 million in 2012 and double current sales to 2 million in 2013.

As stated in our "2011 Medium-Term Business Plan," we plan to drive sales growth by launching our high-margin NITTO brand in more markets worldwide. We want to increase NITTO brand sales volume by around 2.5 times to 6.75 million tires, lifting the brand's share of Group net sales from 9% in FY2010 to 15% in FY2015. The NITTO brand is mainly sold in North America, but we will extend the sales area to Asia, South America, Oceania and other markets. The Chinese market will be key to this growth strategy for NITTO products. After examining ways to expand our sales network in China, we concluded a distribution agreement with YHI Corporation in October 2011. This company is a subsidiary of Singapore listed YHI International Limited, one of only a handful of leading companies in Asia with tire sales and wheel manufacturing capabilities. YHI Corporation sells tires, batteries and other automotive products throughout Asia. I believe its expertise and knowledge in selling high value-added products in China will be extremely valuable in boosting sales of NITTO branded products, which are underpinned by advanced technology and a reputation for quality.

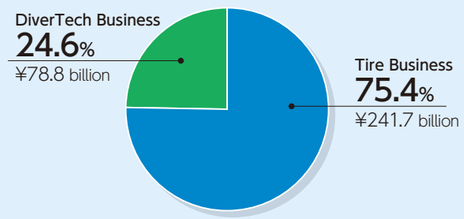
NITTO Brand Sales Ratio



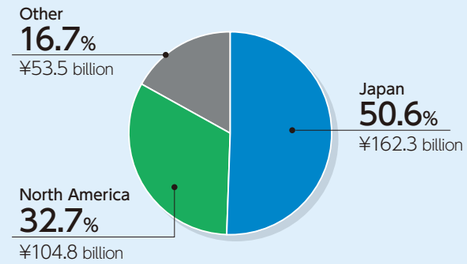





Sales by Business (FY2011)




Sales by Region (FY2011)




## Business Summary

**Tire Business**

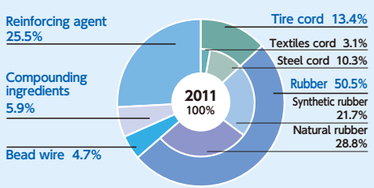
Our Tire Business manufactures and sells a range of automotive tires, including tires for passenger cars, trucks and buses, and construction vehicles. We have positioned TOYO TIRES and NITTO as our two top brands, which are both sold worldwide. TOYO TIRES is a trusted technology-focused brand. Its main products are the PROXES range of high-performance tires and the TRANPATH range of tires for minivans. The NITTO brand is aimed at luxury sports cars and light trucks and includes a range of highly innovative large-diameter tires with unique designs that are mainly sold in North America.

**DiverTech Business**

The DiverTech Business handles a range of products based on our advanced rubber, urethane and vibration control technologies. The business is focused on anti-vibration rubber and air springs, but it also supplies seismic isolation rubber for buildings, road materials, thermal insulation materials and OA equipment parts. The business has a particularly strong track record of supplying automotive anti-vibration rubber products and railway air springs to automakers and railway car makers around the world, earning a high level of trust from its customers. The DiverTech Business strives to develop the best solutions for society's needs.

Raw Material Data

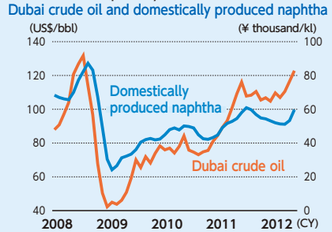
Tire raw material composition by weight




(Note) Most of the raw materials for automotive tires are made from and are highly dependent on crude oil (naphtha).
Source: JATMA

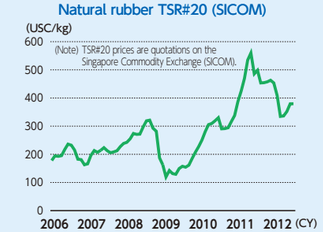
Price trends for primary raw materials

Dubai crude oil and domestically produced naphtha




Source: Dubai crude oil: Tokyo, Spot Price, FOB
Domestically produced naphtha: Custom Clearance Statistics, Ministry of Finance

Natural rubber TSR#20 (SICOM)




Source: SICOM

# Tire Business

The Tire Business is implementing a number of strategies under the "2011 Medium-Term Business Plan": building an optimal supply chain structure, establishing a distinctive brand strategy, renewing market and customer strategies, and developing products based on the world's best environmental technology.

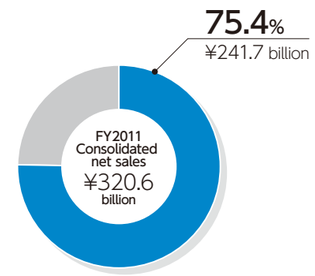
In FY2011, the first year of the medium-term business plan, we expanded sales of high value-added products in the Asia and North America markets and hiked prices to reflect an increase in raw material prices. Malaysian company Silverstone Berhad also became part of the Toyo Tires Group. As a result, the Tire Business reported sales and profit growth year on year, with net sales rising ¥25,112 million (11.6%) to ¥241,709 million and operating income increasing ¥1,461 million (16.5%) to ¥10,325 million.

During the fiscal year, we steadily added production capacity by completing the third phase of expansion at our tire plant in North America and starting up a new plant in China.

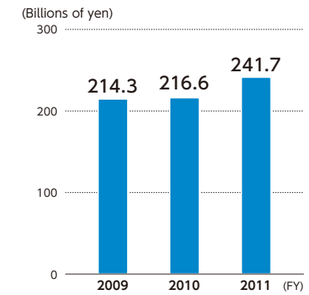
In FY2012, we launched a new business unit management framework. Under this framework, we plan to rapidly formulate business strategy based on the latest information in each local market, quickly roll out powerful market initiatives, and expand sales in the global market.

Akira Nobuki
Director,
Executive Corporate Officer,
Group Executive Officer,
Tire Business

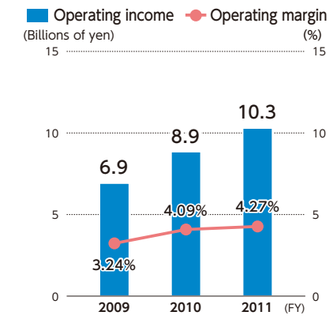
Share of Net Sales




Net Sales




Operating Income / Operating Margin




## FY2011 Overview

**[ O.E. tires: Japan ]**

In the first half of the fiscal year, domestic vehicle production declined sharply due to the earthquake and other factors. However, sales of new vehicles recovered in the second half owing to the government's decision to resume its eco-car subsidy scheme, supporting strong sales of tires fitted to new vehicles. As a result, sales volume was in line with the level in the previous fiscal year and net sales increased year on year owing to sales growth for high value-added products.

**[ Replacement tires: Japan ]**

In the passenger car tire market, we launched NANOENERGY 1, the first tire in the Japanese market to be rated AAA for rolling resistance performance and b for wet grip performance. This product is part of our range of NANOENERGY tires, which boast leading levels of environmental performance. We plan to develop NANOENERGY into one of the Group's main brands, launching it next in Europe then in other markets worldwide. We also started selling a Cross Functional Tire (CFt), which is based on a summer tire but also incorporates winter tire performance, after our customers told us they needed summer tires that also gave a reassuring ride in sudden snowfalls. Another new product in the domestic market was premium sports tire PROXES T1 SPORT, which we decided to launch in Japan following a positive reaction from customers in Europe, where it went on sale in 2011. In truck and bus tires, we launched a new all-weather tire called M636, which combines high performance traction with antiwear characteristics. Sales volume in the domestic tire replacement market declined from the previous fiscal year due to a drop in tire production caused by the earthquake and other factors, but net sales were largely steady year on year due to price hikes and strong sales of winter tires.

**[ Replacement tires: overseas ]**

In the North American market, we launched the all-season VERSADO ECO under the TOYO TIRES brand. This product is aimed at hybrid vehicles and other eco-cars, which are also becoming steadily more popular in the U.S. Another new TOYO TIRES product for North America was the PROXES 4 PLUS, a high-performance all-season tire with improved tread life and a quieter ride. Under the NITTO brand, we launched a high-performance all-season tire called MOTIVO, which incorporates improvements to tread life and wet grip performance. In North America, total sales volume and net sales both increased year on year, supported by strong sales of large-diameter and high value-added products, such as NITTO branded light-truck tires.

In the European market, we launched PROXES T1 SPORT SUV, specifically designed for premium SUVs. However, sales volume and net sales both declined year on year due to a decline in tire output caused by the earthquake.

In the Chinese market, we started selling TRANPATH mpF, a minivan tire launched in Japan in March 2011, and our premium sports tire PROXES T1 SPORT.

In other markets, sales volume and net sales both increased year on year, boosted by a contribution from Malaysian company Silverstone Berhad, which became part of the Group in December 2010, and strong sales in the Middle East and elsewhere.

As a result, total overseas sales volume and net sales both grew compared with the previous fiscal year.

## Outlook for FY2012*

For FY2012 (April–December), we forecast net sales of ¥240.6 billion and operating income of ¥13.0 billion in the Tire Business.

We aim to boost sales volume following the start of operations at our new plant in China. We also plan to position the Asia region, which continues to enjoy strong growth, as one of our key strategic markets on par with North America and Europe by reinforcing our sales network in the region. We will also review the product lines made at our plants in Japan and in the U.S., China and Malaysia in order to establish a product supply network that is better aligned with sales.

*FY2012 forecasts are based on nine months (Apr-Dec 2012) for domestic consolidated companies and 12 months (Jan-Dec 2012) for overseas consolidated companies.

News

### PROXES C100 launched: next-generation high-performance tire for passenger sedans in China

We launched PROXES C100 in August 2012. Incorporating our latest technologies, such as a specially designed asymmetrical pattern and optimal structural design features, this tire offers high-levels of quietness and comfort, making it ideal for mid-range and premium passenger cars. PROXES C100 is made at our new plant in China using the latest manufacturing technology and processes for exclusive supply to the local market.


PROXES C100 launch event

TOYO TIRES

PROXES 1 PROXES T1 Sport VERSADO ECO OPEN COUNTRY A/T TRANPATH mpF

PROXES C100 GARIT G5

NITTO

INVO motivo Trail Grappler M/T

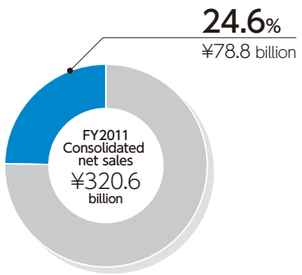
# DiverTech Business

Under the "2011 Medium-Term Business Plan," the DiverTech Business is channeling management resources into three core businesses: automobile parts, urethane, and railway car parts. It is actively expanding all three businesses globally and harnessing the Toyo Tires Group's proprietary technologies to develop high value-added, eco-friendly products. Orders for automobile parts recovered from October 2011, supported by a full-scale recovery in output at automakers. Orders have remained firm since then, partly due to the impact of the government's eco-car subsidy scheme. In FY2011, the DiverTech Business reported net sales of ¥78,814 million, up ¥1,352 million (1.7%) year on year, and operating income of ¥2,074 million, down ¥1,124 million (35.2%).

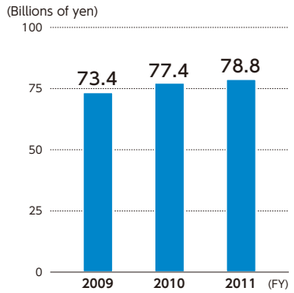
During the fiscal year under review, we pushed ahead with efforts to expand the business globally by setting up a number of new companies. These included a joint venture in China to supply urethane parts for passenger cars and other transportation equipment, another joint venture in China to supply air springs for railway cars, and a manufacturing and sales subsidiary in Thailand to supply urethane parts for OA equipment. We also plan to start sales of automotive anti-vibration rubber products in Thailand from FY2012 to tap into projected growth in auto production in that country.

Takafumi Ichikawa
Director,
Senior Corporate Officer,
Group Executive Officer,
DiverTech Business

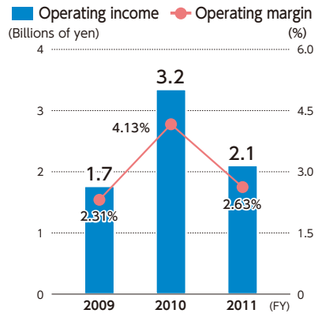
Share of Net Sales




Net Sales




Operating Income / Operating Margin




## FY2011 Overview

**[ Transportation equipment ]**

Demand for automotive anti-vibration rubber products was hit by a decline in output at automakers due to the aftermath of the earthquake and the flooding in Thailand. However, net sales of these products increased year on year owing to an upturn in demand in the second half of the fiscal year and an increase in production of vehicle models mounted with our products. Net sales of automobile seat cushions declined year on year due to the impact of the earthquake and a decline in production in the second half of vehicle models fitted with our cushions. Despite strong domestic demand for air springs used in railway cars, net sales of these products fell year on year owing to a decline in orders overseas, mainly as a result of the impact of the global recession centered on Europe.

**[ Thermal insulation and waterproof materials ]**

Net sales of thermal insulation materials rose year on year, reflecting higher sales of products that benefited from rebuilding demand following the earthquake. These included rigid urethane undiluted solution used in temporary housing and refrigerated warehouses, and insulation materials used in agricultural and livestock buildings. Insulation spray used in the construction of condominiums and other buildings also registered strong sales. Net sales of waterproof materials declined year on year, with an upturn in demand in the second half of the fiscal year insufficient to offset a large decline in the first half.

**[ Industrial and construction materials ]**

Net sales of industrial materials declined year on year. Standard anti-vibration rubber and urethane products used in road materials recorded strong sales, but sales of rubberized fabric products fell as some projects were postponed by customers. Net sales of construction materials increased year on year, reflecting increased demand for seismic isolation rubber following the earthquake and strong sales of construction hoses due to earthquake rebuilding demand.

## Outlook for FY2012*

For FY2012 (April–December), we forecast net sales of ¥63.4 billion and operating income of ¥2.2 billion in the DiverTech Business.

*FY2012 forecasts are based on nine months (Apr-Dec 2012) for domestic consolidated companies and 12 months (Jan-Dec 2012) for overseas consolidated companies.

### News 1 Joint venture established in China to supply railway car parts

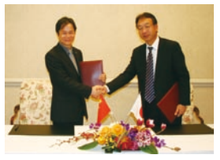
In July 2011, Toyo Tires and Wuxi Meifeng Rubber Products Manufacturing Co., Ltd. (Meifeng Rubber) signed an agreement to establish a new joint venture called Wuxi Toyo Meifeng Rubber Products Manufacturing Co., Ltd. in China, to manufacture and sell parts for railway cars. Meifeng Rubber already manufactures and sells rubber products for the railway, automotive and home appliance markets.

Toyo Tires has been working to extend its reach into the fast-growing railway business market in China, while Meifeng Rubber has been aiming to move into new business fields. This alignment in strategic goals underpins the new joint venture.

Joint venture agreement signing ceremony

### News 2 Joint venture established in China to supply urethane parts for passenger cars and other transportation equipment

In January 2012, Toyo Tires and Guangdong TGPM Automotive Industry Group Co., Ltd. (TGPM) signed an agreement to establish a joint venture in China to manufacture and sell urethane seat cushions for passenger cars and other transportation equipment. TGPM is currently building its sales network with automakers, including the manufacture and sale of body sealers* and the development of car dealerships in the Huanan Region centered around Foshan City, Guangdong Province in China. The decision to establish a joint venture reflects our overlapping strategic goals in the field. Toyo Tires is aiming to enter the Chinese market for high value-added urethane seat cushions, while TGPM is seeking to expand its sales with automakers by moving into new business fields.



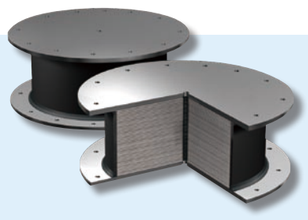
Joint venture agreement signing ceremony

*Body sealers are products applied to the seams between steel plates in automobiles to protect the vehicle against water, dust and rust.

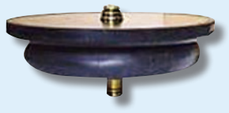
Coupling

Constant velocity universal joint boots (C.V.J. Boots)

Hydraulic engine mounts



Seismic isolation rubber



Air springs for railway cars

Conical shaft springs for railway cars

Urethane sheet cushions

# Flagship fuel-efficient tire NANOENERGY 0 launched

## Secures highest grades for rolling resistance and wet grip performance

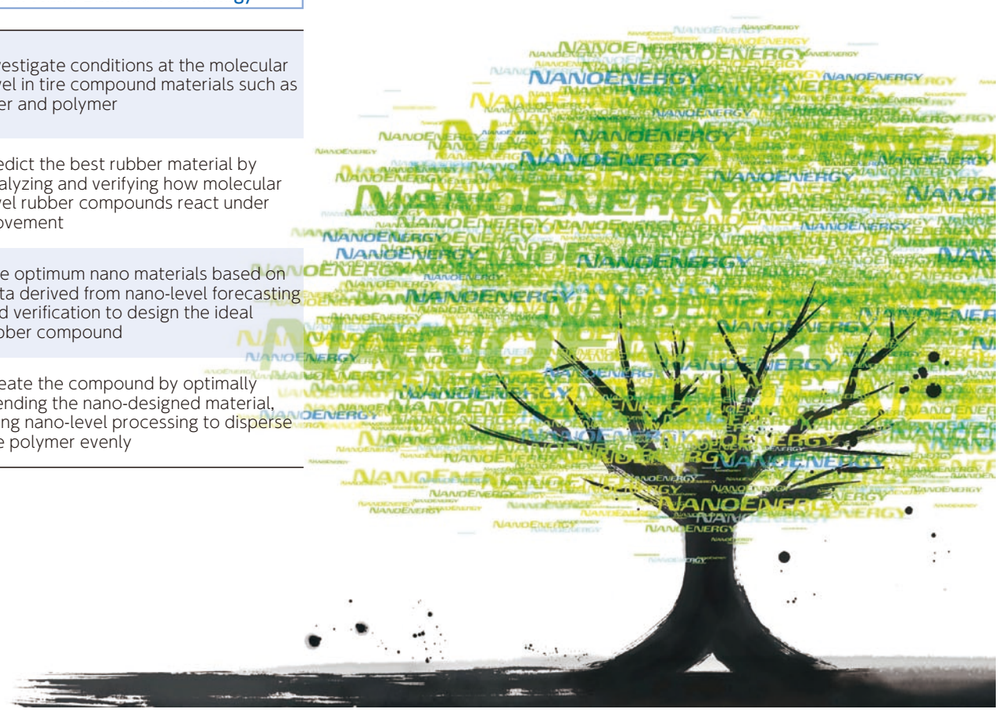
**In December 2011, we introduced fuel-efficient NANOENERGY tires based on our proprietary Nano Balance Technology. Going forward, we plan to reinforce NANOENERGY as our global brand for fuel-efficient tires and enhance Nano Balance Technology to support the development of the next generation of tires.**

## Nano Balance Technology —New Technology Behind a Revolution in Tires

In January 2010, Japan became the first country in the world to introduce a tire labeling system for fuel efficiency. In December 2011, we created a Nano Balance Technology system, which controls the development of rubber materials at the nanoparticle level, in order to create a new generation of tires that limit energy loss during braking. Nano Balance Technology is a proprietary tire material design system that integrates four nano-level element technologies—research, analysis, design and production control of rubber materials.

### The Four Elements of Nano Balance Technology

| | |
|---|---|
| Nano-level research<br>Search | Investigate conditions at the molecular level in tire compound materials such as filler and polymer |
| Nano-level analysis<br>Simulate | Predict the best rubber material by analyzing and verifying how molecular level rubber compounds react under movement |
| Nano-level material design<br>Create | Use optimum nano materials based on data derived from nano-level forecasting and verification to design the ideal rubber compound |
| Nano-level production control<br>Control | Create the compound by optimally blending the nano-designed material, using nano-level processing to disperse the polymer evenly |



## The Arrival of NANOENERGY

We have harnessed Nano Balance Technology to develop our new range of fuel-efficient tires, marketed under the NANOENERGY brand.

In February 2012 we launched our first product under this brand, NANOENERGY 1, which became the first tire in Japan to be certified AAA for rolling resistance performance and b for wet grip performance. This was followed in June 2012 by NANOENERGY 2, which received AAA and c grades, respectively. NANOENERGY 2 adds ride comfort to environmental performance and is available in a wide range of sizes for the increasingly diverse types of hybrid cars now on the market.

In November 2012, Europe is set to begin grading tires based on rolling resistance performance, wet grip performance and noise emission, with tire manufacturers legally required to show this performance on product labeling. We expect NANOENERGY 1 and 2 to be given the highest grades under this labeling system.

We plan to start launching these tires in Europe from October 2012 in Italy and Spain, followed by France, Germany and other markets, through our local distribution management company Toyo Tire Europe GmbH. We also intend to launch NANOENERGY 2 in Australia and Asia further down the line.

NANOENERGY 1
(1 size)


NANOENERGY 2
(10 sizes)


## Top-level Rolling Resistance and Wet Grip Performance

After launching NANOENERGY 1 and 2, we started work on radical new technology aimed at maintaining their AAA rolling resistance performance while boosting braking performance in both wet and dry conditions in everyday driving. Leveraging our Nano Balance Technology, we optimized nanoparticle control in high-dimensional material compounding, increased the precision of material design, and introduced innovations at the processing stage, resulting in NANOENERGY 0. This tire, launched in July 2012, is the pinnacle of our NANOENERGY range, boasting the highest available grades for rolling resistance performance (AAA) and wet grip performance (a).

NANOENERGY 0
(1 size)


### Overview of Labeling Systems

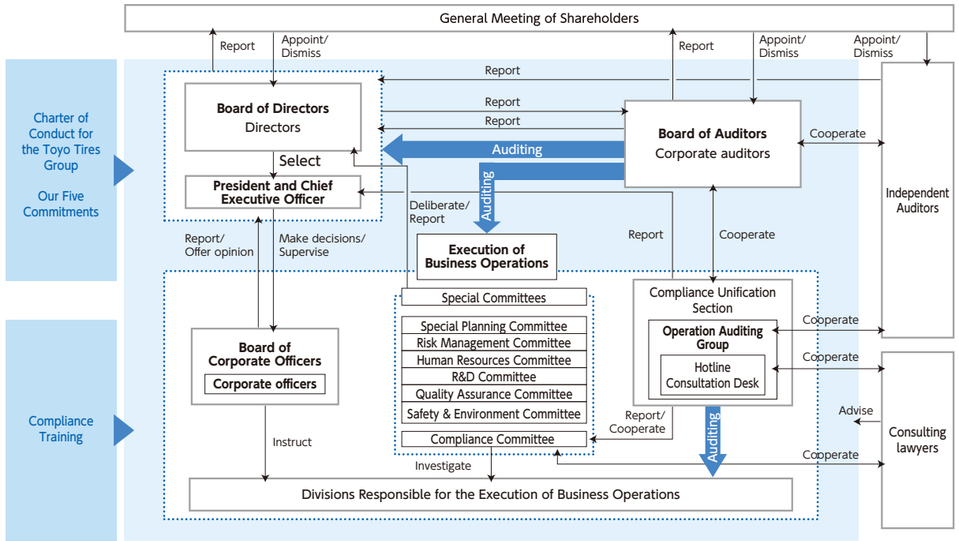
| | |
|---|---|
| Japan | The Japan Automobile Tyre Manufacturers Association, Inc. (JATMA) has developed a set of voluntary standards for the tire sector that grade rolling resistance performance and wet grip performance. Tires that meet certain standards under these criteria are defined as fuel-efficient tires, and this is communicated to consumers through a tire labeling system. |
| Europe | New legislation requiring tires to be graded and labeled based on rolling resistance performance, wet grip performance and noise emissions will come into force on November 1, 2012. Companies selling tires in Europe are required to attach labels to their products showing performance in these three areas. They also have to provide this information to consumers in their product catalogs and pamphlets and on their websites. |

# Corporate Governance and Risk Management System

## Corporate Governance

The Company's management framework consists of the Board of Corporate Officers, which is responsible for the execution of business operations, special committees, which act as deliberative bodies for their respective areas, the Board of Directors, which supervises the execution of business operations, and the Board of Auditors, which supervises and audits the performance of the Board of Directors and overall business execution.

The Board of Directors has seven members (as of March 31, 2012). It makes decisions on important matters, such as management policies, goals and strategies, and supervises business operations. The Toyo Tires Group employs an auditor system. The corporate auditors attend important meetings, including meetings of the Board of Directors and special committee meetings, in order to audit the performance of business operations. The Toyo Tires Group is also reinforcing and renewing internal control systems based on the Companies Act and the Financial Instruments and Exchange Act.



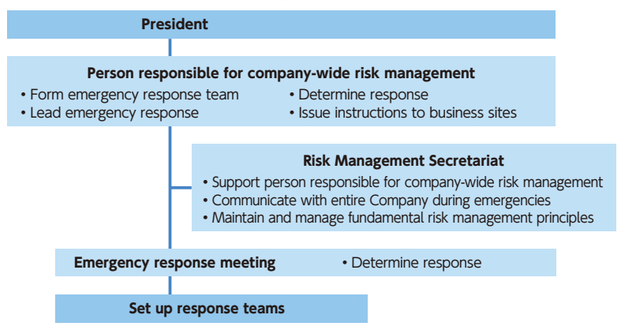

*Please visit our website for more details about the Charter of Conduct for the Toyo Tires Group and Our Five Commitments.

▸▸ http://www.toyo-rubber.co.jp/english/eco/corporate/charter.html

## Risk Management System

The Toyo Tires Group has taken a number of steps to reinforce and improve the risk management system based on its fundamental risk management principles. It has appointed a director responsible for company-wide risk management and has established a Risk Management Committee. This committee is supported by the Risk Management Secretariat, creating a risk management system focused on business continuity planning (BCP). The Group has also established a number of special committees and consultative bodies to deliberate on and respond to individual risks.

### Emergency (Company-wide Emergency Situation) Response System






# Corporate Social Responsibility (CSR) Initiatives

## Environmental Communication

### Publication of CSR Reports

The Toyo Tires Group started publishing Environmental Reports in FY2000. Subsequently, as we expanded the scope of our activities beyond the environment to cover a wide range of areas, such as quality enhancement and social contributions, we renamed the publication "CSR Report" in FY2009 and have been working to enhance its content. In 2011, we renamed the publication "Communication Report," reflecting a wider remit to communicate the Group's business activities to stakeholders by providing information about the daily activities of our employees.

The report includes many pages featuring frontline employees talking about their jobs to help readers understand the Toyo Tires Group, and readers can also access more detailed information about CSR activities on our website.

2000 – 2011 CSR Reports

Web page for information on the Group's efforts on the environment, quality, and society

We also provide information about our efforts on the environment, quality, and society on our website. You can download our past environmental reports and view announcements about our environment- and quality-related initiatives, information about the Toyo Tires Group Environmental Protection Fund, and other environmental news.

http://www.toyo-rubber.co.jp/english/eco/index.html

## Toyo Tires Group Environmental Protection Fund

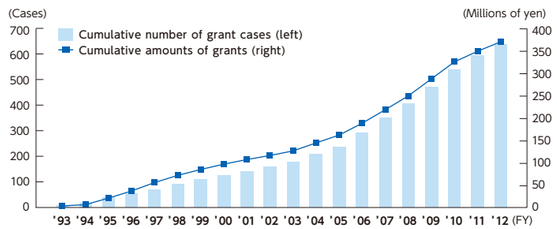
### Employees and the Company Work Together to Support the Fund

Established through the initiative of our employees, the Toyo Tires Group Environmental Fund is based on a matching gift system, whereby we donate amounts equal to the voluntary contributions of our Group employees to support nonprofit organizations engaged in global environmental protection activities.

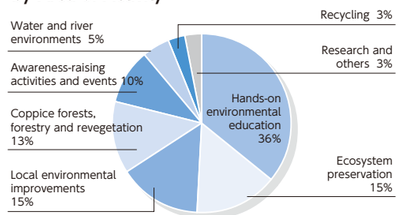
Since its inception in 1992, the fund has continued to support a range of initiatives. This fiscal year marks its 20th anniversary, and during the last two decades it has distributed over ¥370 million to a total of 636 organizations. In FY2012, the fund plans to distribute ¥19.08 million to 39 groups.

Frying eggs in a solar oven

### Amounts of Grants and Number of Grant Cases




### Breakdown of Beneficiary Groups in FY2012 by Area of Activity




## Promoting Greater Awareness of Tire Safety

### Ensuring drivers understand the importance of daily tire checks

We are promoting greater awareness of daily tire checks to ensure as many drivers as possible understand the importance of tire safety. In FY2011, we took part in a traffic safety event held in September 2011 at the Tohoku Expressway Asaka parking area, where we provided free tire checks. The following month, we held an event explaining the importance of appropriate tire usage to people at a shopping mall near our Tire Technical Center and provided free tire checks to drivers at rest areas near our Sendai and Kuwana plants.

Shopping mall tire safety event

# Management's Discussion and Analysis

## Business Environment

During the fiscal year ended March 31, 2012 (FY2011), economic conditions continued to improve in some countries, particularly emerging markets, but the economic outlook remained unclear in Europe and the U.S. due to persistently high crude oil prices, the European debt crisis, weak conditions in the employment market, and stagnant consumer spending. Despite steady improvement from the downturn after the Great East Japan Earthquake, conditions also remained difficult in Japan due to factors such as the chronically strong yen and high raw material prices.

Against this backdrop, the Toyo Tires Group fully restored production activities at its three earthquake-damaged plants by May 2011 and began implementing a range of initiatives in the first year of its new five-year "2011 Medium-Term Business Plan." These initiatives were aimed at rapidly expanding the Group's business into growth markets, building an optimal supply chain structure, increasing sales of high value-added products, developing new environmental technologies, and pushing ahead with further business rationalization.

The Group reported FY2011 net sales of ¥320,570 million, an increase of ¥26,477 million (9.0%) year on year, and gross profit of ¥82,488 million, up ¥2,625 million (3.3%). Selling, general and administrative expenses rose ¥1,914 million (2.8%) year on year to ¥69,595 million, equating to 21.7% of net sales, an improvement of 1.3 percentage points compared with the previous fiscal year. As a result, operating income increased ¥711 million (5.8%) year on year to ¥12,893 million, resulting in an operating margin of 4.0%. Net other expenses declined from ¥7,994 million in the previous fiscal year to ¥2,756 million in the year under review, reflecting a decline in loss on disaster, incurred in FY2010, and the booking of insurance income. Income before income taxes and minority interests totaled ¥10,137 million, an increase of ¥5,949 million (142.0%) year on year. Net income increased ¥6,183 million year on year to ¥6,704 million, resulting in a net income margin of 2.1%.

## Segment Information by Business

( Net sales include intersegment sales and transfers )

**[ Tire Business ]**

The Tire Business reported net sales of ¥241,709 million, an increase of ¥25,112 million (11.6%) year on year, equivalent to 75.4% of total net sales. Operating income rose ¥1,461 million (16.5%) to ¥10,325 million.

In O.E. tires for Japan, domestic vehicle production declined sharply in the first half of the fiscal year due to the earthquake and other factors. However, sales of new vehicles recovered in the second half owing to the government's decision to resume its eco-car subsidy scheme, supporting strong sales of tires fitted to new vehicles. As a result, sales volume was in line with the level in the previous fiscal year and net sales increased year on year owing to sales growth for high value-added products.

In replacement tires for Japan, sales volume declined from the previous fiscal year due to a drop in tire production caused by the earthquake and other factors, but net sales were largely steady year on year owing to price hikes and strong sales of winter tires.

In replacement tires for overseas markets, total sales volume and net sales in North America both increased year on year, supported by strong sales of large-diameter and high value-added products, such as NITTO branded light-truck tires.

In Europe, sales volume and net sales both declined year on year due to a drop in tire output caused by the earthquake. In other markets, sales volume and net sales both increased year on year, boosted by a contribution from Malaysian company Silverstone Berhad, which became part of the Group in 2010, and strong sales in markets such as the Middle East. As a result, total overseas sales volume and net sales both grew compared with the previous fiscal year.

**[ DiverTech Business ]**

The DiverTech Business reported net sales of ¥78,814 million, an increase of ¥1,352 million (1.7%) year on year, equivalent to 24.6% of total net sales. Operating income declined ¥1,124 million (35.2%) to ¥2,074 million.

In transportation equipment, demand for automotive anti-vibration rubber products was hit by a decline in output at automakers following the earthquake and the flooding in Thailand. However, net sales of these products increased year on year due to an upturn in demand in the second half of the fiscal year and an increase in production of vehicle models mounted with our products. Net sales of automobile seat cushions declined year on year owing to the impact of the earthquake and a drop in production of vehicle models fitted with our cushions in the second half of the fiscal year.

Despite strong sales of railway car air springs and anti-vibration rubber for new carriages in Japan, net sales of these products fell year on year due to a decline in orders overseas, mainly as a result of the impact of the global recession centered on Europe.

Net sales of thermal insulation materials rose year on year, reflecting higher sales of products that benefited from rebuilding demand following the earthquake. These included rigid urethane undiluted solution used in temporary housing and refrigerated warehouses, and insulation materials used in agricultural and livestock buildings. Insulation spray used in the construction of condominiums and other buildings also registered strong sales. Net sales of waterproof materials declined year on year, with an upturn in demand in the second half of the fiscal year insufficient to offset a large decline in the first half.

Net sales of industrial materials declined year on year. Standard anti-vibration rubber and urethane products used in road materials registered strong sales, but sales of rubberized fabric products fell as some projects were postponed. Net sales of construction materials increased year on year, reflecting increased demand for seismic isolation rubber following the earthquake and strong sales of construction hoses due to earthquake rebuilding demand.

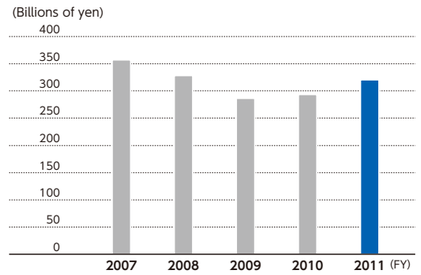
## Segment Information by Region

In Japan, net sales increased ¥5,168 million (3.3%) year on year to ¥162,276 million and operating income rose ¥2,242 million (39.6%) to ¥7,904 million. In O.E. tires, sales and operating income both rose strongly, despite a large impact from the earthquake in the first half of the fiscal year. This strong growth reflected a recovery in new vehicle sales in the second half of the fiscal year and higher sales of high value-added products. Also, the DiverTech Business reported buoyant sales of thermal insulation materials and construction materials on the back of earthquake rebuilding demand.

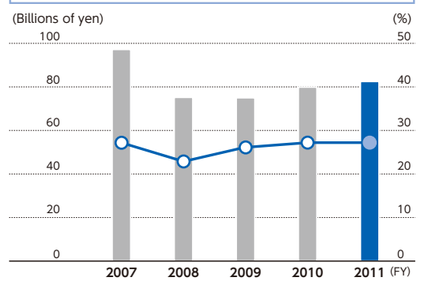
In North America, net sales increased ¥9,501 million (10.0%) year on year to ¥104,808 million owing to healthy sales of large-diameter and high value-added products. However, operating income declined ¥184 million (4.3%) to ¥4,131 million.

In other regions, net sales increased ¥11,806 million (28.3%) year on year to ¥53,484 million and operating income rose ¥156 million (8.3%) to ¥2,045 million. Although sales declined in Europe due to a drop in tire supplies from

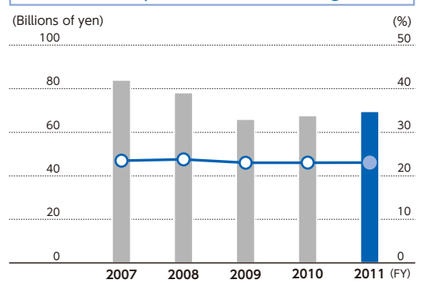
### Net Sales



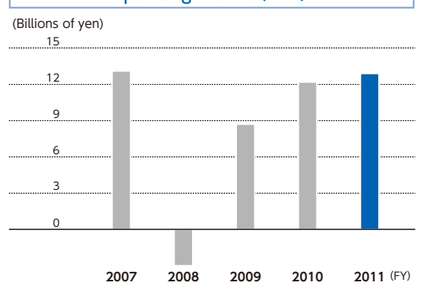

### Gross Profit and Gross Profit Margin



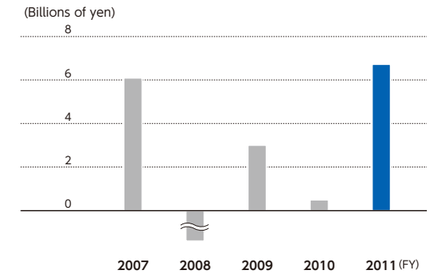

### SG&A Expenses and SG&A Margin



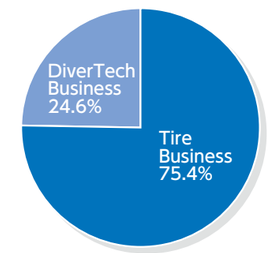

### Operating Income (Loss)



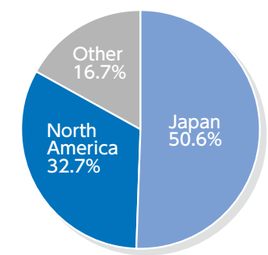

### Net Income (Loss)




### Sales by Business




### Sales by Region



Japan following the earthquake, sales volume and net sales were boosted by the consolidation of Silverstone Berhad.

### Financial Position

Total assets at the end of the fiscal year stood at ¥336,983 million, an increase of ¥31,693 million from the end of the previous fiscal year. This mainly reflected increases in inventories, as well as property, plant and equipment such as machinery and equipment.

Total liabilities at the end of the fiscal year amounted to ¥250,430 million, an increase of ¥24,747 million from the end of the previous fiscal year. This mainly reflected increases in the current portion of long-term debt and notes and accounts payable.

Net assets at the end of the fiscal year stood at ¥86,553 million, an increase of ¥6,946 million from the end of the previous fiscal year. This chiefly reflected a rise in losses in foreign currency translation adjustments, outweighed by increases in retained earnings and valuation difference on available-for-sale securities. As a result, the capital ratio declined 0.5 percentage point from the end of the previous fiscal year to 24.9%.

### Capital Expenditures

Capital expenditures for the fiscal year under review totaled ¥29,768 million, an increase of ¥1,443 million year on year. Of this amount, the Tire Business accounted for ¥26,565 million, which was mainly invested in business rationalization, improvements to product quality, capacity expansion at the tire plant in North America, the construction of a plant in Malaysia, and the start up of a plant in China. The DiverTech and other businesses accounted for the remaining ¥3,203 million, which was primarily spent on business rationalization and improvements to product quality.

### Interest-bearing Debt

Interest-bearing debt at the end of the fiscal year totaled ¥127,863 million, an increase of ¥9,733 million from the end of the previous fiscal year. This mainly reflected an increase in the current portion of long-term debt.

### Cash Flows

Net cash provided by operating activities totaled ¥13,602 million. An increase in inventories and other factors negative for cash flow were outweighed by income before income taxes and minority interests, depreciation and amortization, and other factors positive for cash flow.

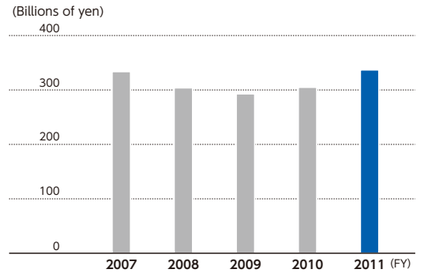
Net cash used in investing activities totaled ¥26,488 million. This mainly reflected cash used for purchase of property, plant and equipment as part of capital expenditures, and payments for additions to investments in subsidiaries resulting in change in scope of consolidation.

This resulted in negative free cash flow of ¥12,886 million.

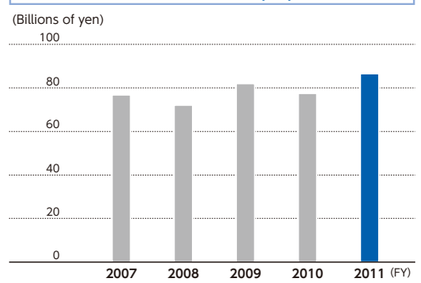
Net cash provided by financing activities totaled ¥9,837 million. This mainly reflected payments for redemption of bonds and repayment of long-term debt, outweighed by proceeds from long-term debt and proceeds from issuance of bonds.

After combining increases and decreases in cash flows described above with a decline in foreign exchange translation difference, cash and cash equivalents at end of the year totaled ¥24,652 million, a decrease of ¥3,419 million from the end of the previous fiscal year.

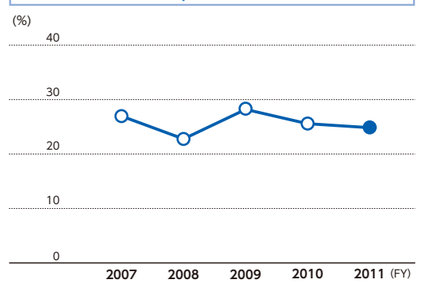
Total Assets




Shareholders' Equity




Capital Ratio




### Dividends

The Company's basic policy on the distribution of profits is to pay an appropriate dividend supported by a stable earnings structure over the long term, while taking into account a sufficient level of internal reserves to strengthen the operating base and fund future business development. In accordance with its basic policy and in light of results for the full year, the Company paid a dividend of ¥5.0 per share for the fiscal year under review.

### Outlook for the Fiscal Period Ending December 2012*

( Announced May 9, 2012 )

The Company expects the challenging operating environment to continue in the nine-month fiscal period ending December 2012, owing to a number of risks that could put downward pressure on the economy, such as a global economic slowdown due to the impact of the European debt crisis, the persistently strong yen, and continued high prices for natural rubber and other raw materials.

Against this backdrop, the Company will continue to actively develop its business in order to attain the goals in its five-year "2011 Medium-Term Business Plan" launched in FY2010. In the Tire Business, the Company will aim to boost sales volume following the start of operations at its new plant in China, and transform the Asia region, which continues to enjoy strong growth, into one of its key strategic markets on par with North America and Europe by reinforcing its sales network in Asia. Toyo Tires will also review the product lines made at its plants in Japan and in the U.S., China and Malaysia in order to establish a product supply network that is better aligned with sales. In the DiverTech Business, the Company will continue channeling management resources into automobile parts, urethane and railway car parts while actively expanding all three businesses globally and harnessing the Group's proprietary technologies to develop high value-added, eco-friendly products, in order to realize the "2011 Medium-Term Business Plan" objective of putting a greater focus on core businesses.

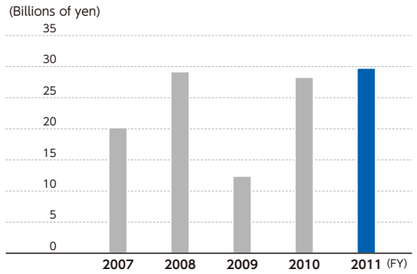
The consolidated performance outlook for the nine-month fiscal period ending December 2012 is as follows:

| | |
|---|---|
| Net sales | ¥ 304.0 billion |
| Operating income | ¥ 15.2 billion |
| Net income | ¥ 7.9 billion |

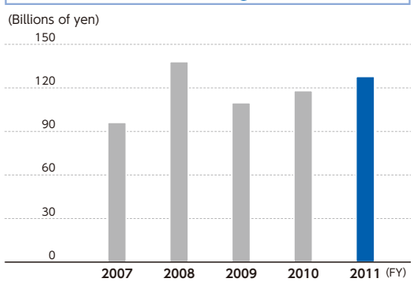
The above forecasts are based on assumed exchange rates of US$1 = ¥80 and €1 = ¥105.

* Outlook for the fiscal period ending December 2012 is based on nine months (Apr-Dec 2012) for domestic consolidated companies and 12 months (Jan-Dec 2012) for overseas consolidated companies.

Capital Expenditures




Interest-bearing Debt



## Consolidated Balance Sheets

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
March 31, 2012 and 2011

| ASSETS | Millions of yen 2012 | Millions of yen 2011 | Thousands of U.S. dollars (Note 1) 2012 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and time deposits | ¥ 24,740 | ¥ 28,074 | $ 301,010 |
| Notes and accounts receivable: | | | |
| Trade (Note 6) | 60,540 | 54,431 | 736,586 |
| Other | 5,149 | 4,399 | 62,647 |
| Inventories (Note 7) | 55,722 | 41,411 | 677,966 |
| Deferred tax assets (Note 14) | 3,854 | 3,540 | 46,891 |
| Other current assets | 5,015 | 3,611 | 61,018 |
| Allowance for doubtful receivables | (156) | (312) | (1,898) |
| Total current assets | 154,864 | 135,154 | 1,884,220 |
| **Property, plant and equipment (Note 11):** | | | |
| Land | 20,786 | 21,129 | 252,902 |
| Buildings and structures | 80,483 | 76,683 | 979,231 |
| Machinery and equipment | 279,389 | 262,760 | 3,399,306 |
| Construction in progress | 4,592 | 8,060 | 55,871 |
| Lease assets | 2,026 | 1,847 | 24,650 |
| | 387,276 | 370,479 | 4,711,960 |
| Accumulated depreciation | (255,145) | (246,739) | (3,104,331) |
| Total property, plant and equipment | 132,131 | 123,740 | 1,607,629 |
| **Intangible assets** | | | |
| Goodwill | 2,571 | 4,508 | 31,281 |
| Other assets | 4,962 | 2,066 | 60,372 |
| Total intangible assets | 7,533 | 6,574 | 91,653 |
| **Investments and other assets:** | | | |
| Investment in securities (Notes 9 and 11) | 33,921 | 30,315 | 412,714 |
| Investments in unconsolidated subsidiaries and affiliates | 2,271 | 2,491 | 27,631 |
| Long-term loans receivable | 560 | 562 | 6,813 |
| Deferred tax assets (Note 14) | 2,117 | 2,442 | 25,757 |
| Other assets | 3,910 | 4,517 | 47,574 |
| Allowance for doubtful receivables | (324) | (505) | (3,942) |
| Total investments and other assets | 42,455 | 39,822 | 516,547 |
| **Total assets** | ¥ 336,983 | ¥ 305,290 | $ 4,100,049 |

See the accompanying notes to the consolidated financial statements.

| LIABILITIES AND NET ASSETS | Millions of yen 2012 | Millions of yen 2011 | Thousands of U.S. dollars (Note 1) 2012 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short–term bank loans (Note 12) | ¥ 25,578 | ¥ 25,323 | $ 311,206 |
| Current portion of long–term debt (Notes 11 and 12) | 22,938 | 17,796 | 279,085 |
| Notes and accounts payable: | | | |
| Trade (Note 6) | 66,107 | 59,578 | 804,319 |
| Other | 17,502 | 12,730 | 212,946 |
| | 83,609 | 72,308 | 1,017,265 |
| Accrued expenses | 10,167 | 8,533 | 123,701 |
| Income and enterprise taxes payable | 1,220 | 916 | 14,844 |
| Customers' deposits | 1,907 | 1,430 | 23,202 |
| Provision for product compensation | – | 224 | – |
| Provision for directors' bonuses | 19 | – | 231 |
| Provision for loss on disaster | – | 974 | – |
| Other current liabilities | 2,388 | 2,633 | 29,055 |
| Total current liabilities | 147,826 | 130,137 | 1,798,589 |
| **Long-term liabilities:** | | | |
| Long–term debt due after one year (Notes 11 and 12) | 78,487 | 73,993 | 954,946 |
| Severance and retirement benefits (Note 13) | 12,893 | 13,279 | 156,868 |
| Provision for environmental remediation | 135 | 135 | 1,643 |
| Deferred tax liabilities (Note 14) | 9,857 | 7,091 | 119,929 |
| Other long-term liabilities | 1,232 | 1,048 | 14,990 |
| Total long–term liabilities | 102,604 | 95,546 | 1,248,376 |
| **Contingent liabilities (Note 16)** | | | |
| **Net assets (Note 17):** | | | |
| **Shareholders' equity** | | | |
| Common stock | | | |
| Authorized – 400,000,000 shares | | | |
| Issued – 254,358,146 shares | 30,485 | 30,485 | 370,909 |
| Capital surplus | 28,507 | 28,507 | 346,843 |
| Retained earnings | 26,441 | 21,007 | 321,706 |
| Treasury stock, at cost | | | |
| 2011 – 307,234 shares | | | |
| 2012 – 313,060 shares | (106) | (105) | (1,290) |
| | 85,327 | 79,894 | 1,038,168 |
| **Accumulated other comprehensive income** | | | |
| Valuation difference on available-for-sale securities | 9,980 | 6,786 | 121,426 |
| Deferred gains or losses on hedges | (122) | (171) | (1,485) |
| Foreign currency translation adjustments | (11,346) | (8,975) | (138,046) |
| | (1,488) | (2,360) | (18,105) |
| **Minority interests** | 2,714 | 2,073 | 33,021 |
| Total net assets | 86,553 | 79,607 | 1,053,084 |
| **Total liabilities and net assets** | ¥ 336,983 | ¥ 305,290 | $ 4,100,049 |

## Consolidated Statements of Income

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| **Net sales** | **¥ 320,570** | ¥ 294,093 | **$ 3,900,353** |
| **Cost of sales** | **238,082** | 214,230 | **2,896,727** |
| Gross profit | **82,488** | 79,863 | **1,003,626** |
| **Selling, general and administrative expenses** | **69,595** | 67,681 | **846,758** |
| **Operating income (loss)** | **12,893** | 12,182 | **156,868** |
| **Other income (expenses):** | | | |
| Interest income | **168** | 112 | **2,044** |
| Dividends income | **578** | 552 | **7,032** |
| Equity in earnings of affiliates | **179** | 304 | **2,178** |
| Rent income | **218** | 273 | **2,652** |
| Compensation income | **201** | - | **2,446** |
| Subsidy income | **317** | - | **3,857** |
| Interest expenses | **(2,525)** | (2,185) | **(30,721)** |
| Foreign exchange losses | **(348)** | (822) | **(4,234)** |
| Loss from liquidation of receivables | **(119)** | (127) | **(1,448)** |
| Gain on sales of noncurrent assets | **-** | 1,082 | **-** |
| Gain on sales of investment securities | **311** | - | **3,784** |
| Insurance income | **1,130** | - | **13,749** |
| Loss on retirement of noncurrent assets | **(529)** | (666) | **(6,436)** |
| Loss on valuation of investment securities | **(193)** | - | **(2,348)** |
| Loss on disaster (Note 21) | **(1,125)** | (4,827) | **(13,688)** |
| Loss on impairment of fixed assets (Note 18) | **(212)** | (171) | **(2,579)** |
| Loss on litigation | **-** | (424) | **-** |
| Other net | **(807)** | (1,095) | **(9,820)** |
| Income (loss) before income taxes and minority interests | **10,137** | 4,188 | **123,336** |
| **Income taxes (Note 14):** | | | |
| Current | **1,940** | 1,594 | **23,604** |
| Deferred | **1,219** | 1,840 | **14,831** |
| | **3,159** | 3,434 | **38,435** |
| **Income (loss) before minority interests** | **6,978** | 754 | **84,901** |
| **Minority interests in net loss (income) of consolidated subsidiaries** | **(274)** | (233) | **(3,334)** |
| **Net income (loss)** | **¥ 6,704** | ¥ 521 | **$ 81,567** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Net income (loss) per share | **¥ 26.39** | ¥ 2.05 | **$ 0.32** |
| Diluted net income per share | **-** | - | **-** |
| Dividends per share | **5.00** | 5.00 | **0.06** |

See the accompanying notes to the consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Income (loss) before minority interests | **¥ 6,978** | ¥ 754 | **$ 84,901** |
| Other comprehensive income | | | |
| Valuation difference on available-for-sale securities | **3,194** | (962) | **38,861** |
| Deferred gains or losses on hedges | **49** | (116) | **596** |
| Foreign currency translation adjustments | **(2,499)** | (4,000) | **(30,405)** |
| Share of other comprehensive income of associates accounted for using equity method | **(26)** | (86) | **(316)** |
| Total other comprehensive income (Note 4) | **718** | (5,164) | **8,736** |
| Comprehensive income | **¥ 7,696** | ¥ (4,410) | **$ 93,637** |
| Comprehensive income attributable to | | | |
| Owners of the parent | **¥ 7,576** | ¥ (4,481) | **$ 92,177** |
| Minority interests | **120** | 71 | **1,460** |

See the accompanying notes to the consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

| | Number of shares of common stock (thousands) | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Retained earnings | Treasury stock | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Minority interests | Total net assets |
| Balance at March 31, 2010 | 254,358 | ¥ 30,485 | ¥ 28,507 | ¥ 21,248 | ¥ (103) | ¥ 7,747 | ¥ (54) | ¥ (5,050) | ¥ 2,244 | ¥ 85,024 |
| Cash dividends | – | – | – | (762) | – | – | – | – | – | (762) |
| Net income (loss) | – | – | – | 521 | – | – | – | – | – | 521 |
| Purchases of treasury stock | – | – | – | – | (2) | – | – | – | – | (2) |
| Disposal of treasury stock | – | – | – | (0) | 0 | – | – | – | – | 0 |
| Net changes of items other than shareholders' equity | – | – | – | – | – | (961) | (117) | (3,925) | (171) | (5,174) |
| Balance at beginning of year | 254,358 | 30,485 | 28,507 | 21,007 | (105) | 6,786 | (171) | (8,975) | 2,073 | 79,607 |
| Cash dividends | – | – | – | (1,270) | – | – | – | – | – | (1,270) |
| Net income (loss) | – | – | – | 6,704 | – | – | – | – | – | 6,704 |
| Purchases of treasury stock | – | – | – | – | (1) | – | – | – | – | (1) |
| Disposal of treasury stock | – | – | – | (0) | 0 | – | – | – | – | 0 |
| Net changes of items other than shareholders' equity | – | – | – | – | – | 3,194 | 49 | (2,371) | 641 | 1,513 |
| Balance at March 31, 2012 | **254,358** | **¥ 30,485** | **¥ 28,507** | **¥ 26,441** | **¥ (106)** | **¥ 9,980** | **¥ (122)** | **¥ (11,346)** | **¥ 2,714** | **¥ 86,553** |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Minority interests | Total net assets |
| Balance at beginning of year | $ 370,909 | $ 346,843 | $ 255,591 | $ (1,278) | $ 82,565 | $ (2,081) | $ (109,198) | $ 25,222 | $ 968,573 |
| Cash dividends | – | – | (15,452) | – | – | – | – | – | (15,452) |
| Net income (loss) | – | – | 81,567 | – | – | – | – | – | 81,567 |
| Purchases of treasury stock | – | – | – | (12) | – | – | – | – | (12) |
| Disposal of treasury stock | – | – | (0) | 0 | – | – | – | – | 0 |
| Net changes of items other than shareholders' equity | – | – | – | – | 38,861 | 596 | (28,848) | 7,799 | 18,408 |
| Balance at March 31, 2012 | **$ 370,909** | **$ 346,843** | **$ 321,706** | **$ (1,290)** | **$ 121,426** | **$ (1,485)** | **$ (138,046)** | **$ 33,021** | **$ 1,053,084** |

See the accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| **Cash flows from operating activities:** | | | |
| Income (loss) before income taxes and minority interests | **¥ 10,137** | ¥ 4,188 | **$ 123,336** |
| Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities: | | | |
| Depreciation and amortization | **18,322** | 16,961 | **222,922** |
| Loss on impairment of fixed assets | **212** | 171 | **2,579** |
| Equity in net income of unconsolidated subsidiaries and affiliates | **(179)** | (304) | **(2,178)** |
| Foreign exchange gains | **(96)** | (253) | **(1,168)** |
| Increase (decrease) in provision for retirement benefits for employees | **(378)** | 268 | **(4,599)** |
| Increase (decrease) in provision for product compensation | **(224)** | (273) | **(2,725)** |
| Increase (decrease) in provision for loss on disaster | **(974)** | 974 | **(11,851)** |
| Interest and dividends income | **(746)** | (664) | **(9,077)** |
| Interest expenses | **2,525** | 2,185 | **30,721** |
| Loss on retirement of noncurrent assets | **529** | 666 | **6,436** |
| Gain on sales of noncurrent assets | **–** | (1,082) | **–** |
| Loss (gain) on valuation of investment securities | **193** | – | **2,348** |
| Loss (gain) on sales of investment securities | **(311)** | – | **(3,784)** |
| Decrease (increase) in notes and accounts receivable – trade | **(6,770)** | 3,450 | **(82,370)** |
| Decrease (increase) in inventories | **(15,470)** | (6,148) | **(188,222)** |
| Decrease (increase) in notes and accounts payable – trade | **7,014** | 9,155 | **85,339** |
| Other, net | **2,311** | (2,578) | **28,120** |
| Subtotal | **16,095** | 26,716 | **195,827** |
| Interest and dividends income received | **1,114** | 686 | **13,554** |
| Interest expenses paid | **(2,544)** | (2,254) | **(30,953)** |
| Income taxes paid | **(1,064)** | (1,171) | **(12,946)** |
| Net cash provided by (used in) operating activities | **13,602** | 23,977 | **165,495** |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | **(24,444)** | (26,079) | **(297,408)** |
| Purchase of intangible assets | **(590)** | (501) | **(7,178)** |
| Proceeds from sales of property, plant and equipment | **130** | 1,709 | **1,582** |
| Proceeds from sales of intangible assets | **0** | 2 | **0** |
| Proceeds from sales and redemption of investment securities | **603** | 3 | **7,337** |
| Purchase of investments securities | **(25)** | (211) | **(304)** |
| Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (*1) | **(2,357)** | (11,291) | **(28,677)** |
| Other, net | **195** | 4 | **2,370** |
| Net cash provided by (used in) investing activities | **(26,488)** | (36,364) | **(322,278)** |
| **Cash flows from financial activities:** | | | |
| Proceeds from long-term debt | **18,757** | 26,180 | **228,215** |
| Repayment of long-term debt | **(8,147)** | (19,791) | **(99,124)** |
| Redemption of bonds | **(10,000)** | (8,000) | **(121,669)** |
| Net increase (decrease) in short-term bank loans | **919** | (86) | **11,181** |
| Proceeds from issuance of bonds | **9,944** | 12,936 | **120,988** |
| Cash dividends paid | **(1,270)** | (762) | **(15,452)** |
| Cash dividends paid to minority shareholders | **–** | (253) | **–** |
| Other, net | **(366)** | (367) | **(4,453)** |
| Net cash provided by (used in) financing activities | **9,837** | 9,857 | **119,686** |
| Effect of exchange rate on cash and cash equivalents | **(370)** | 24 | **(4,502)** |
| Net increase (decrease) in cash and cash equivalents | **(3,419)** | (2,506) | **(41,599)** |
| Cash and cash equivalents at beginning of period | **28,071** | 30,577 | **341,538** |
| Cash and cash equivalents at end of period (Note 5) | **¥ 24,652** | ¥ 28,071 | **$ 299,939** |

See the accompanying notes to the consolidated financial statements.



## Notes to Consolidated Financial Statements

Toyo Tire & Rubber Co., Ltd. and Consolidated Subsidiaries

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Toyo Tire & Rubber Co., Ltd.（the "Company"）and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The financial statements of the Company's consolidated overseas subsidiaries for consolidation purposes have been prepared in conformity with IFRS or generally accepted accounting principles in the United States of America ("US GAAP"), and partially reflect the adjustments which are necessary to conform with Japanese GAAP. The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82.19 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### 2. Summary of Significant Accounting Policies

*Consolidation and investments in affiliates*
The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries (together, the "Companies") over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. Investments in affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

The consolidated financial statements include the accounts of the Company and its 42 significant majority owned subsidiaries (38 in the year ended March 31, 2011). The main factor in the increase in the number of consolidated subsidiaries was the establishment of companies. All significant intercompany transactions and accounts have been eliminated in consolidation. Investments in four affiliates (six in the year ended March 31, 2011) are accounted for by the equity method.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Twenty-seven of the Company's subsidiaries (23 in the year ended March 31, 2011) are consolidated using a fiscal period ending December 31. Significant transactions occurring from January 1 to March 31, the Company's fiscal year-end, are adjusted for in the consolidated financial statements.

*Cash and cash equivalents*
In preparing the consolidated statements of cash flows, the cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

*Allowance for doubtful receivables*
Allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based upon the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectable amount has been individually estimated.

*Inventories*
Inventories of the Company and its consolidated domestic subsidiaries (the "Domestic Companies") are stated principally at the lower of weighted average cost or net realizable value.

Inventories of consolidated overseas subsidiaries are stated principally at the lower of weighted average cost or market.

*Property, plant and equipment (except lease assets)*
Property, plant and equipment are stated at cost. Depreciation of buildings and certain tools and equipment of the Domestic Companies are computed by the straight-line method over the estimated useful life of the asset. The declining balance method is applied to the remaining assets. Consolidated overseas subsidiaries compute depreciation principally by the straight-line method over the estimated useful life of the asset.

Expenditures for maintenance and repairs, including minor replacements and betterments, are charged to income as incurred.

The estimated useful lives of assets range as follows:
Buildings and structures …… 3 – 50 years
Machinery and equipment …… 2 – 17 years

*Software costs (except lease assets)*
Software costs are included in intangible assets and depreciated by the straight line method over the estimated useful life of five years.

*Lease assets*
Property, plant and equipment capitalized under finance lease arrangements are depreciated over the lease term.

The Domestic Companies account for finance leases that commenced prior to April 1, 2008 and that do not transfer the ownership of the leased property to the lessee as operating leases, with disclosures of certain "as if capitalized" information. The Domestic Companies have adopted a new accounting standard in finance leases which commence after March 31, 2008 have been capitalized, except for certain immaterial or short-term finance leases accounted for as operating leases.

*Goodwill*
Goodwill is amortized by the straight-line method over the period it is expected to have an effect, except minor goodwill which is expensed as incurred for the consolidated domestic subsidiaries.

*Securities*
The Company classifies securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, and (c) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities"). The Companies have no securities held for trading purposes.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Securities with no available fair market value are stated at moving average cost. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost.

If the fair market value of these securities declines significantly, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as loss in the period of the decline. In this event, the fair market value will be the carrying amount of the securities at the beginning of the next year.

*Derivatives and hedge accounting*
The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. However, when forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the foreign currency receivables or payables are translated at the contracted rate. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the asset or liability for which the swap contract was executed.

*Provision for environmental remediation*
The provision for environmental remediation is estimated and recorded to provide for potential future costs such as costs related to the removal and disposal of PCB waste.

*Provision for directors' bonuses*
The provision for directors' bonuses is estimated and recorded to provide for directors' bonuses based on the estimated amount of payment.

*Severance and retirement benefits*
1) Employees

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded noncontributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the end of the year. Actuarial gains and losses are recognized in income and expenses using the straight-line method over a period that is within the average of the estimated remaining service years of employees (mainly 15 years) commencing with the following period. Past service liabilities are amortized in expenses using the straight-line method over a period that is within the average of the estimated remaining service years of employees (15 years).

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2) Directors and statutory auditors

In accordance with their internal rules, certain consolidated subsidiaries have included at their fiscal year-end amounts that will be necessary for the payment of retirement benefits to directors and statutory auditors. Included in the liability for severance and retirement benefits at March 31, 2012 and 2011 was ¥30 million ($365 thousand) and ¥36 million, respectively.

*Research and development expenses*
Research and development expenses are charged to income as incurred. Such expenses for the years ended March 31, 2012 and 2011 were ¥8,313 million ($101,144 thousand) and ¥8,556 million, respectively.

*Income taxes*
The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

*Net income per share*
Computations of basic net income per share of common stock are based on the weighted average number of shares outstanding during each financial period.

Diluted net income per share was not disclosed because there were no dilutive common stock equivalents.



*Dividends per share*
The declaration of dividends and the appropriation of unappropriate retained earnings are approved at the annual shareholders' meeting held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income reflect the final dividends approved after the end of the relevant fiscal year.

*Translation of foreign currencies*
Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Balance sheet accounts of consolidated overseas subsidiaries and affiliates are translated into Japanese yen at year-end rates, except for net assets accounts, which are translated at historical rates. Revenue and expense accounts of consolidated overseas subsidiaries and affiliates are translated at average exchange rates for the year, except for transactions with the Company which are translated at the rates used by the Company.

(Additional information)
The Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

*Reclassifications*
Certain prior year amounts have been reclassified to conform to the current year presentation. These changes had no impact on previously reported results of operations or net assets.

## 3. Accounting Changes

There are no accounting changes to disclose in March 31, 2012.

## 4. Comprehensive income

Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)
Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Valuation difference on available-for-sale securities | **2012** | **2012** |
| Increase (decrease) during the year | **¥ 4,159** | **$ 50,602** |
| Reclassification adjustments | **(94)** | **(1,144)** |
| Sub-total, before tax | **4,065** | **49,458** |
| Tax (expense) or benefit | **(871)** | **(10,597)** |
| Sub-total, net of tax | **3,194** | **38,861** |
| Deferred gains or losses on hedges | | |
| Increase (decrease) during the year | **49** | **596** |
| Sub-total | **49** | **596** |
| Foreign currency translation adjustment | | |
| Increase (decrease) during the year | **(2,499)** | **(30,405)** |
| Sub-total | **(2,499)** | **(30,405)** |
| Share of other comprehensive income of associates accounted for using equity method | | |
| Increase (decrease) during the year | **(26)** | **(316)** |
| Sub-total | **(26)** | **(316)** |
| Total other comprehensive income | **¥ 718** | **$ 8,736** |

**5. Statements of Cash Flow**

1) Cash and cash equivalents in the consolidated statements of cash flow and cash and time deposits in the consolidated balance sheets at March 31, 2012 and 2011 were reconciled as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Cash and time deposits | **¥ 24,740** | ¥ 28,074 | **$ 301,010** |
| Less time deposits with maturities exceeding three months | **(88)** | (3) | **(1,071)** |
| Cash and cash equivalents | **¥ 24,652** | ¥ 28,071 | **$ 299,939** |

2) Breakdown of assets and liabilities of newly consolidated company by acquisition of shares.
Assets and liabilities of newly consolidated subsidiary Silverstone Berhad and its two subsidiaries have been newly consolidated due to the acquisition of shares on December 10, 2010. Accordingly, the following table shows the breakdown of assets and liabilities that existed at the time of consolidation and the relationship between the acquisition cost of the shares and the expense (net amount) required for the acquisition of the subsidiaries.

For the year ended March 31, 2011

| | Millions of yen |
|---|---|
| | 2011 |
| Current assets | ¥ 5,301 |
| Fixed assets | 5,387 |
| Goodwill | 4,362 |
| Current liabilities | (1,810) |
| Long-term liabilities | (207) |
| Foreign currency translation adjustments | 296 |
| Acquisition price of shares | 13,329 |
| Accounts payable – other | (521) |
| Cash and cash equivalents | (1,517) |
| Balance: Expenditures of investments in subsidiaries | ¥ 11,291 |

Breakdown of assets and liabilities of newly consolidated company by acquisition of proprietary equity
Assets and liabilities of newly consolidated subsidiary Toyo Tire (Zhucheng) Co., Ltd. has been newly consolidated due to the acquisition of proprietary equity on June 22, 2011. Accordingly, the following table shows the breakdown of assets and liabilities that existed at the time of consolidation and the relationship between the acquisition cost of proprietary equity and the expense (net amount) required for the acquisition of the subsidiaries.

For the year ended March 31, 2012

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2012** | **2012** |
| Current assets | **¥ 2,285** | **$ 27,801** |
| Fixed assets | **3,151** | **38,338** |
| Goodwill | **120** | **1,460** |
| Current liabilities | **(3,492)** | **(42,487)** |
| Minority interests | **(483)** | **(5,876)** |
| Acquisition price of proprietary equity | **1,581** | **19,236** |
| Cash and cash equivalents | **(483)** | **(5,877)** |
| Balance: Expenditures of investments in subsidiaries | **¥ 1,098** | **$ 13,359** |

**6. Effect of Year-end Date on Financial Statements**

If the year-end date is a bank holiday, the Companies account for notes receivables and payables maturing on this date in their financial statements as if they had been settled on the year-end date. Those notes outstanding at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Notes receivable | **¥ 701** | ¥ – | **$ 8,529** |
| Notes payable | **349** | – | **4,246** |

**7. Inventories**

(1) Inventories at March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Finished goods | **¥ 42,326** | ¥ 28,789 | **$ 514,977** |
| Work-in-process | **2,858** | 2,633 | **34,774** |
| Raw materials and supplies | **10,538** | 9,989 | **128,215** |
| | **¥ 55,722** | ¥ 41,411 | **$ 677,966** |

(2) The write-down of book values for inventories held for sale in the ordinary course of business due to decreased profitability for the years ended March 31, 2012 and 2011 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Cost of sales | **¥ (407)** | ¥ (103) | **$ (4,952)** |
| | **¥ (407)** | ¥ (103) | **$ (4,952)** |

**8. Financial Instruments**

**A. Status of financial instruments**
(1) Policies for using financial instruments
The Toyo Group engages primarily in the manufacture and sale of automotive tires, industrial and construction materials, transportation equipment and others and procures the capital required under plans of investment in plant and equipment primarily from bank loans and bond issues. The Toyo Group manages surplus capital using financial instruments that carry little or no risk and procures the short-term working capital from bank loans. The Toyo Group uses derivatives to mitigate the risks that are described below and, as a matter of policy, does not use derivatives for speculative transactions.

(2) Financial instruments and exposures to risk
Notes and accounts receivable expose the Toyo Group to customer credit risk. In addition, receivables denominated in foreign currencies, which arise as the result of doing business globally, expose the Toyo Group to the risk of exchange rate fluctuations. In principle, the Toyo Group hedges the risks with forward foreign exchange contracts to the net position of deducted notes and accounts payable denominated in foreign currencies. Investments in securities consist primarily of investments in companies with whom the Toyo Group does business or capital alliances and expose the Toyo Group to the risk of changes in market prices.

Almost all notes and accounts payable are due within one year. The Toyo Group procures the capital required for its investment in plant and equipment generally through bank loans and bond issues with maturities not exceeding 9 years and incurs lease liabilities for lease transactions. Although exposure to the risk of interest rate fluctuations may arise, the Toyo Group hedges the risk with derivatives transactions (interest rate swaps).

The Toyo Group uses derivatives transactions, including forward foreign exchange contracts, to hedge the risk of exchange rate fluctuations associated with receivables denominated in foreign currencies and interest rate swaps to hedge the risk of interest rate fluctuations associated with loans. “Derivatives and hedge accounting” in Note 2, “Summary of Significant Accounting Policies” explains hedge accounting issues, including methods, hedging policies, hedged items and recognition of gain or loss on hedged positions.

(3) Policies and processes for managing risk

a) Credit risk management (counterparty risk)

The Company monitors the financial status of counterparties and manages amounts and settlement dates under internal procedures for receivables. The Company works to quickly identify and mitigate payment risk that may result from situations such as the deterioration of the financial condition of a counterparty. Consolidated subsidiaries are subject to the same risk management rules.

In using derivatives transactions, the Company mitigates counterparty risk by conducting transactions with highly creditworthy financial institutions. The maximum credit risk as of March 31, 2012 is presented on the balance sheet as the carrying value of financial assets exposed to credit risk.

b) Managing market risk (risk of exchange rate and interest rate fluctuations)

For receivables denominated in foreign currencies, the Company uses principally forward foreign exchange contracts to hedge the risk of exchange rate fluctuations on a currency-by-currency basis evaluated monthly. In addition, the Company uses interest rate swaps to mitigate the risk of interest rate fluctuations associated with loans.

For investment in securities, the Toyo Group periodically examines the fair value of the securities and the financial condition of the issuing entity.

For derivatives transactions, the Financial Department handles the transactions, books them and makes reconciliations in accordance with the basic policy approved by the Board of Directors, on the basis of established internal control procedures for financial risk. In addition, the Financial Department reports the monthly amounts to finance officers and the Board of Directors.

c) Management of liquidity risk associated with capital procurement (payment default risk)

The Company manages liquidity risk by creating and updating a capital deployment plan based on reports from each division.

(4) Supplemental information on fair values

The contractual amounts of the derivatives transactions discussed in “Derivative Financial Instruments and Hedging Transactions” below do not reflect the market risk associated with the derivatives transactions themselves.

**B. Fair values of financial instruments**

The amounts for financial instruments presented in the consolidated balance sheets, their fair values and any differences as of March 31, 2012 and 2011 are in the tables below. Items whose fair market value was considered to be very difficult to assess are not presented in the tables below.

**(1) Marketable securities, derivatives transactions and methods for estimating fair value of financial instruments**

**Asset**

**Cash and time deposits**

Because cash and time deposits are highly liquid, their fair value is similar to their book value. Consequently, the fair value of cash and time deposits is based on book value.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ 24,740** | ¥ 28,074 | **$ 301,010** |
| Fair value | **24,740** | 28,074 | **301,010** |
| Differences | **–** | – | **–** |

**Notes and accounts receivable – trade**

Because notes and accounts receivable – trade are highly liquid, their fair value is similar to their book value. Consequently, the fair value of notes and accounts receivable – trade is based on book value.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ 60,540** | ¥ 54,431 | **$ 736,586** |
| Fair value | **60,540** | 54,431 | **736,586** |
| Differences | **–** | – | **–** |

**Investment securities**

The fair value of shares, etc. is based on prices established on exchanges. In addition, Note 9, “Securities” provides information on marketable securities by the intent for which they are held.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ 33,245** | ¥ 29,645 | **$ 404,490** |
| Fair value | **33,245** | 29,645 | **404,490** |
| Differences | **–** | – | **–** |

**Liabilities**

**Notes and accounts payable – trade**

Because notes and accounts payable – trade are highly liquid, their fair value is similar to their book value. Consequently, the fair value of notes and accounts payable – trade is based on book value.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ 66,107** | ¥ 59,578 | **$ 804,319** |
| Fair value | **66,107** | 59,578 | **804,319** |
| Differences | **–** | – | **–** |

**Short-term bank loans**

Because short-term bank loans are highly liquid, their fair value is similar to their book value. Consequently, the fair value of short-term bank loans is based on book value.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ 25,578** | ¥ 25,323 | **$ 311,206** |
| Fair value | **25,578** | 25,323 | **311,206** |
| Differences | **–** | – | **–** |

**Bonds payable (including current portion of bonds)**

The fair value of bonds payable is based on the price provided by counterparty financial institutions.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ 28,000** | ¥ 28,000 | **$ 340,674** |
| Fair value | **28,145** | 28,164 | **342,438** |
| Differences | **145** | 164 | **1,764** |

**Long-term bank loans (including current portion of long-term bank loans)**

Fair value of these long-term bank loans is estimated as the discounted present value of the total principal and interest using the assumed interest rates for equivalent new loans. Interest rate swaps subject to special treatment are used for long-term, floating-rate loans. Principal and interest of the loans in which these interest rate swaps are embedded are discounted using an estimate of the interest rate on the loan at the time of issue.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ 73,424** | ¥ 63,789 | **$ 893,345** |
| Fair value | **74,598** | 64,628 | **907,629** |
| Differences | **1,174** | 839 | **14,284** |

**Derivatives transactions**

Fair value of these derivatives transactions is stated at the price presented by counterparty financial institutions.

Derivatives transactions using interest rate swap contracts that meet specified conditions and receivables denominated in foreign currencies that meet specified conditions are treated with hedge items. The fair value of these derivatives transactions is included in the applicable accounts payable items and stated accordingly. Net asset or liability which results from derivatives transactions except for these show the net amount.

As a result, if this account balance is a debt, it is indicated by parenthesis ( ).

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amounts presented in the consolidated balance sheets | **¥ (159)** | ¥ (294) | **$ (1,935)** |
| Fair value | **(159)** | (294) | **(1,935)** |
| Differences | **–** | – | **–** |

**(2) Financial instruments for which determining fair value is difficult**

Financial instruments for which fair value is considered to be very difficult to determine are shown below. These financial instruments do not have a fair market value, and it was considered very difficult to determine because their future cash flows cannot be estimated. For these reasons, these financial instruments are not included among investment securities above.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Non-listed equity securities | **¥ 2,163** | ¥ 2,387 | **$ 26,317** |

**(3) The redemption schedule for receivables and marketable securities after the close of the fiscal year**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| (Notes and accounts receivable – trade) | **2012** | 2011 | **2012** |
| Within 1 year | **¥ 60,540** | ¥ 54,431 | **$ 736,586** |
| From 1 year to 5 years | **–** | – | **–** |
| From 5 years to 10 years | **–** | – | **–** |
| Over 10 years | **–** | – | **–** |

**(4) The redemption schedule for bonds payable and long-term loans payable after the close of the fiscal year**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Within 1 year | | | |
| Bonds payable | **¥ 5,000** | ¥ 10,000 | **$ 60,835** |
| Long-term bank loans | **17,938** | 7,796 | **218,250** |
| Lease obligations | **315** | 340 | **3,833** |
| | **¥ 23,253** | ¥ 18,136 | **$ 282,918** |
| From 1 year to 2 years | | | |
| Bonds payable | **¥ –** | ¥ 5,000 | **$ –** |
| Long-term bank loans | **16,156** | 16,849 | **196,569** |
| Lease obligations | **296** | 288 | **3,601** |
| | **¥ 16,452** | ¥ 22,137 | **$ 200,170** |
| From 2 years to 3 years | | | |
| Bonds payable | **¥ 8,000** | ¥ – | **$ 97,335** |
| Long-term bank loans | **10,282** | 13,725 | **125,100** |
| Lease obligations | **206** | 230 | **2,507** |
| | **¥ 18,488** | ¥ 13,955 | **$ 224,942** |
| From 3 years to 4 years | | | |
| Bonds payable | **¥ –** | ¥ 8,000 | **$ –** |
| Long-term bank loans | **19,517** | 7,479 | **237,462** |
| Lease obligations | **37** | 117 | **450** |
| | **¥ 19,554** | ¥ 15,596 | **$ 237,912** |
| From 4 years to 5 years | | | |
| Bonds payable | **¥ 10,000** | ¥ – | **$ 121,669** |
| Long-term bank loans | **7,116** | 16,706 | **86,580** |
| Lease obligations | **7** | 38 | **85** |
| | **¥ 17,123** | ¥ 16,744 | **$ 208,334** |
| Over 5 years | | | |
| Bonds payable | **¥ 5,000** | ¥ 5,000 | **$ 60,835** |
| Long-term bank loans | **2,610** | 1,268 | **31,755** |
| Lease obligations | **–** | 5 | **–** |
| | **¥ 7,610** | ¥ 6,273 | **$ 92,590** |

## 9. Securities

A. The following tables summarize acquisition costs and book values (fair values) of securities with available fair values as of March 31, 2012 and 2011:

Available-for-sale securities with available fair values exceeding acquisition costs

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Acquisition cost: | | | |
| Equity securities | **¥ 8,079** | ¥ 8,028 | **$ 98,297** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ 8,079** | ¥ 8,028 | **$ 98,297** |
| Book value: | | | |
| Equity securities | **¥ 23,948** | ¥ 21,095 | **$ 291,374** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ 23,948** | ¥ 21,095 | **$ 291,374** |
| Difference: | | | |
| Equity securities | **¥ 15,869** | ¥ 13,067 | **$ 193,077** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ 15,869** | ¥ 13,067 | **$ 193,077** |

Available-for-sale securities with available fair values not exceeding acquisition costs

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Acquisition cost: | | | |
| Equity securities | **¥ 9,668** | ¥ 10,188 | **$ 117,630** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ 9,668** | ¥ 10,188 | **$ 117,630** |
| Book value: | | | |
| Equity securities | **¥ 9,297** | ¥ 8,550 | **$ 113,116** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ 9,297** | ¥ 8,550 | **$ 113,116** |
| Difference: | | | |
| Equity securities | **¥ (371)** | ¥ (1,638) | **$ (4,514)** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ (371)** | ¥ (1,638) | **$ (4,514)** |

B. Total sales of available-for-sale securities for the years ended March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Amount of sales: | | | |
| Equity securities | **¥ 574** | ¥ – | **$ 6,984** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ 574** | ¥ – | **$ 6,984** |
| Total gain on sales: | | | |
| Equity securities | **¥ 286** | ¥ – | **$ 3,480** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ 286** | ¥ – | **$ 3,480** |
| Total loss on sales: | | | |
| Equity securities | **¥ –** | ¥ – | **$ –** |
| Bonds | **–** | – | **–** |
| Other | **–** | – | **–** |
| | **¥ –** | ¥ – | **$ –** |

C. Impairment of marketable securities
The Company recognized impairment for equity securities totaling ¥193 million ($2,348 thousand) in the year ended March 31, 2012. The Company recognizes impairment in the value of investments in securities when fair value or market price has fallen 50 percent below acquisition cost as of the balance sheet date. Among investment securities that have declined by 30% or more, but less than 50% against their acquisition cost, those that have been comprehensively assessed and deemed as unlikely to recover their value are also booked as impairment losses.

## 10. Derivative Financial Instruments and Hedging Transactions

Year ended March 31, 2011

A. Derivatives transactions for which hedge accounting does not apply
(1) Currency related
None

(2) Interest rate related

Millions of yen

| Classification | Type | Contact amount | Portion over 1 year | Fair value | Recognized gain (loss) |
|---|---|---|---|---|---|
| Non-market transaction | Receivable floating interest rate / Payable fixed rate swaps | 1,629 | 1,629 | (123) | 39 |

Note: Fair values were based on prices provided by relevant financial institutions.

B. Derivatives transactions for which hedge accounting applies
(1) Currency related

Millions of yen

| Hedge accounting method | Type of transaction | Hedge item | Contract amount | Portion over 1 year | Fair value |
|---|---|---|---|---|---|
| Basic treatment | Forward foreign exchange contracts | Accounts receivable – trade | | | |
| | Selling: USD | | 246 | – | (3) |
| | Selling: EUR | | 2,075 | – | (96) |
| | Selling: CAD | | 1,698 | – | (56) |
| | Selling: AUD | | 328 | – | (15) |
| Gain (loss) resulting from forward foreign exchange contracts is allocated over the applicable period | Forward foreign exchange contracts | Accounts receivable – trade | | | |
| | Selling: USD | | 288 | – | (Note 2) |
| | Selling: EUR | | 558 | – | (Note 2) |
| | Selling: CAD | | 497 | – | (Note 2) |
| | Selling: AUD | | 205 | – | (Note 2) |

Notes: 1. Fair values were based on prices provided by relevant financial institutions.
2. The fair value of gain or loss resulting from foreign exchange contracts embedded in receivables subject to hedging is included in the fair value of corresponding receivable.

(2) Interest rate related

Millions of yen

| Hedge accounting method | Type of transaction | Hedge item | Contract amount | Portion over 1 year | Fair value |
|---|---|---|---|---|---|
| Special treatment of interest rate swaps | Receivable floating interest rate / Payable fixed rate swaps | Long–term loans payable | 23,120 | 23,070 | (Note) |

Note: The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loans.

Year ended March 31, 2012

A. Derivatives transactions for which hedge accounting does not apply
(1) Currency related
None

(2) Interest rate related

Millions of yen

| Classification | Type | Contact amount | Portion over 1 year | Fair value | Recognized gain (loss) |
|---|---|---|---|---|---|
| Non-market transaction | Receivable floating interest rate / Payable fixed rate swaps | **1,555** | **–** | **(37)** | **74** |

Thousands of U.S. dollars

| Classification | Type | Contact amount | Portion over 1 year | Fair value | Recognized gain (loss) |
|---|---|---|---|---|---|
| Non-market transaction | Receivable floating interest rate / Payable fixed rate swaps | **18,920** | **–** | **(450)** | **900** |

Note: Fair values were based on prices provided by relevant financial institutions.



B. Derivatives transactions for which hedge accounting applies
(1) Currency related

Millions of yen

| Hedge accounting method | Type of transaction | Hedge item | Contract amount | Portion over 1 year | Fair value |
|---|---|---|---|---|---|
| Basic treatment | Forward foreign exchange contracts | Accounts receivable – trade | | | |
| | Selling: USD | | **1,358** | **–** | **(46)** |
| | Selling: EUR | | **1,979** | **–** | **(45)** |
| | Selling: CAD | | **393** | **–** | **(23)** |
| | Selling: AUD | | **415** | **–** | **(9)** |
| Gain (loss) resulting from forward foreign exchange contracts is allocated over the applicable period | Forward foreign exchange contracts | Accounts receivable – trade | | | |
| | Selling: USD | | **1,151** | **–** | (Note 2) |
| | Selling: EUR | | **354** | **–** | (Note 2) |
| | Selling: CAD | | **313** | **–** | (Note 2) |
| | Selling: AUD | | **243** | **–** | (Note 2) |

Thousands of U.S. dollars

| Hedge accounting method | Type of transaction | Hedge item | Contract amount | Portion over 1 year | Fair value |
|---|---|---|---|---|---|
| Basic treatment | Forward foreign exchange contracts | Accounts receivable – trade | | | |
| | Selling: USD | | **16,523** | **–** | **(560)** |
| | Selling: EUR | | **24,078** | **–** | **(548)** |
| | Selling: CAD | | **4,782** | **–** | **(280)** |
| | Selling: AUD | | **5,049** | **–** | **(110)** |
| Gain (loss) resulting from forward foreign exchange contracts is allocated over the applicable period | Forward foreign exchange contracts | Accounts receivable – trade | | | |
| | Selling: USD | | **14,004** | **–** | (Note 2) |
| | Selling: EUR | | **4,307** | **–** | (Note 2) |
| | Selling: CAD | | **3,808** | **–** | (Note 2) |
| | Selling: AUD | | **2,957** | **–** | (Note 2) |

Notes: 1. Fair values were based on prices provided by relevant financial institutions.
2. The fair value of gain or loss resulting from foreign exchange contracts embedded in receivable subject to hedging is included in the fair value of corresponding receivable.

(2) Interest rate related

Millions of yen

| Hedge accounting method | Type of transaction | Hedge item | Contract amount | Portion over 1 year | Fair value |
|---|---|---|---|---|---|
| Special treatment of interest rate swaps | Receivable floating interest rate / Payable fixed rate swaps | Long–term loans payable | **24,060** | **23,660** | (Note) |

Thousands of U.S. dollars

| Hedge accounting method | Type of transaction | Hedge item | Contract amount | Portion over 1 year | Fair value |
|---|---|---|---|---|---|
| Special treatment of interest rate swaps | Receivable floating interest rate / Payable fixed rate swaps | Long–term loans payable | **292,736** | **287,870** | (Note) |

Note: The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loans.

## 11. Pledged Assets

The following assets were pledged as collateral for long-term debt of ¥5,510 million ($67,040 thousand) and ¥5,554 million at March 31, 2012 and 2011.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Investment in securities | **¥ 5,716** | ¥ 5,790 | **$ 69,546** |
| Property, plant and equipment - net of accumulated depreciation | **22,011** | 22,725 | **267,806** |
| | **¥ 27,727** | ¥ 28,515 | **$ 337,352** |

## 12. Short–term Bank Loans and Long-term Debt

Short-term bank loans at March 31, 2012 and 2011 consisted of short–term notes, generally for 365 days, bearing interest at the average rate of 1.1%. In the past, these loans have been renewed as required.
Long-term debt at March 31, 2012 and 2011 consisted of the following:

Long–term loans include syndicate loan agreements with financial covenants concluded at March 31, 2010. The covenants consist of the following:
1) On March 31 and September 30 of each year, the amount of total shareholders' equity in the consolidated and nonconsolidated balance sheets should be more than 75% of the amount from the previous periods, ¥540 million (US$6,570 thousand) on the consolidated basis and ¥475 million (US $5,779 thousand) on the nonconsolidated basis.

2) Ordinary income recorded in the consolidated statements of income should not be negative for two consecutive fiscal years.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Loans principally from banks and insurance companies at the weighted average interest rate of 2.2 % at March 31, 2012 and 2.2% at March 31, 2011 were as follows: | | | |
| Secured | **¥ 5,510** | ¥ 5,554 | **$ 67,040** |
| Unsecured | **67,915** | 58,235 | **826,317** |
| 1.21% bonds, due in 2012 | **5,000** | 5,000 | **60,835** |
| 1.88% bonds, due in 2011 | **–** | 10,000 | **–** |
| 0.98% bonds, due in 2014 | **8,000** | 8,000 | **97,334** |
| 1.36% bonds, due in 2016 | **5,000** | 5,000 | **60,835** |
| 0.77% bonds, due in 2016 | **5,000** | – | **60,835** |
| 1.18% bonds, due in 2018 | **5,000** | – | **60,835** |
| | **101,425** | 91,789 | **1,234,031** |
| Less amounts due within one year | **(22,938)** | (17,796) | **(279,085)** |
| | **¥ 78,487** | ¥ 73,993 | **$ 954,946** |

Annual maturities of long-term debt at March 31, 2012 were as follows:

| Years ended March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | **¥ 22,938** | **$ 279,085** |
| 2014 | **16,156** | **196,569** |
| 2015 | **18,282** | **222,436** |
| 2016 | **19,517** | **237,462** |
| 2017 and thereafter | **24,532** | **298,479** |
| | **¥ 101,425** | **$ 1,234,031** |

## 13. Severance and Retirement Benefits

The liability for severance and retirement benefits included in the consolidated balance sheets as of March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Employees' retirement benefits | | | |
| Projected benefit obligation | **¥ 30,389** | ¥ 31,450 | **$ 369,741** |
| Unrecognized actuarial differences | **(3,849)** | (5,089) | **(46,831)** |
| Less fair value of pension assets | **(14,271)** | (13,851) | **(173,634)** |
| Less unrecognized past service liabilities | **14** | 15 | **170** |
| Prepaid pension cost | **580** | 718 | **7,057** |
| Directors' and statutory auditors' retirement benefits | **30** | 36 | **365** |
| Liability for severance and retirement benefits | **¥ 12,893** | ¥ 13,279 | **$ 156,868** |

Severance and retirement benefits, except for directors' and statutory auditors' benefits, for the years ended March 31, 2012 and 2011, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Service costs – benefits earned during the year | **¥ 1,550** | ¥ 1,542 | **$ 18,859** |
| Interest cost on projected benefit obligation | **614** | 622 | **7,470** |
| Expected return on plan assets | **(68)** | (67) | **(827)** |
| Amortization of actuarial differences | **559** | 520 | **6,801** |
| Amortization of past service liabilities | **(1)** | (1) | **(12)** |
| Contribution paid to the defined contribution plan | **253** | 240 | **3,078** |
| Severance and retirement benefit expenses | **¥ 2,907** | ¥ 2,856 | **$ 35,369** |

The discount rate and the rate of expected return on plan assets used by the Company for the year ended March 31, 2012 were 2.0% and 1.0%, respectively (2.0% and 1.0% for the year ended March 31, 2011).

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated total number of service years. Actuarial differences are recognized in the income statement using the straight-line method mainly over fifteen years. Past service liabilities are recognized in the income statement using the straight-line method over fifteen years.

## 14. Income Taxes

The Company and its domestic subsidiaries are subject to corporate, inhabitants and enterprise taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for both 2012 and 2011.

**Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| **Current deferred tax assets** | | | |
| Unrealized profits | **¥ 1,293** | ¥ 782 | **$ 15,732** |
| Accrued bonuses | **1,508** | 1,484 | **18,348** |
| Accrued expenses | **499** | 427 | **6,071** |
| Loss carryforwards | **934** | 433 | **11,364** |
| Provision for product compensation | **–** | 91 | **–** |
| Other | **1,301** | 1,434 | **15,829** |
| Valuation allowance | **(1,379)** | (1,109) | **(16,778)** |
| Total current deferred tax assets | **4,156** | 3,542 | **50,566** |
| Offset of deferred tax liabilities | **(302)** | (2) | **(3,675)** |
| Net current deferred tax assets | **¥ 3,854** | ¥ 3,540 | **$ 46,891** |
| **Current deferred tax liabilities** | | | |
| Adjustment of allowance for doubtful receivables | **¥ –** | ¥ (2) | **$ –** |
| Undistributed profit of subsidiaries | **(235)** | – | **(2,860)** |
| Unrealized losses | **(67)** | – | **(815)** |
| Other | **(20)** | – | **(243)** |
| Total current deferred tax liabilities | **(322)** | (2) | **(3,918)** |
| Offset of deferred tax assets | **302** | 2 | **3,675** |
| Net current deferred tax liabilities | **¥ (20)** | ¥ – | **$ (243)** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| **Noncurrent deferred tax assets** | | | |
| Excess severance and retirement benefits | **¥ 4,485** | ¥ 4,833 | **$ 54,569** |
| Unrealized profits | **1,104** | 1,201 | **13,432** |
| Loss on write-down of investment securities | **180** | 213 | **2,190** |
| Loss on set up of employee retirement benefit trust | **496** | 566 | **6,035** |
| Loss carryforwards | **2,857** | 5,265 | **34,761** |
| Loss on write-down of golf club memberships | **103** | 120 | **1,253** |
| Loss on impairment of fixed assets | **235** | 188 | **2,859** |
| Other | **6,068** | 5,056 | **73,829** |
| Valuation allowance | **(8,287)** | (10,811) | **(100,827)** |
| Total noncurrent deferred tax assets | **7,241** | 6,631 | **88,101** |
| Offset of deferred tax liabilities | **(5,124)** | (4,189) | **(62,344)** |
| Net noncurrent deferred tax assets | **¥ 2,117** | ¥ 2,442 | **$ 25,757** |
| **Noncurrent deferred tax liabilities** | | | |
| Accelerated depreciation of foreign consolidated subsidiaries | **¥ (7,184)** | ¥ (5,103) | **$ (87,407)** |
| Net unrealized gains on securities | **(5,516)** | (4,648) | **(67,113)** |
| Undistributed profit of subsidiaries | **(757)** | (644) | **(9,210)** |
| Other | **(1,524)** | (885) | **(18,543)** |
| Total noncurrent deferred tax liabilities | **(14,981)** | (11,280) | **(182,273)** |
| Offset of deferred tax assets | **5,124** | 4,189 | **62,344** |
| Net noncurrent deferred tax liabilities | **¥ (9,857)** | ¥ (7,091) | **$ (119,929)** |

Significant items in the reconciliation of the statutory tax rate and the effective rate were as follows:

| | **2012** | 2011 |
|---|---|---|
| Statutory tax rate | **40.6 %** | 40.6 % |
| Adjustment of deferred tax assets for enacted changes in tax laws and rates | **6.0 %** | – % |
| Undistributed profit of subsidiaries | **3.4 %** | 3.6 % |
| Amortization of goodwill | **1.1 %** | – % |
| Equity in net income of unconsolidated subsidiaries and affiliates | **(0.7) %** | (3.0) % |
| Difference in statutory tax rates of subsidiaries | **(5.1) %** | (8.3) % |
| Valuation allowance | **(15.6) %** | 47.2 % |
| Other | **1.5 %** | 1.9 % |
| Effective tax rate | **31.2 %** | 82.0 % |

*Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates*
On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.0% for years beginning on or after April 1, 2012 and 35.6% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 38.0% and 35.6%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax liabilities decreased by ¥173 million ($2,105 thousand) as of March 31, 2012, deferred income tax expense recognized for the year ended March 31, 2012 increased by ¥609 million ($7,410 thousand) and valuation difference on available-for-sale securities increased by ¥781 million ($9,502 thousand).

## 15. Leases

(1) Finance leases, as lessee
Information at March 31, 2012 and 2011 for finance leases which do not transfer ownership of the leased property to the lessee and which were commenced prior to April 1, 2008 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Original lease obligations, including finance charges, for machinery, equipment and other | **¥ 926** | ¥ 1,390 | **$ 11,266** |
| Payments made | **475** | 815 | **5,779** |
| Balance remaining | **¥ 451** | ¥ 575 | **$ 5,487** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Future minimum payments | | | |
| Payments due within one year | **¥ 59** | ¥ 124 | **$ 718** |
| Payments due after one year | **392** | 451 | **4,769** |
| | **¥ 451** | ¥ 575 | **$ 5,487** |

Rental expenses under non-capitalized finance leases for the years ended March 31, 2012 and 2011 were ¥123 million ($1,497 thousand) and ¥268 million, respectively.

(2) Operating leases, as lessee
Lease obligations under operating leases at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Future minimum payments | | | |
| Payments due within one year | **¥ 1,350** | ¥ 1,410 | **$ 16,425** |
| Payments due after one year | **5,545** | 7,180 | **67,466** |
| | **¥ 6,895** | ¥ 8,590 | **$ 83,891** |

## 16. Contingent Liabilities

Contingent liabilities at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Loan guarantees: | | | |
| TOYO RETREAD CO., LTD., an equity method affiliate | **¥ 153** | ¥ 119 | **$ 1,862** |
| TOYO SOFLANTEC CO., LTD., an equity method affiliate | **–** | 52 | **–** |
| | **¥ 153** | ¥ 171 | **$ 1,862** |

## 17. Net Assets

Under the Japanese Corporate Law and regulations ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or greater than 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on June 28, 2012, the shareholders approved cash dividends amounting to ¥1,270 million ($15,452 thousand). These appropriations have not been accrued in the Consolidated Financial Statements as of March 31, 2012. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 18. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries recognized impairment losses for the following groups of assets in the year ended March 31, 2011.

**The Company**

| Use | Type of asset | Location | Millions of yen |
|---|---|---|---|
| Idle assets | Land and buildings | Hakodate, Hokkaido Pref. | ¥ 119 |
| Idle assets | Land | Kato, Hyogo Pref. | 1 |
| | | | ¥ 120 |

*Circumstances*
Because of a significant decrease in the value of the land and buildings for which there were no current plans for future use, the Company recognized impairment losses and reduced the book values of these fixed assets.

*Grouping method*
For the purpose of identifying fixed assets that are impaired, the Company considered each industry segment, individual assets designated for disposal and individual idle property for which there was no planned use as independent cash generating units.

*Calculation method for recoverable amounts*
Recoverable amounts are net realizable values made in accordance with real estate valuation standards.

**Domestic consolidated subsidiary**

| Use | Type of asset | Location | Millions of yen |
|---|---|---|---|
| Asset for rent | Land | Odawara, Kanagawa Pref. | ¥ 51 |

*Circumstances*
Because of the impairment related to assets for rent, the domestic consolidated subsidiary recognized impairment losses and reduced the book values of land.
The recoverable amounts are measured based on use values, and future cash flows are discounted by 1.8 percent.

*Grouping method*
To identify fixed assets that are impaired, the domestic consolidated subsidiary considered each industry segment, assets for rent, individual assets designated for disposal and individual idle property for which there was no planned use as independent cash generating units.

The Company's consolidated subsidiary recognized impairment losses for the following groups of assets in the year ended March 31, 2012.

**Domestic consolidated subsidiary**

| Use | Type of asset | Location | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|
| Idle assets | Land | Kawagoe, Saitama Pref., etc. | **¥ 212** | **$ 2,579** |

*Circumstance*
Because of a significant decrease in the value of the lands for which there were no current plans for future use, the domestic consolidated subsidiary recognized impairment losses and reduced the book values of these fixed assets.

*Grouping method*
For the purpose of identifying fixed assets that are impaired, the domestic consolidated subsidiary considered each industry segment, individual assets designated for disposal and individual idle property for which there was no planned use as independent cash generating units.

*Calculation method for recoverable amounts*
Recoverable amounts are net realizable values made in accordance with real estate valuation standards.

## 19. Related Party Transactions

Description is omitted because there were no material related party transactions to disclose.

## 20. Business Combinations

Year ended March 31, 2012
I. Business Combinations by acquisition

**A. Overview of Business Combination**
1) Name and business of acquired company
Shandong Silverstone Luhe Rubber & Tyre Co., Ltd.
Manufacturing and selling company for automotive tires
2) Main reasons for the business combination
The Company has been working to improve its corporate value through a long-term global growth strategy. Through this acquisition, the Company will now be in a position to supply truck and bus tires from the acquired company. This will in turn enable the Company to meet strong demand in rapidly expanding markets in China and elsewhere.
3) Date of the business combination
June 22, 2011
4) Legal form of the business combination
Acquisition of proprietary equity
5) Name of the combined company
Toyo Tire (Zhucheng) Co., Ltd.
6) Percentage of proprietary equity acquired
75%
7) Main basis of acquiring company
Cash offer for 75% proprietary equity of Shandong Silverstone Luhe Rubber & Tyre Co., Ltd.

**B. Earnings period of acquired company included in consolidated financial statements**
July 1, 2011 to December 31, 2011

**C. Acquisition cost and breakdown**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|
| | | 2012 | | 2012 |
| Acquisition price: Fair value of proprietary equity of Shandong Silverstone Luhe Rubber & Tyre Co., Ltd. as of the date of the combination | ¥ | 1,477 | $ | 17,971 |
| Cost that requires it directly for acquisition: Advisory cost | | 104 | | 1,265 |
| Acquisition cost | ¥ | 1,581 | $ | 19,236 |

**D. Amount of goodwill accrued, reasons for accrual of goodwill, goodwill amortization method**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|
| | | 2012 | | 2012 |
| 1) Amount of goodwill | ¥ | 120 | $ | 1,460 |

2) Reasons for accrual of goodwill
The goodwill resulted from reasonable estimates of future excess earning power.
3) Goodwill amortization method and period
The goodwill will be amortized equally over 8 years.

**E. Assets and liabilities received on date of the business combination and broad breakdown**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|
| | | 2012 | | 2012 |
| Current assets | ¥ | 2,285 | $ | 27,801 |
| Fixed assets | | 3,151 | | 38,338 |
| | ¥ | 5,436 | $ | 66,139 |
| Current liabilities | ¥ | 3,492 | $ | 42,487 |
| | ¥ | 3,492 | $ | 42,487 |

**F. Estimated impact on consolidated profit and loss statement of the business combination completed on the first day of fiscal 2012 and method of calculating it**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|
| | | 2012 | | 2012 |
| Sales | ¥ | 1,633 | $ | 19,869 |
| Ordinary income | | (343) | | (4,173) |
| Net income | | (344) | | (4,185) |

*Method of calculating estimated amount*
The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on April 1, 2011 and information on sales and income contained in the consolidated statements of income of the acquiring company.
The estimated impact has not been subject to a certification of audit.

II. Acquisition cost allocation of Silverstone Berhad has completed. The main contents are as follows.

**A. Acquisition cost and breakdown**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|
| | | 2012 | | 2012 |
| Acquisition price: Fair value of common stock of Silverstone Berhad as of the date of the combination | ¥ | 13,691 | $ | 166,577 |
| Cost that requires it directly for acquisition: Advisory cost | | 376 | | 4,575 |
| Acquisition cost | ¥ | 14,067 | $ | 171,152 |

**B. Newly recognized intangible assets of Silverstone Berhad**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|
| | | 2012 | | 2012 |
| 1) The amounts and breakdown of recognized intangible assets | | | | |
| Brand (Silverstone trademark) | ¥ | 2,445 | $ | 29,748 |
| Customer-related assets | | 635 | | 7,726 |
| | ¥ | 3,080 | $ | 37,474 |

2) Amortization method and period
Brand (Silverstone trademark) will be amortized equally over 20 years.
Customer-related assets will be amortized equally over 10 years.

**C. Amount of goodwill accrued, reasons for accrual of goodwill, goodwill amortization method**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|
| | | 2012 | | 2012 |
| 1) Amount of goodwill | ¥ | 2,783 | $ | 33,861 |

2) Reasons for accrual of goodwill
The goodwill resulted from reasonable estimates of future excess earning power
3) Goodwill amortization method and period
The goodwill will be amortized equally over 15 years.

## 21. Loss on disaster

Loss on disaster related to Tohoku Region Pacific Coast Earthquake consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Extinguishment of inventories and other | **¥ –** | ¥ 2,478 | **$ –** |
| Fixed cost during the suspension of operations | **721** | 977 | **8,772** |
| Expenses for a restoration of buildings, equipment and other | **–** | 767 | **–** |
| Donations | **–** | 150 | **–** |
| Other costs for restoration | **404** | 455 | **4,916** |
| Total | **¥ 1,125** | ¥ 4,827 | **$ 13,688** |

## 22. Segment Information

(1) General information about reportable segments
The Company's reportable segments are the units for which separate financial information is available and which are periodically reviewed by the Board of Directors for the purposes of deciding the allocation of management resources and evaluating business performance.

The Company has two divisions on the basis of operational headquarters of the Tires business and the Divertech business. Each division formulates comprehensive strategies for both domestic and overseas markets and develops business activities.

Therefore, the Company identifies "Tires" and "Divertech" as reportable segments.

The Tires segment includes the manufacture and sale of a range of autos, buses and other vehicles and equipment.

The Divertech segment includes the manufacture and sale of rubber vibration isolators, waterproof sheets, automobile cushion seats and other products.

(2) Measuring reportable segment income or less, segment assets and other material items
The accounting policies for business segments reported are generally the same as those described in "Significant Accounting Policies in the Preparation of Consolidated Financial Statements".

Figures for reportable segment income are based on operating income.

(3) Reportable segment income or loss, segment assets and other material items

For the year ended March 31, 2011

Millions of yen

| | Reportable Segments | | | Other (Note 1) | Total | Adjustments (Note 2) (Note 3) | Amount reported on consolidated statements of income |
|---|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | | |
| Net sales | | | | | | | |
| Sales to outside customers | 216,578 | 77,314 | 293,892 | 201 | 294,093 | – | 294,093 |
| Intersegment sales and transfers | 19 | 148 | 167 | 225 | 392 | (392) | – |
| Total | 216,597 | 77,462 | 294,059 | 426 | 294,485 | (392) | 294,093 |
| Segment income (Operating income) | 8,864 | 3,198 | 12,062 | 147 | 12,209 | (27) | 12,182 |
| Segment assets | 194,894 | 49,251 | 244,145 | 22,093 | 266,238 | 39,052 | 305,290 |
| Other items | | | | | | | |
| Depreciation and amortization | 13,431 | 2,934 | 16,365 | 596 | 16,961 | (0) | 16,961 |
| Increase in property, plant and equipment and intangible assets | 26,299 | 1,815 | 28,114 | 211 | 28,325 | – | 28,325 |

For the year ended March 31, 2012

Millions of yen

| | Reportable Segments | | | Other (Note 1) | Total | Adjustments (Note 2) (Note 3) | Amount reported on consolidated statements of income |
|---|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | | |
| Net sales | | | | | | | |
| Sales to outside customers | **241,693** | **78,796** | **320,489** | **81** | **320,570** | **–** | **320,570** |
| Intersegment sales and transfers | **16** | **18** | **34** | **220** | **254** | **(254)** | **–** |
| Total | **241,709** | **78,814** | **320,523** | **301** | **320,824** | **(254)** | **320,570** |
| Segment income (Operating income) | **10,325** | **2,074** | **12,399** | **121** | **12,520** | **373** | **12,893** |
| Segment assets | **230,857** | **45,973** | **276,830** | **24,019** | **300,849** | **36,134** | **336,983** |
| Other items | | | | | | | |
| Depreciation and amortization | **14,620** | **2,688** | **17,308** | **1,014** | **18,322** | **(0)** | **18,322** |
| Increase in property, plant and equipment and intangible assets | **26,565** | **2,800** | **29,365** | **403** | **29,768** | **–** | **29,768** |

For the year ended March 31, 2012

Thousands of U.S. dollars

| | Reportable Segments | | | Other (Note 1) | Total | Adjustments (Note 2) (Note 3) | Amount reported on consolidated statements of income |
|---|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | | |
| Net sales | | | | | | | |
| Sales to outside customers | **2,940,662** | **958,705** | **3,899,367** | **986** | **3,900,353** | **–** | **3,900,353** |
| Intersegment sales and transfers | **195** | **219** | **414** | **2,676** | **3,090** | **(3,090)** | **–** |
| Total | **2,940,857** | **958,924** | **3,899,781** | **3,662** | **3,903,443** | **(3,090)** | **3,900,353** |
| Segment income (Operating income) | **125,624** | **25,234** | **150,858** | **1,472** | **152,330** | **4,538** | **156,868** |
| Segment assets | **2,808,821** | **559,350** | **3,368,171** | **292,238** | **3,660,409** | **439,640** | **4,100,049** |
| Other items | | | | | | | |
| Depreciation and amortization | **177,880** | **32,705** | **210,585** | **12,337** | **222,922** | **(0)** | **222,922** |
| Increase in property, plant and equipment and intangible assets | **323,215** | **34,067** | **357,282** | **4,903** | **362,185** | **–** | **362,185** |

(Note 1) "Other" is not included in reportable segments. It includes finance loans and purchasing credits to domestic affiliates and real-estate businesses and other.
(Note 2) "Adjustments" in segment income of ¥373 million and ¥ (27) million at March 31, 2012 and 2011, respectively, comprised Elimination of intersegment transactions.
(Note 3) "Adjustments" in segment assets of ¥49,083 million and ¥48,954 million at March 31, 2012 and 2011, respectively, comprised mainly cash and cash equivalents and investment securities of the Company.

**Relative information**
For the year ended March 31, 2011
*Information about products and services*
This was omitted because the same information was disclosed in the Segment Information.

*Information about geographic areas*
Net sales

Millions of yen

| Japan | North America | Other | Total |
|---|---|---|---|
| 135,185 | 95,307 | 63,601 | 294,093 |

(Note) Based on customer's location, net sales are classified into countries and regions.

Property, plant and equipment

Millions of yen

| Japan | North America | Other | Total |
|---|---|---|---|
| 76,856 | 35,788 | 11,096 | 123,740 |

*Information about major customers*
This was omitted because there were no outside customers which comprise over 10% of net sales.

For the year ended March 31, 2012
Information about products and services
This was omitted because the same information was disclosed in the Segment Information.

Information about geographic areas
Net sales

Millions of yen

| Japan | North America | Other | Total |
|---|---|---|---|
| **138,980** | **104,809** | **76,781** | **320,570** |

(Note) Based on customer's location, net sales are classified into countries and regions.

Thousands of U.S dollars

| Japan | North America | Other | Total |
|---|---|---|---|
| **1,690,960** | **1,275,204** | **934,189** | **3,900,353** |

Property, plant and equipment

Millions of yen

| Japan | North America | Other | Total |
|---|---|---|---|
| **74,577** | **38,696** | **18,858** | **132,131** |

Thousands of U.S dollars

| Japan | North America | Other | Total |
|---|---|---|---|
| **907,373** | **470,812** | **229,444** | **1,607,629** |

Information about major customers
This was omitted because there were no outside customers which comprise over 10% of net sales.

**Information on impairment loss in noncurrent assets by reportable segment**
For the year ended March 31, 2011

Millions of yen

| | Reportable Segments | | | Other | Eliminations and corporate assets | Total |
|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | |
| Impairment loss | 171 | – | 171 | – | – | 171 |

For the year ended March 31, 2012

Millions of yen

| | Reportable Segments | | | Other | Eliminations and corporate assets | Total |
|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | |
| Impairment loss | **212** | – | **212** | – | – | **212** |

Thousands of U.S. dollars

| | Reportable Segments | | | Other | Eliminations and corporate assets | Total |
|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | |
| Impairment loss | **2,579** | **–** | **2,579** | **–** | **–** | **2,579** |

**Information on amortization of goodwill and unamortized balance by reportable segment**
For the year ended March 31, 2011

Millions of yen

| | Reportable Segments | | | Other | Eliminations and corporate assets | Total |
|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | |
| Amortization of goodwill | 116 | – | 116 | – | – | 116 |
| Balance at end of period | 4,508 | – | 4,508 | – | – | 4,508 |

For the year ended March 31, 2012

Millions of yen

| | Reportable Segments | | | Other | Eliminations and corporate assets | Total |
|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | |
| Amortization of goodwill | **303** | **–** | **303** | **–** | **–** | **303** |
| Balance at end of period | **2,571** | **–** | **2,571** | **–** | **–** | **2,571** |

Thousands of U.S. dollars

| | Reportable Segments | | | Other | Eliminations and corporate assets | Total |
|---|---|---|---|---|---|---|
| | Tires | Divertech | Subtotal | | | |
| Amortization of goodwill | **3,687** | **–** | **3,687** | **–** | **–** | **3,687** |
| Balance at end of period | **31,281** | **–** | **31,281** | **–** | **–** | **31,281** |

**Information on negative goodwill by reportable segment**
Nothing to be noted.

**23. Subsequent events**

There were no material subsequent events to disclose.

## Independent Auditor's Report

To the Board of Directors of Toyo Tire & Rubber Co., Ltd.:

We have audited the accompanying consolidated financial statements of Toyo Tire & Rubber Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toyo Tire & Rubber Co., Ltd. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 28, 2012
Osaka, Japan



# Directors, Corporate Auditors and Corporate Officers (As of June 28, 2012)

## Directors and Corporate Auditors

**Representative Director and President**
Kenji Nakakura

**Representative Director**
Kazunari Maeda

**Directors**
Akira Nobuki
Susumu Nishihata
Takafumi Ichikawa
Hidenori Fukutomi
Toshihiro Kanai

**Corporate Auditors (standing)**
Hiroyasu Uejima
Toshiro Fujita *1
Hiroshige Nose *1

**Corporate Auditor**
Kazumasa Kawaki *1

*1: The outside auditors specified in 2-16 of the Companies Act
*2: Concurrent with directorial position

## Corporate Officers

**President and Chief Executive Officers**
Kenji Nakakura *2

**Executive Corporate Officers**
Kazunari Maeda *2
Akira Nobuki *2

**Senior Corporate Officers**
Susumu Nishihata *2
Takafumi Ichikawa *2
Hidenori Fukutomi *2
Kenkichi Matsumoto
James L. Hawk

**Corporate Officers**
Hidehiko Takahashi
Tetsuya Kuze
Koichi Ono
Sadao Ichihara
Takuji Yamamoto
Kazuyuki Ito
Michihiro Kawada
Tomoshige Mizutani
Tetsuo Tatara
Tamotsu Sakuramoto

## Executive Emeritus

Junji Tsumura

# Corporate Data (As of June 30, 2012)

| | |
|---|---|
| Head Office | 1-17-18 Edobori, Nishi-ku, Osaka 550-8661, Japan<br>Phone: +81-6-6441-8801 Fax: +81-6-6445-2225 |
| Consolidated Subsidiaries | 42 (Japan: 15 Overseas: 27) |
| Establishment | August 1, 1945 |
| Common Stock Listings | Osaka (May 1949)<br>Tokyo (May 1955) |
| Paid-in Capital | ¥30,484 million |
| Number of Employees | Consolidated: 9,523 Non-consolidated: 3,126 |
| Fiscal year | January 1 – December 31 |
| Annual General Meeting of Shareholders | March |
| Number of Shareholders | 12,906 |
| Number of Shares Outstanding | 254,358,146 shares |
| Shareholder Register Administrator and Transfer Account Management Institution for Special Account | Mitsubishi UFJ Trust and Banking Corporation<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo<br>100-8212, Japan |
| Independent Auditors | KPMG AZSA LLC |
| Website | http://www.toyo-rubber.co.jp/english/ |

**[ Significant subsequent events ]** At a meeting on January 26, 2012, the Board of Directors passed a resolution to change the Company' s fiscal year-end from March 31 to December 31. The resolution was approved at the 96th Annual General Meeting of Shareholders on June 28, 2012. As a result of this change, FY2012 will cover a nine month period from April 1, 2012 to December 31, 2012. The same change to the fiscal year-end will be made at consolidated subsidiaries that currently have a closing date other than December 31.

**[ Forward-looking statements ]** This annual report contains forward-looking statements concerning the future plans, strategies, beliefs and performance of Toyo Tire & Rubber Co., Ltd. and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

TOYO TIRES
driven to perform


## TOYO TIRE & RUBBER CO., LTD.

Corporate Planning Division, Corporate Communications Planning Dept.

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September 2012