

Summary Report of Consolidated Business Results  
for the First Half of Fiscal Year 2016  
(January 1, 2016 – June 30, 2016)

OSAKA, JAPAN – August 10, 2016 - TOYO TIRE & RUBBER CO., LTD. (“the Company”; President: Takashi Shimizu) announces its Consolidated Business Results for the First Half of Fiscal Year 2016 (January 1, 2016 through June 30, 2016) as follows:

Qualitative information about the quarter financial results

(1) Business Results

- Net Sales : 186,439 million yen (a decrease of 7,962 million yen or 4.1% from the same period of for FY2015)
- Operating Income : 26,218 million yen (a decrease of 2,908 million yen or 10.0% from the same period of for FY2015)
- Ordinary Income : 20,925 million yen (a decrease of 5,744 million yen or 21.5% from the same period for FY2015)
- Profit attributable to owners of parent : 2,151 million yen (4,156 million yen loss in the same period for FY2015)

Results by Business Units were as follows:

**【Tire Business Unit】**

The tire business unit posted net sales of 148,679 million yen (a decrease of 5,543 million yen or 3.6% from the same period for FY2015) and operating income of 24,352 million yen (a decrease of 2,263 million yen or 8.5% from the same period for FY2015)

(Original Equipment Tires)

In Japan, unit sales and net sales exceeded those of the same period a year ago on robust sales of cars equipped with company products despite a continuing decline in the number of automobiles produced in Japan. Overseas unit sales and net sales also outperformed those of the same period last year as a result of acquiring new business. As a result, unit sales and net sales for the original equipment tire market as a whole exceeded the performance of the same period a year ago.

(Replacement Tires: for the Japanese Domestic Market)

In Japan, with sales prices continuing to fall due to dropping raw material prices, the company released Tranpath ML, a new addition to the Tranpath series, as a minivan tire targeting mid-class minivans. The company further expanded the NanoEnergy series with the release of NanoEnergy 3 Plus, a fuel-efficient tire with enhanced wet-grip performance, along with a NanoEnergy commercial vehicle tire, which resulted in unit sales outperforming the previous year while net sales remained at the same level as a year ago.

(Replacement Tires: for Overseas Markets)

For overseas replacement tires, in North America the number of units sold exceeded last

year's volume, while in Europe sales also grew significantly, resulting in greater total unit sales than a year ago, but due to a stronger yen net sales were lower than for the same period last year.

**【DiverTech Business Units (Non-Tire Business Units)】**

The DiverTech units posted net sales of 37,727 million yen (a decrease of 2,273 million yen or 5.7% from the same period for FY2015) and an operating income of 1,431 million yen (a decrease of 333 million yen or 18.9% from the same period for FY2015).

**(Transportation)**

For anti-vibration rubber and seat cushions for automobiles, while the number of automobiles produced in Japan declined due to shutdowns of auto makers and other factors, net sales remained at the same level as a year ago on new orders of automotive seat cushions. For air springs and anti-vibration rubber for railway cars, sales were robust for the overseas new car market but sluggish for Japan's repair market, resulting in a year-on-year decline of net sales.

**(Thermal Insulation & Waterproof Materials)**

In the thermal insulation materials segment, net sales of materials to the agricultural sector and rigid polyurethane products to insulation material manufacturers sales declined year-on-year due to sluggish sales. In the waterproofing materials segment, net sales also declined compared to the same period a year ago due to sluggish demand for waterproof sheets, a core product.

**(Industrial & Building Materials)**

In the industrial & building materials segment, sales of industrial rubberized fabrics increased, but net sales declined year-on-year due in part to significant sales last year of road materials for large-scale projects.

**(2) Status of provision of reserve for product warranties and allowance for product reparations pertaining to the company's seismic isolation rubber issue**

In the prior fiscal year (ended December 2015), some products shipped by the company did not conform to certification performance standards of the Ministry of Land, Infrastructure, Transport and Tourism, and when applying for ministry certification for seismic isolation rubber for construction, in some cases the certification was based on applications lacking technical grounds.

In the financial results for the first half results, the company posted an extraordinary loss for the cost of measures for product after-care and for provision of reserve for product warranties pertaining to the incidents, the details of which are as follows.

(Unit : Millions of yen)

	1Q of FY2016 (A)	2Q of FY2016 (B)	First Half of FY2016 (A) + (B)
1) Loss on product compensation			
For 55 buildings	16	1,092	1,108
For 99 buildings	-	85	85
Charges	1,004	1,240	2,244
Compensation Cost, etc.	1,013	721	1,734
Sub. Total	2,033	3,139	5,173
2) Loss on provision for product compensation			
For 55 buildings	5,552	1,700	7,253
For 99 buildings	107	2,462	2,570
Charges	999	323	1,323
Compensation Cost, etc.	525	86	612
Sub. Total	7,185	4,574	11,759
3) Total 1)+2)			
For 55 buildings	5,568	2,793	8,361
For 99 buildings	107	2,548	2,655
Charges	2,003	1,564	3,568
Compensation Cost, etc.	1,539	807	2,347
Grand Total	9,218	7,714	16,933

As indicated in 2Q of FY2016 Table 3) above Totals 1)+2), the company posted an extraordinary loss of 16,933 million yen (5,173 million yen for the cost of measures for after-care of products and 11,759 million yen for provision of reserve for product warranties) as a result of posting 2,793 million yen for the cost of repairs and replacement of seismic isolation products for 55 structures; 2,548 million yen for the cost of repairs and replacement of seismic isolation products for 99 structures; 807 million yen for compensations, etc.; and 1,564 million yen for miscellaneous expenses (mainly, 500 million yen in payroll for the seismic isolation rubber task force; 300 million yen for structural recalculation; 200 million yen for costs pertaining to equipment used for replacement of seismic isolation rubber; and 200 million yen for the cost of trial manufacturing of replacement products using the company's own products). Additionally, in the preceding fiscal term ended December 2015, falsified testing data provided to customers relating to some industrial anti-vibration rubber was discovered, which resulted in recording an extraordinary loss to cover 281 million yen in costs associated with the incident (91 million yen for the cost of measures for after-care of products and 190 million yen for provision of reserve for product warranties). As it is difficult to reasonably estimate the amount at this point in time, in the event that costs arise in the future (mainly reparations such as compensation for business and delay damages and costs in the event that the amount already in reserve for costs of newly discovered repairs is exceeded), an additional reserve for product warranties may be posted depending upon the progress of measures from the third quarter onward.

### (3) Qualitative data on consolidated financial position

Total assets for the end of the first half of consolidated accounting term were 457,454 million yen, a decrease of 65,482 million yen compared to the end of the prior consolidated accounting period.

Liabilities were 305,302 million yen, a decrease of 42,270 million yen compared to the previous consolidated year-end accounting term. And the interest-bearing liabilities were 148,179 million yen, a decrease of 13,855 million yen compared to the previous consolidated year-end accounting terms.

Net assets as of the end of the first half of consolidated accounting term were 152,152 million yen, a decrease of 23,212 million yen compared to the previous consolidated year-end accounting term.

As a result, the capital ratio decreased 0.3% compared with the previous consolidated year-end accounting term, to 32.6%.

### (4) Qualitative data on forecasted consolidated results

In the second quarter cumulative period, due to an additional posting of a provision of reserve for product warranties as an extraordinary loss, profit and loss attributable to owners of parent net income for the term underperformed the previously announced forecast announced on May 13, 2016. Regarding the full-year results forecast, for the same reasons the previously announced forecast (May 13, 2016) will be adjusted downward for profit and loss attributable to owners of parent

The projected exchange rate for the second half will be 1 US dollar = 105 yen, and 1 euro = 115 yen. For details, refer to "Announcement of extraordinary loss and difference between consolidated forecast and actual results for the fiscal year 2016 ended 31 December, 2016."

### (5) Notes on consolidated financial statements (Note on consolidated balance sheet)

#### Contingency liabilities

1) The Company had been manufacturing and selling seismic isolation rubber itself and through its subsidiary Toyo Chemical Industrial Products, Ltd. that was certified by Japan's Ministry of Land, Infrastructure, Transport and Tourism. However, it was discovered that some delivered products did not conform to ministry certification performance standards, and on March 12, 2015, the Company voluntarily reported this fact to the ministry. Additionally, several times in the past the Company had received ministry certification for seismic isolation rubber, but it was also discovered that in some cases, the certification was based on applications lacking technical grounds.

With respect to this matter, the company has envisaged every possibility and considered future handling and measures, and as a policy has decided in principle to replace all units of the concerned products with products that conform to the performance standards required in the initial design phase provided there is no objection from the concerned parties including owners, tenants, clients and construction firms.

A provision of reserve for product warranties due to the incident has been posted for the cost of repairs for which the amounts can be reasonably estimated. Depending upon progress from the next quarter's consolidated accounting period, additional posting of a provision of reserve for product warranties may impact the company's consolidated results, but at the present time it is difficult to reasonably estimate the amount.

2) In the prior fiscal year (ended December 2015), it was discovered that falsified testing data had been delivered to customers for some industrial anti-vibration rubber components manufactured and sold by Toyo Chemical Industrial Products, Ltd. As a result, any future costs that arise accompanying product replacement may impact the company's consolidated results, but at the present time it is difficult to reasonably estimate the amount.

3) On November 26, 2013 (U.S. time), the company agreed with the U.S. Department of Justice to pay a fine of 120 million USD for breach of U.S. antitrust law pertaining to sales of automotive anti-vibration rubber parts and joint boots, and on February 6, 2014 (U.S. time), the company received and complied with the judgement of the court order to pay this amount.

Class action concerning this matter has been brought against the company and its subsidiaries in the U.S. and Canada, which may impact the company's consolidated results, but at this stage it is difficult to make a reasonable estimate of any such result.

## Consolidated Balance Sheets

(Unit: Millions of yen)

	End of previous fiscal year December 31, 2015	End of current fiscal year June 30, 2016
Assets		
Current Assets		
Cash and deposits	44,510	37,582
Notes and accounts receivable – trade	81,873	66,443
Merchandise and finished goods	56,041	52,339
Work in process	4,335	3,181
Raw materials and supplies	9,955	10,627
Other	30,004	27,358
Allowance for doubtful accounts	(505)	(427)
Total current assets	226,214	197,105
Fixed Assets		
Property, plant and equipment		
Buildings and structures, net	59,208	53,798
Machinery, equipment and vehicles, net	101,196	92,804
Other, net	50,657	44,819
Total property, plant and equipment	211,062	191,422
Intangible Assets		
Goodwill	2,234	1,930
Other	6,136	5,602
Total intangible assets	8,370	7,532
Investments and other assets		
Investment securities	60,668	46,167
Other	16,797	15,399
Allowance for doubtful accounts	(175)	(174)
Total investments and other assets	77,290	61,393
Total fixed assets	296,723	260,349
Total assets	522,937	457,454

## Consolidated Balance Sheets

(Unit: Millions of yen)

	End of previous fiscal year December 31, 2015	End of current fiscal year June 30, 2016
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable – trade	70,040	51,633
Short-term loans payable	50,353	50,951
Current portion of bonds	10,000	10,000
Accounts payable – other	19,748	14,631
Income taxes payable	4,304	1,706
Provision for product compensation	33,500	39,500
Other	21,301	20,311
<b>Total current liabilities</b>	<b>209,248</b>	<b>188,734</b>
<b>Noncurrent liabilities</b>		
Bonds payable	10,000	10,000
Long-term loans payable	91,204	76,780
Net defined benefit liability	8,565	8,683
Other provision	47	47
Other	28,506	21,055
<b>Total noncurrent liabilities</b>	<b>138,324</b>	<b>116,567</b>
<b>Total liabilities</b>	<b>347,572</b>	<b>305,302</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	30,484	30,484
Capital surplus	28,507	28,507
Retained earnings	71,255	70,232
Treasury stock	(141)	(142)
<b>Total shareholders' equity</b>	<b>130,105</b>	<b>129,081</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	28,070	18,950
Deferred gains or losses on hedges	32	106
Foreign currency translation adjustments	11,460	(1,508)
Remeasurements of defined benefit plans	2,182	2,282
<b>Total accumulated other comprehensive income</b>	<b>41,745</b>	<b>19,830</b>
<b>Non controlling interests</b>	<b>3,513</b>	<b>3,240</b>
<b>Total net assets</b>	<b>175,364</b>	<b>152,152</b>
<b>Total liabilities and net assets</b>	<b>522,937</b>	<b>457,454</b>

## Consolidated Statements of Income

(Unit: Millions of yen)

	Previous fiscal year	Current fiscal year
	FY2015 (From January 1, 2015 to June 30, 2015)	FY2016 (From January 1, 2016 to June 30, 2016)
Net sales	194,402	186,439
Cost of sales	122,797	117,183
Gross profit	71,604	69,255
Selling, general and administrative expenses	42,477	43,037
Operating income	29,126	26,218
Non-operating income		
Interest income	240	208
Dividends income	846	821
Equity in earnings of affiliates	115	148
Other	463	774
Total non-operating income	1,666	1,952
Non-operating expenses		
Interest expenses	1,566	1,521
Foreign exchange losses	902	4,260
Other	1,654	1,462
Total non-operating expenses	4,123	7,245
Ordinary income	26,670	20,925
Extraordinary income		
Gain on sales of investment securities	—	614
Total extraordinary income	—	614
Extraordinary loss		
Loss on retirement of noncurrent assets	257	351
Loss on product compensation	1,386	5,265
Loss on provision for product compensation	29,000	11,949
Total extraordinary loss	30,644	17,566
Profit (loss) before income taxes	(3,973)	3,973
Income taxes	202	1,536
Profit (loss)	(4,176)	2,436
Profit (loss) attributable to non controlling interests	(19)	284
Profit (loss) attributable to owners of parent	(4,156)	2,151

Consolidated Statements of comprehensive income

(Unit: Millions of yen)

	Previous fiscal year	Current fiscal year
	FY2015 (From January 1, 2015 to June 30, 2015)	FY2016 (From January 1, 2016 to June 30, 2016)
Profit (loss)	(4, 176)	2, 436
Other comprehensive income		
Valuation difference on available-for-sale securities	6, 438	(9, 120)
Deferred gains or losses on hedges	25	73
Foreign currency translation adjustment	(1, 000)	(13, 077)
Remeasurements of defined benefit plans, net of tax	149	99
Share of other comprehensive income of associates accounted for using equity method	52	(311)
Total other comprehensive income	5, 664	(22, 335)
Comprehensive income	1, 487	(19, 898)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1, 676	(19, 763)
Comprehensive income attributable to non controlling interests	(188)	(135)

## Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	Previous fiscal year	Current fiscal year
	FY2015 (From January 1, 2015 to June 30, 2015)	FY2016 (From January 1, 2016 to June 30, 2016)
Cash flows from operating activities		
Profit (loss) before income taxes	(3,973)	3,973
Depreciation and amortization	12,156	12,474
Increase (decrease) in net defined benefit liability	(2,156)	73
Interest and dividends income	(1,087)	(1,029)
Interest expenses	1,566	1,521
Foreign exchange losses (gains)	(8)	(955)
Equity in (earnings) losses of affiliates	(115)	(148)
Loss on retirement of noncurrent assets	257	351
Loss on product compensation	1,386	5,265
Loss on provision for product compensation	29,000	11,949
Decrease (increase) in notes and accounts receivable-trade	13,638	9,374
Decrease (increase) in inventories	(8,051)	(3,378)
Increase (decrease) in notes and accounts payable-trade	(4,482)	(13,894)
Other, net	(74)	1,534
Sub-total	38,053	27,112
Interest and dividends income received	1,402	1,069
Interest expenses paid	(1,779)	(1,682)
Payments related to product compensation	(1,962)	(12,067)
Income taxes paid	(11,705)	(4,136)
Income taxes refund	—	2,023
Net cash provided by (used in) operating activities	24,009	12,318
Cash flows from investing activities		
Additions to property, plant and equipment	(27,195)	(12,926)
Proceeds from sales of property, plant and equipment	84	35
Additions to intangible assets	(373)	(221)
Additions to investments in securities	(206)	(7)
Proceeds from sales and redemption of investment securities	—	798
Other, net	23	(5)
Net cash provided by (used in) investing activities	(27,666)	(12,327)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	14,333	4,931
Payments for installment payables-property and equipment	(3,789)	—
Proceeds from long-term debt	12,013	4,028
Payments of long-term debt	(12,117)	(10,449)
Cash dividends paid	(5,704)	(3,170)
Dividends paid to non-controlling interests	(369)	(137)
Other, net	(115)	(91)
Net cash provided by (used in) financing activities	4,250	(4,889)
Effect of exchange rate change on cash and cash equivalents	(640)	(2,099)
Net Increase (decrease) in cash and cash equivalents	(47)	(6,997)
Cash and cash equivalents at beginning of the year	32,395	44,431
Cash and cash equivalents at end of the period	32,348	37,434