

TOYO TIRES

Annual Report 2019



Company Philosophy

We will endeavor to continuously improve our products, and create value for everyone who we work with.

Our Mission

To create excitement and surprise with our products that exceed customer expectations and enriches society.

Our Vision

Our goal is to be a company that:

- Stays one step ahead of the future through constant technological innovation;
- Drives entrepreneurial and creative spirit through a progressive culture; and
- Shares in the enjoyment felt by everyone involved in our activities.

Our Fundamental Values: “The TOYO WAY”

Fairness	Be fair and selfless in one’s actions to benefit society.
Pride	Take pride in one’s self, work and company, and to persevere.
Initiative	Show initiative in all matters, and take ownership of one’s actions.
Appreciation	Demonstrate sincere compassion and appreciation for people and society.
Solidarity	Continuously advance creativity and innovation by working together to mobilize our corporate knowledge and capabilities.

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Financial and Non-Financial Information Disclosure Tools

We offer various tools to help disclose information. Please visit our website to view any of our publications for additional information regarding the following topics.

| IR Information |



IR Information Webpage
<https://www.toyotires-global.com/ir/>

| Corporate Information |



Corporate Website
<https://www.toyotires-global.com/>

| CSR Information |



CSR Information Webpage
<https://www.toyotires-global.com/csr/>



Financial Fact Book
<https://www.toyotires-global.com/ir/library/fact/>



Corporate Profile
<https://www.toyotires-global.com/corporate/profile/>



CSR Report
<https://www.toyotires-global.com/csr/report/>

Forward-Looking Statements

Forecasts and estimates in this report were determined based on the information available at the time of publication. Actual results and performance could differ significantly from the information listed in this report due to various risks and uncertainties. Accordingly, we caution readers against making any investment decisions solely on the basis of the performance forecasts in this report.

Looking at TOYO TIRE by the Data

Net Sales by Business Segments

(Year ended December 31, 2019)

Tire Business

¥332,838 million

Lines of Business

- Production and sale of various tires (for passenger vehicles, light trucks, trucks and buses, and other vehicles) and other related products

Net Sales*
¥377,457 million

Automotive Parts Business

¥44,551 million

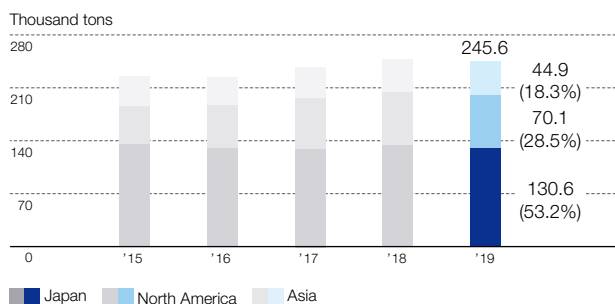
Lines of Business

- Production and sale of automobile components

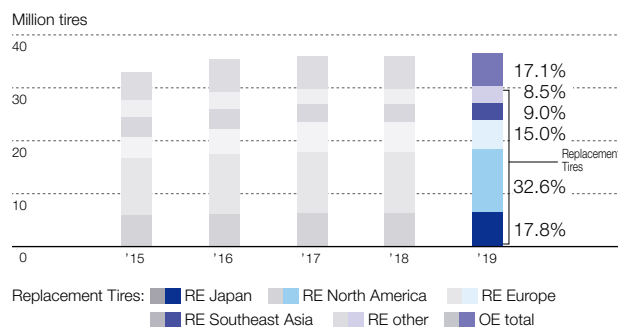
* The total for net sales includes net sales from other businesses and adjusted amounts

Regional Data

Changes in Tire Production (New Rubber Volume)

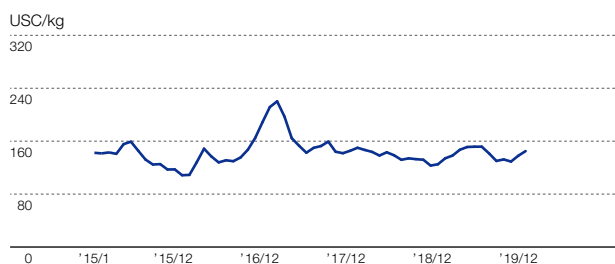


Ratio of Tire Sales Quantity by Geographic Segment

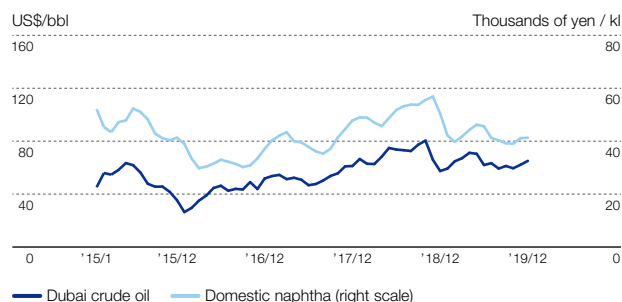


Market Data

Natural Rubber TSR #20 Prices (SICOM) *1



Dubai Crude Oil and Domestic Naphtha Prices*2

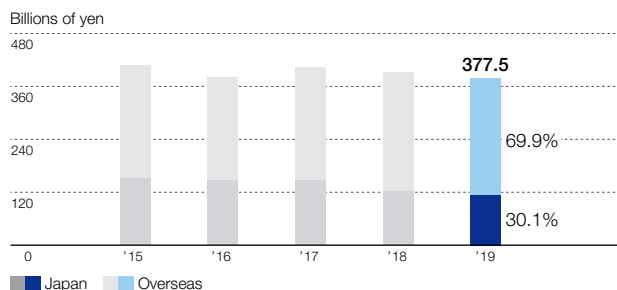


*1 Source: Singapore Commodity Exchange Limited (SICOM)

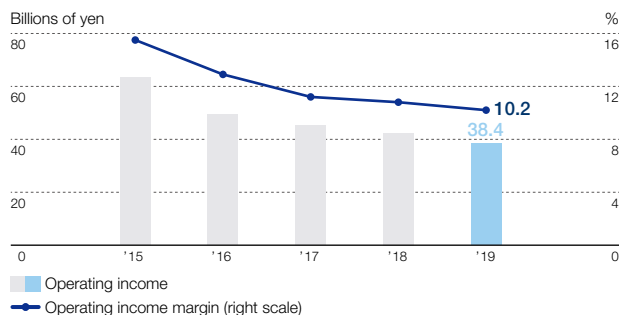
*2 Sources: Dubai Crude Oil—Tokyo, Spot Price, FOB
Domestically Produced Naphtha—Custom Clearance Statistics, Ministry of Finance

Financial Data

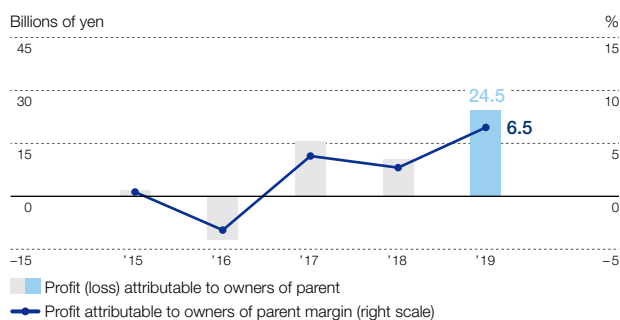
Net Sales



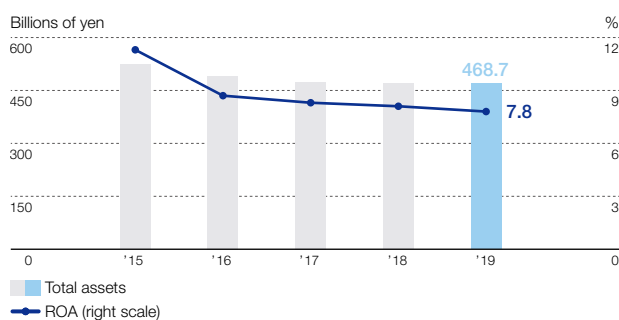
Operating Income / Operating Income Margin



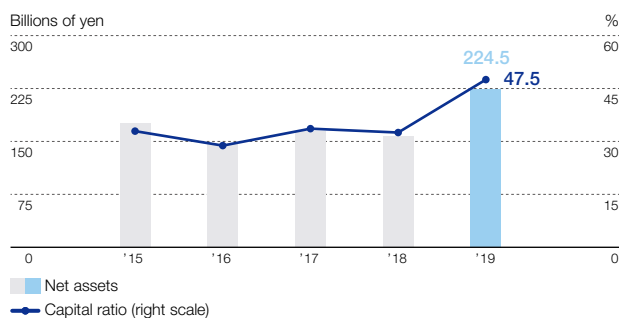
Profit (Loss) Attributable to Owners of Parent / Profit Attributable to Owners of Parent Margin



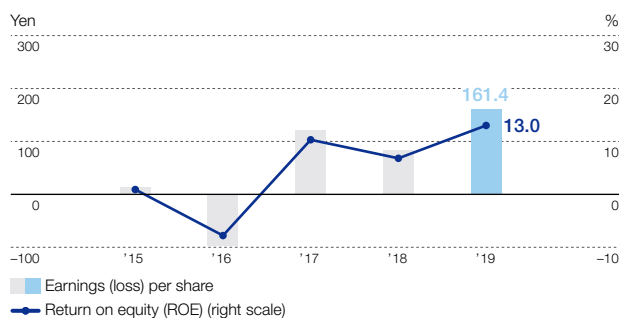
Total Assets / Return on Assets (ROA)



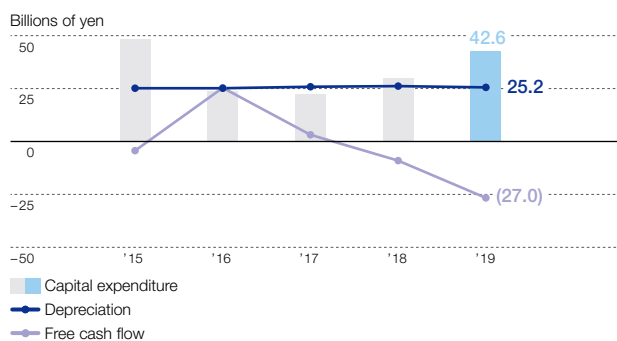
Net Assets / Capital Ratio



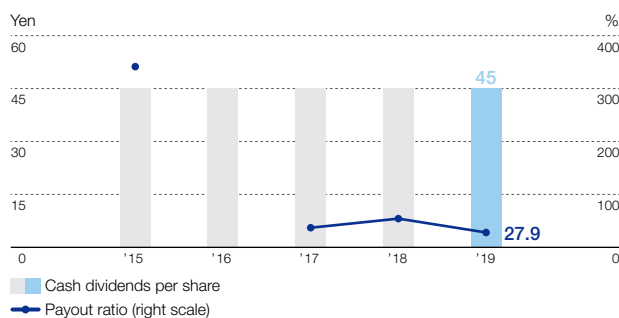
Earnings (Loss) per Share / Return on Equity (ROE)



Capital Expenditure / Depreciation / Free Cash Flow



Cash Dividends per Share* / Payout Ratio



* Dividend payout ratio is not calculated in fiscal years incurring loss attributable to owners of parent.

Message from the President



Takashi Shimizu

Representative Director,
President & CEO

In our second founding, we will pave our own road to the future, focusing on tires and automotive parts to pursue sustainable growth in the mobility field.

We asked President Shimizu about TOYO TIRE's current conditions, management issues, and medium- to long-term strategies.

Looking back on fiscal 2019, which you positioned as a "second founding," how did the year unfold?

In January 2019, we changed our name to Toyo Tire Corporation. Positioning the mobility business centered on tires at our core, the changing of our corporate name to one that bears the word "tire" represents the joy, responsibility, and readiness we feel in being able to engage in the mobility business. In June 2019, we formulated a new brand statement—Open Roads Await—making clear our stance of paving our own road, traveling down it with courage, and moving ahead into the future. In addition, we announced our Growth Strategy for the Next Corporate Stage in August 2019.

I look back on fiscal 2019 as a year in which, poised at the starting line of our second founding, we created a new compass for the future and took decisive steps forward under its guidance.

How would you assess TOYO TIRE's business activities and performance in fiscal 2019?

In the United States, which accounts for a substantial proportion of our sales, personal consumption was strong during the year, stimulated by a favorable employment environment. However, the year was also marked by uncertainty in the external environment, as trade friction between the US and China and the United Kingdom's withdrawal from the European Union brought disruption to the global economy.

Under these circumstances, sales and income declined in fiscal 2019, and we recorded net sales of ¥377.5 billion and operating income of ¥38.4 billion. These decreases were due to factors including accounting for the impact of the sale of our flexible urethane business in net sales of the Automotive Parts Business, in addition to the impact of yen appreciation.

In the Tire Business, we were able to solidify our foundation for sustainable growth through efforts that included progress in expanding the production capacities of our plants in the US and Malaysia. We also established a style of business promotion whereby the various headquarters responsible for our production, sales, technology, and corporate functions make steady efforts to collaborate. I believe this style will undoubtedly strengthen the corporate structure of TOYO TIRE.

How do you see the future, given the outbreak of COVID-19 in 2020?

The impact of the COVID-19 pandemic has spread throughout the world, and the consequences are having a considerable impact on our business activities.

COVID-19 has deprived people of their freedom of movement and disrupted supply chains extending across the world. Automobile manufacturers have been dealt a significant blow on a global scale and seen their business activities suspended, while tire manufacturers, which are a part of the automotive industry, have also been severely affected. Although it is not clear when we will be able to welcome a post-COVID-19 society, I think it is inevitable that we will see a redrawing of the industrial map.

Since March 2020, we have been confirming internal and external conditions on a daily basis and holding repeated meticulous discussions about measures we should take through meetings with the vice presidents of our various headquarters, including production, sales, technology, and corporate, who are responsible for business execution. I would like to overcome these difficult conditions by taking a flexible approach, paying close attention to trends and shifts from all directions in society and the economy as well as our industry.



Amid conditions that make the future difficult to foresee, TOYO TIRE has entered the final year of its medium-term business plan (“Mid-Term ‘17”).

Under “Mid-Term ‘17,” we set a target of increasing the ratio of global tire sales accounted for by sales of large-diameter tires—one of our inherent strengths—for large SUVs and other large vehicles to 40%. We achieved this target in fiscal 2018 and have now raised the ratio to 41%. In our main market of North America, in particular, our expansion of production in this category, which is one of our key competencies, helped boost sales. As a result, we climbed to sixth position in terms of market share ranking in North America, fulfilling our medium-term target of laying the groundwork to enter the top five. From a supply perspective, we began strategic expansion of production capacity in the US and Malaysia and the construction of a plant in Serbia, our first in Europe. During the period of “Mid-Term ‘17,” we have conducted partial business transfers and have already established a structure for concentrating on business related to mobility as our core business. At the same time, we have steadily implemented various measures for realizing sustainable growth, such as expanding our production capacity.

Due to changes in the external environment, including foreign exchange rates, the partial delay in expanding production as a result of repeated, careful examinations regarding the opening of a new plant, and the impact of COVID-19, it will now be difficult to execute our initial plan. However, I believe we must concentrate on reaping the rewards of our initiatives to date.

Are you working on formulating the next medium-term business plan?

I have instructed the Management Strategy Office, which performs strategic functions under my direct control, to drive the formulation of the new medium-term business plan and established steering committees based on function, such as production, sales, technology, and corporate, while advancing the formulation process with the participation of our younger employees, who will lead the next generation.

“Mid-Term ‘17” will serve as the foundation stone for the new medium-term business plan. During “Mid-Term ‘17,” we conducted a capital and business alliance with Mitsubishi Corporation and in 2019 we announced our Growth Strategy for the Next Corporate Stage. Based on “Mid-Term ‘17” and our growth strategy, we will shape the measures required to realize our sustainable growth while taking advantage of dramatic changes in the business environment.

Could you describe progress to date in implementing TOYO TIRE’s growth strategy?

We are currently expanding production capacity at our tire manufacturing sites in the US, Malaysia, and Japan. In October 2019, we completed the first stage of the Phase V Expansion at our US production site. We intend to launch a second stage of that expansion effort to meet robust demand for tires for large SUVs and other large vehicles. Moreover, in Malaysia, we commenced the operation of a new facility at our plant in October 2019 and set in place a framework for undertaking full production in May 2020. In Japan, meanwhile, we are increasing production capacity for truck and bus tires at our Kuwana Plant in Mie Prefecture, and we plan to complete these efforts during 2020.

We are advancing preparations for the construction of our first plant in Europe, in the Republic of Serbia, and its opening will fulfill our mission of promoting local production for local consumption while establishing a base for exporting to the strong US market and creating a smart factory that deploys the Internet of Things (IoT). We also established an R&D center in Germany to create a three-hub network with Europe that takes in Japan and the US.

In terms of sales, we are working to build a sales foundation and develop new demand by expanding marketing activities focused on area characteristics in the Japanese and other Asian markets in particular, and by leveraging the group-company network of Mitsubishi Corporation, our capital and business alliance partner.

In addition, in February 2020 we established the Digital Innovation Promotion Division, through which we are not only

developing new products that make extensive use of digital technologies and establishing technologies for sensing, wear diagnosis, and other applications, but also promoting management innovation through visualization and integration leveraging digital technologies. Since digital transformation (DX) is vital to raising competitiveness, we intend to promote management innovation leveraging digital technologies on a company-wide, cross-functional basis.

What will be the focal point of TOYO TIRE's policy for advancing various measures?

At the center of our policy is our approach to business, which is to pursue quality rather than scale. With regard to our supply structure, which we are establishing by increasing production, building new plants, and making other investments, we will take on the challenge of producing and supplying profitable key products with added value while raising cost competitiveness, and we will innovate so that we can make this our strength. In addition, we will firmly seize sales opportunities by building a supply and demand structure with an awareness of appropriate inventory levels. In tandem with these efforts, we will establish the latest production and supply structure leveraging the IoT and other technologies and strive to strengthen competitiveness by improving efficiency in the Group as a whole through horizontal deployment to other bases.

At the same time, in regard to product rollouts, we intend to further advance the shift to high-value-added products that promote our unique strengths, such as tires for large SUVs, which we have focused on to date. We will maintain and improve our profitability by narrowing down our product lineup based on market needs and rolling out strategic products in a concentrated manner, as well as strengthening our product capabilities leveraging our R&D bases in Japan, the US, and Germany.

Through these efforts, we intend to further extend our presence in North America while further solidifying our business foundations in Japan as well as in Europe, where we are soon to open a new plant.

Amid an uncertain outlook, how will TOYO TIRE address changes in the market environment?

I foresee major changes in the market environment. For example, the COVID-19 pandemic is changing everything in society, centered on lifestyle patterns, and the US is moving to strengthen tariffs on imports of tires from certain Asian countries. Although there are still many uncertain factors requiring our close attention, we must keep up with the market while viewing changes as opportunities.

While we are by no means a large company in comparison with our competitors, we have grown by leveraging our strengths, such as specializing in high-value-added products distinct from those of our competitors in our main markets.

In Japan and other countries, we are beginning to see an expansion in the outdoor and off-road markets, categories for which we have expertise and in which we have established a solid position in North America. Accordingly, the stage on which we can make use of our strengths has broadened.

We possess an agile flexibility, as we have demonstrated by adapting to circumstances to establish product strategies and a supply structure tailored to market trends.

In addition, if we are lacking in any areas, we will flexibly complement our strengths by leveraging the assets and established tools of other entities. By doing so, we will quickly draw on strengths we do not have and strive to overcome major changes in the business environment by efficiently executing our strategies.


What concluding words do you have for shareholders and investors?

We celebrated the 75th anniversary of our founding in August 2020. I would like to take this opportunity to reiterate my sincere gratitude to our many stakeholders, including customers, shareholders, and investors, whose support has enabled us to continue our business thus far.

As the scope of our business expands, I occasionally remind our employees that our mission and responsibilities have grown in social terms. Rather than achieving growth only for ourselves, we must realize the development of society as a whole, which is a prerequisite for that growth. As such, I believe that we must pursue sustainability in accordance with our Company Philosophy. While 2030 will serve as the milestone for TOYO TIRE's sustainable development goals (SDGs), we are seeking to incorporate the environment, society, and governance (ESG) into our business management to promote their realization on a company-wide basis.

We have sought to expand our business by drawing on the unique strengths we have cultivated to date. We will continue to further develop these strengths. At the same time, I believe we can demonstrate our unique and distinct presence by overcoming and strengthening those aspects that we think of as our weaknesses.

As I mentioned in my opening remarks, we are poised at a new starting line. Keeping close to our hearts the frontier spirit of moving ahead into the future by paving our own road, I will continue to work together with our employees to meet the expectations of society. I therefore would like to ask our stakeholders for their continued support as we pursue these endeavors going forward.



Takashi Shimizu
Representative Director, President & CEO

Review of Operations

Tire Business

We manufacture a range of tires as our core business, accounting for approximately 90% of net sales. These include globally-marketed tires for passenger vehicles, SUVs and pickup trucks, and trucks and buses.

The tire market is primarily classified into the categories of original equipment tires (global), replacement tires for the Japanese market, and replacement tires for overseas markets. The North American market in particular accounts for a significant proportion of TOYO TIRE's sales of replacement tires for overseas markets.

Composition Ratio of Tire Sales Numbers by Geographic Segment (FY2019)



► Main Brand

TOYO TIRES

TOYO TIRES brand boasts a full lineup of tires for every vehicle from passenger cars to trucks and buses.

Our “OPEN COUNTRY” series of tires for SUVs and pickup trucks has carved out a unique position in North America, particularly in the United States. In addition, our “PROXES” brand of tires, which delivers high performance, has been globally acclaimed. We also market other tires conceived as

specialist products, such as our fuel efficient “NANOENERGY” tires, “TRANPATH” tires, which we conceived as specialist tires, and “OBSERVE” studless tires for winter.

In addition, we proactively launch products to fit customers’ needs, such as focusing efforts on the sale of “CELSIUS” all-season tires that are capable of handling snowy road surfaces.



OPEN COUNTRY A/T^{III} OPEN COUNTRY R/T PROXES Sport TRANPATH^{LOW} CELSIUS

NITTO

NITTO is a strategic brand integrating innovation and creativity under a free-thinking approach based on the motto of manufacturing products sought by car enthusiasts.

In addition to garnering endorsement from avid car fans in the North American niche market, who favor customizing a

car’s appearance, known as “dressing up,” and performance, known as “tuning,” NITTO proactively markets tires for light trucks and ultra-high performance tires in Central and South America, Europe, and Southeast Asia.



RIDGE GRAPPLER

Mud Grappler

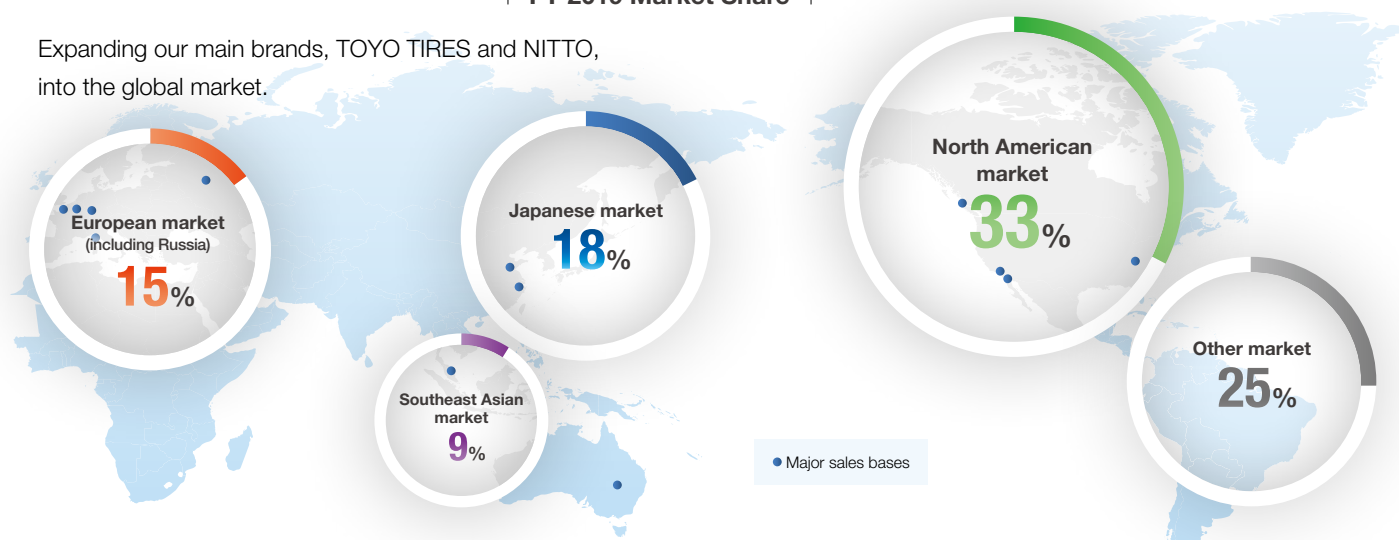
INVO

NT420

► Sales

| FY 2019 Market Share |

Expanding our main brands, TOYO TIRES and NITTO, into the global market.



Our Tire Sales Volumes Have Grown on a Global Basis Since 2014

► Global Annual Average Increase of 1.9%

In addition to countries and regions with large sales volumes, such as the US, Japan, Europe, and Southeast Asia, we are focusing on sales in Russia, Central and South America, and the Middle East, where market growth is expected.

► US Annual Average Increase of 2.5%

We are focusing on sales of large diameter tires for large SUVs, which is one of our strengths. Additionally, our share of the North American market rose from seventh to sixth place.

► European Annual Average Increase of 6.5%

In European markets, we have continued to expand sales through local sales companies and agents. In 2019, our products received the highest rating in a Russian automobile magazine.

Exhibiting at the Tokyo Auto Salon 2020

Both the TOYO TIRES and NITTO brands had booths at the Tokyo Auto Salon 2020, one of the world's largest custom car shows, held at Makuhari Messe in Chiba City in January 2020.

The Tokyo Auto Salon has been held since 1983 with the aim of popularizing custom car culture. In recent years, the show has seen an increase not only in the number of visitors who are hard-core automobile enthusiasts, but also ordinary automobile fans, including families.

We gathered a line-up of new automobile models that are attracting attention across the world within the booths and presented "dressing up" suggestions from TOYO TIRE. We

also staged a fun talk show with our contract drivers who are active throughout the world. By communicating with visitors through these activities, we were able to enhance brand strength.



Appointing "Mad Mike" as a Brand Ambassador

We have concluded a sponsorship agreement with Michael Whiddett ("Mad Mike"), a renowned drifting racer from New Zealand, under which we will support him at drifting races and other events.

Taking part in motor sports events around the world, including the world-famous Goodwood Festival of Speed in the United Kingdom, "Mad Mike" is a drifting racer who delivers outstanding performances.

We will support "Mad Mike" in his activities on the drifting race scene through the supply of our ultra-high performance

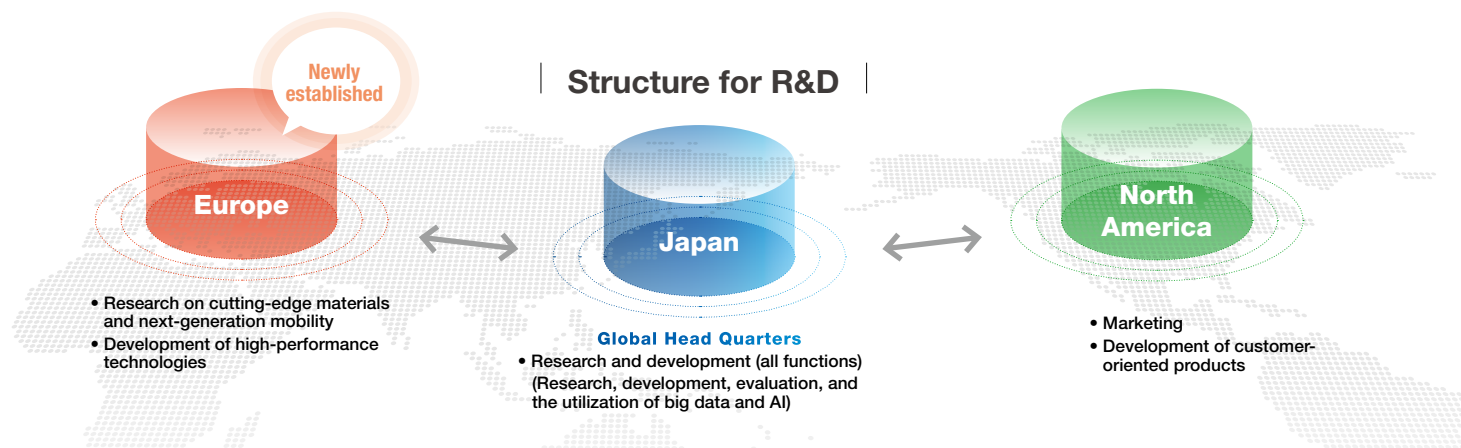
"PROXES" tire series, and promote the TOYO TIRES brand more globally together with Mike.



Technology

Promoting Development through a Global Tripolar Structure

We will accelerate the pace of development by sharing technologies and products globally.



Honing High-Performance Technology Development in Europe

Our European R&D center collects information regarding materials and mobility and distributes it globally. Moreover, in addition to design technology, the center contributes to enhancing the technological capabilities of the Toyo Tire Group as a whole by strengthening and developing capabilities such as the development of compounds and technological work methods for materials, and simulation and tire evaluation technologies using big data and AI.



Creating a Model that Estimates Tire Wear and Utilizing it to Manage Tire Maintenance

Transportation companies that operate trucks and buses conduct timely and appropriate maintenance of the vehicles they use in order to balance safety and efficiency.

However, to ensure safety, it is essential to have a sufficient understanding of the condition of the numerous vehicles they own through meticulous inspection and to invest in various resources, such as devices to regularly measure tire tread depths.

In response to this need, we have conducted a series of operational tests with the transportation companies we serve. As a result, we have been able to create a model that can estimate the degree of wear of each tire according to driving conditions, without physically measuring the tires.

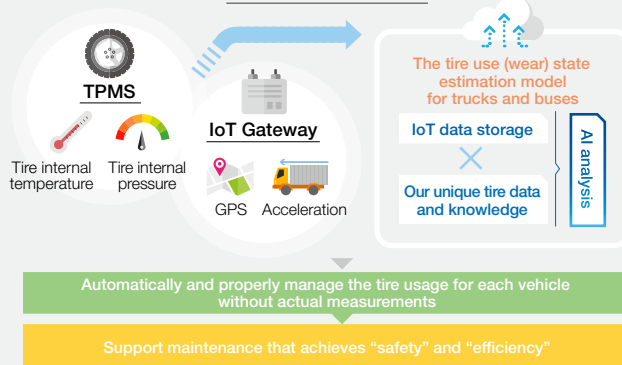
This automated data-gathering system uses sensors installed on the wheels of trucks, buses, and other transport vehicles to automatically gather information on tire condition, including air pressure and internal temperature, as well as information on location and acceleration obtained in real time from a global positioning system (GPS) and acceleration sensors installed in the vehicle.

This information, together with weather data and other information obtained from external databases, is accumulated on a cloud computing platform. Using AI technology to analyze the data, we are able to ascertain the state of use of tires, without physically measuring tire tread depths.

We have created this system as a business model that will address other issues customers might have, such as improving safety and

using tires efficiently, since it tells them when to replace their tires, provides optimal driving routes, and offers driving tips for extending the lifespan of their tires, while at the same time allowing us to recommend tires, from our unique position as a tire manufacturer, that meet their specific needs.

The Automated Tire Information Gathering System for Trucks and Buses



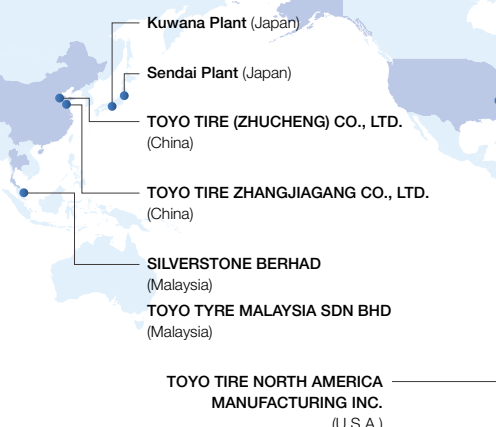
TPMS: Tire Pressure Monitoring System
Uses sensors with a built-in transmitter to monitor the air pressure and internal temperature of tires while driving

► Production

TOYO TIRE manufactures tires at its seven bases in Japan, the US, China, and Malaysia. Following proactive capital expenditure, we have been increasing our tire production volume an average of 2.1% each year since 2014. In our core market, the US, our tires for pickup trucks, SUVs, and CUVs, which combine high quality and advanced design and are produced under our own unique production method, have received a strong reception, and we have been increasing production volume in the US an average of 8.5% each year since 2014.

For more information about tire production (new rubber volume), please refer to page 3.

Tire Production Sites



Proactive Capital Expenditure to Increase Production in the US and Malaysia

We have completed capital expenditure in the first step of Phase V of the production capacity expansion implemented at our US production plant, TOYO TIRE NORTH AMERICA MANUFACTURING INC., and have been increasing production since April 2019.

We will primarily use the additional production capacity to produce tires for SUVs and light trucks, demand for which is robust in the US, and establish a supply structure in accordance with market needs.

At TOYO TYRE MALAYSIA SDN BHD (TTM) in Perak, Malaysia, we completed construction of a new building in our

production plant in October 2019, and have since commenced production. TTM serves as a global hub supplying markets around the world, including not only Southeast Asia but also North America, Europe, and Japan. Through the completion of the new building and commencement of operations there, we will further strengthen our supply structure for large-diameter tires, centered on those for pickup trucks, SUVs, and CUVs, an area in which we take pride in having a competitive advantage.



Aerial view of the TTM site



Cutting the tape at the construction completion ceremony for the new plant building at TTM

Moving Ahead with Preparations for Commencing Production at the Serbia Plant in 2022

We have established a subsidiary for tire production in the Republic of Serbia and will construct a tire production plant in the town of Indija that will become the Group's eighth production site.

Located in southeastern Europe, Serbia is roughly the same size as Hokkaido and has a population of approximately seven million. Serbia has made significant progress in recent years, including economic reforms and fiscal consolidation, the concentration of the automotive industry due to ongoing investment by foreign companies, and the strengthening of bilateral relations with Japan. As such, Serbia is establishing a particularly attractive business environment within Europe.



Automotive Parts Business

Leveraging our vibration control technology, we supply products that improve automotive handling stability and soundproofing.

We are striving to establish a solid position as a supplier by promptly proposing products that match the needs of car manufacturers.

Moreover, given that automobile production sites are located throughout the world, we are focusing efforts on realizing an optimal supply network by establishing a production structure centered on Japan, the US, and China.

▶ Main Products

Engine and Motor Mounts

Engine and motor mounts are rubber parts that attach automobile engines and the motors of electric vehicles to the vehicle body, controlling the amount of vibration produced by the engine or motor and fulfilling anti-vibration and noise reduction functions. We boast a lineup of highly functional products developed using our proprietary technologies, including hydraulic engine mounts that reduce various types of vibration.



Engine mounts

Suspension Parts

We provide anti-vibration parts (bushes) that are attached to suspension systems and serve to absorb shock from the road surface.



Bushes

CVJ Boots

Constant velocity universal joint (CVJ) boots are parts that seal lubricating oil (grease) inside constant-velocity joints, which transmit power to the wheels. These parts keep out dust, stones, water, and other external matter, thereby protecting the joint grease.



Constant Velocity Universal Joint Boots (CVJ Boots)

Promoting Companywide Digital Transformation

We believe that operational reforms by means of digitalization are indispensable to addressing rapid changes in the business environment. To this end, we have launched a new set of initiatives.

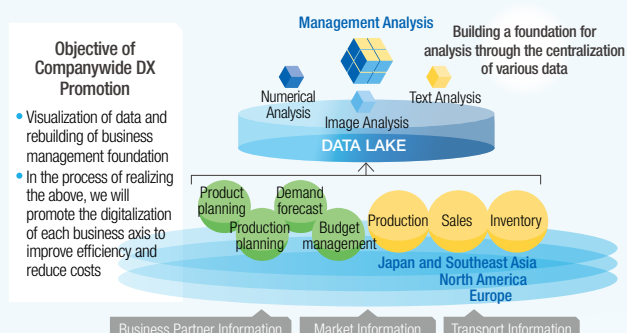
In April 2019, we established the Digital Transformation Division with the aim of further accelerating digitalization initiatives (this division was replaced by the Digital Innovation Division in February 2020).

We took this step with the goal of planning digital strategies, which had hitherto been promoted in each department, such as manufacturing and sales, from a Companywide perspective and establishing a structure for promoting initiatives on a cross-organizational basis.

This structure will allow us to establish a system that connects everything from development, manufacturing, and sales departments to customers in an integrated manner and put in place a mechanism to swiftly keep up with demand fluctuations. By doing so, we will not only further improve the efficiency of our business activities, but also transform our approach to business.

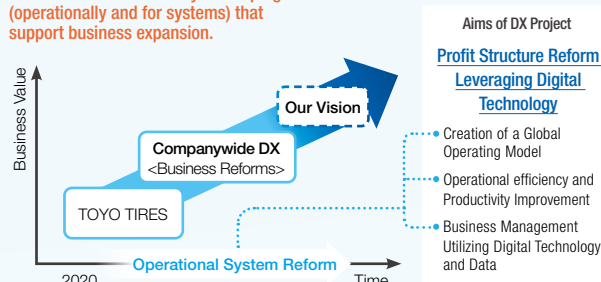
In addition, we will advance the shift toward smart factories, beginning with our Serbian Plant, which is currently under construction, while promoting the creation of new business models. We hope you will look forward to seeing the results of these efforts.

Objective and Conceptual Image of Companywide DX Promotion



Companywide DX Promotion Flow

Companywide reforms that will contribute to realizing our vision
Create business effects by developing mechanisms (operationally and for systems) that support business expansion.



Corporate Governance

Policies

We implement the principles of the Japanese Corporate Governance Code appropriately in order to exercise effective corporate governance. We ensure the rights and equality of shareholders, strive to establish suitable cooperation and dialogue with shareholders and other stakeholders, and work to secure appropriate information disclosure and transparency to this end. Taking into consideration its accountability to shareholders, the Board of Directors appropriately fulfills its roles and duties to raise profitability, increase capital efficiency, etc., in

order to achieve sustainable growth and raise the Company's corporate value in the medium and long term.

To enhance compliance required to embody this philosophy, we compiled a Toyo Tire Group Charter of Corporate Behavior setting out corporate action principles applied uniformly across the Group in order to conduct business activities in good faith, as well as a Toyo Tire Group Code of Conduct aiding each director and employee to put the charter into practice. We strive to disseminate these throughout the Group.

Corporate Governance System

The TOYO TIRE corporate governance system comprises the Board of Directors, which is responsible for decision-making and supervision; the Management Meeting, which serves as the decision-making body for business execution; Special Committees, which act as deliberative and consultative bodies for their respective areas; and the Audit & Supervisory Board, which audits the performance of the Board of Directors and overall business execution. Our corporate governance structure allows these organs to effectively fulfill their respective functions and responsibilities.

On February 19, 2020, the Company established the Nomination and Compensation Committee as an independent advisory organ to the Board of Directors. The committee deliberates on matters related to personnel and compensation systems for directors and provides advice, proposals, and reports to the Board of Directors. We believe that, as a majority of the committee members are outside directors, we can further strengthen the independence, objectivity, and accountability of the functions of the Board of Directors through this committee.

Governance Structure (As of July 2020)



Initiatives to Strengthen Corporate Governance

Timeline	Topics	Results and Aims
March 2019	Appointment of the Chairman of the Board of Directors	The appointment of the Chairman of the Board, who is from outside the Company, as chairman of the Board of Directors served to separate business execution and management supervision and strengthened the supervisory function. (The president, who had served concurrently as the chairman of the Board of Directors, now concentrates on business execution.)
February 2020	Establishment of the independent Nomination and Compensation Committee	We will strengthen the independence, objectivity, and accountability of the functions of the Board of Directors on matters related to personnel and compensation systems for directors and reinforce our corporate governance structure through the establishment of this committee.
March 2020	Increase in the number of independent outside directors (from 2 to 3)	The appointment of outside directors who account for a third or more of the members of the Board of Directors strengthened the management supervision function.
March 2020	Introduction of a new compensation system for directors and other executives, excluding outside directors	We introduced a restricted stock compensation plan to provide an incentive for sustainably improving corporate value and to promote the better sharing of value with shareholders.

Internal Control System

In accordance with Japan's Companies Act, the basic policy on constructing the internal control system was decided by the Board of Directors, and the internal control system was created in line with that basic policy. The basic policy is reviewed each year to reflect changes in the management environment and to ensure that our internal control system remains effective.

Compliance Promotion System

Within the TOYO TIRE Group, compliance is deemed a matter of the highest priority in management, and the president works as the party in charge of compliance to create and improve the compliance system.

In addition to establishing the Compliance Committee, a special committee that debates and examines issues related to promoting compliance, we have developed a system of compliance officers and are striving to promote compliance, mainly through the chief compliance officer (CCO), compliance officers (CO), and compliance leaders (CL).

"Reporting Hotlines" have been established and operate as a system enabling employees to directly report and seek advice regarding their concerns, such as compliance issues that could develop into a crisis. In addition, multiple reporting routes have been secured, and a system that makes it easy for necessary information to flow to the governance organization has been created.

We have a structure in place that enables prompt investigation when a compliance issue (or suspected issue) is reported to a CO. Efforts related to the investigation and measures implemented to prevent recurrence are announced within the Company. We make use of this information to investigate whether any similar cases exist (horizontal deployment), and reconfirm legal compliance and internal rules. If a similar case occurs, we use it as a reference for resolving the issues and taking measures to prevent recurrence.

Work of the Board of Directors

In FY 2019, the Board of Directors met at least once a month for a total of 18 meetings, with the directors and Audit & Supervisory Board members participating.

Since FY 2017, the Company has been analyzing and evaluating the effectiveness of the Board of Directors as a whole by conducting a signed survey of directors and Audit & Supervisory Board members regarding the operation, composition, activities, etc., of the Board of Directors. The compilation, analysis, and evaluation of the survey are entrusted to a third party in order to ensure impartiality.

For a summary of the results of the FY 2020 survey and details of how we will respond going forward, please visit our corporate website. Based on this approach, we will continue to further improve the functionality of the Board of Directors.

Summary of Analysis and Evaluation Results

Many items saw higher evaluations compared to the survey conducted in the previous fiscal year. Given that improvements are in progress, it was deemed that the effectiveness of the Board of Directors has been ensured. In particular, management supervision was highly evaluated for the fourth consecutive year.

However, it was proposed that discussions at Board of Directors' meetings should be further invigorated and information provision be improved in order to enhance effectiveness.

Response Going Forward

We will further invigorate Board of Directors' meetings by improving explanations in advance to outside directors regarding matters for resolution by the Board of Directors and by referring to discussions at the Nomination and Compensation Committee, which was established in FY 2020.

Dialogue with Shareholders and Investors

The Company holds an annual General Meeting of Shareholders and a quarterly financial results briefing. During the first-half and full-year briefings, our top executives provide detailed business information, including financial results and information on the future business outlook, the business environment, and market trends, to institutional investors and securities analysts.

In addition to announcing financial results, there were also small meetings attended by the president and other parties as well as several opportunities for managers and institutional investors to engage.

We also make efforts to improve understanding of the Group's management by providing opportunities each quarter for investor relations staff to respond to the particular concerns of institutional investors and analysts (handle individual inquiries), including those from outside Japan.

Furthermore, amid calls to minimize movement and avoid crowded gatherings due to the spread of COVID-19, we have switched to holding quarterly financial result briefings in a teleconference format. By doing so, we have continued communication with investors.

Improving the Risk Management System

The Toyo Tire Group has established a Risk Management Committee as a specialist committee of the Management Meeting. The committee is chaired by the Vice President of Risk Management (Corporate Headquarters) and works to improve the risk management system in readiness for emergencies. Specifically, it envisions major risks and determines and manages activities for evaluating and analyzing latent risks, as well as

reducing the possibility of risks materializing during non-emergency times. It also aims to minimize damage and loss, as well as promptly restore business operations during emergencies.

Major risks covered by the Risk Management Committee:

Disasters/accidents, quality, purchasing, legal violations, information management, labor, and rubber bearings issues

Message from the Chairman



Positioning “Offensive and Defensive” Corporate Governance as the Fundamental Drivers of Management

Yasuhiro Yamada

Chairman of the Board

Strengthening the Management Coaching Function of the Board of Directors through Sound Questioning

In 2019 the Toyo Tire Group shifted its emphasis to future growth with offensive and defensive corporate governance as fundamental elements of its management. We made good progress on defensive measures such as ensuring transparency and strengthening our internal control system, which we have been focusing on since the discovery of issues with our seismic isolation products in 2015. While continuing to be vigilant in this regard, we also made decisions on offensive risk-taking measures including the establishment of a new global supply system.

While we continued to focus on reforms to our management system, such as separating business execution and management supervision, I feel that we have strengthened the management coaching function of the Board of Directors through sound questioning. This was evidenced by the significant improvements seen in core categories of the third-party analysis and evaluation of the Board of Directors' effectiveness, such as addressing the questions of whether or not sufficient management supervision was being achieved from multi-faceted perspectives and whether or not the Board of Directors was contributing to the improvement of corporate value.

Against this backdrop, we increased the number of independent outside directors from two to three. Now, as a result, four of the Board's nine directors do not serve concurrently in an executive capacity, including me as Chairman of the Board of Directors. In addition to possessing corporate management experience, we four directors have diverse backgrounds, and our areas of expertise cover skills that are indispensable to management. I am convinced that these changes will further enhance the effectiveness of the Board of Directors, which monitors business execution and makes comprehensive decisions on important management issues.

In addition, we established the Nomination and Compensation Committee in February 2020, thereby developing a system for deliberating on important matters pertaining to

personnel and compensation for directors as a committee comprising a majority of outside directors. We are advancing initiatives designed to further strengthen corporate governance, including the introduction of a restricted stock compensation plan to serve as a medium- to long-term incentive for directors, in order to better share value with our shareholders.

Encouraging a dynamic transformation to respond to changes in society

As technology develops, the environment surrounding the Toyo Tire Group is changing significantly as it undergoes a once-a-century structural transformation transcending industry boundaries. While recognizing digitalization as an important management task, I think that we must develop unprecedented agility as a corporation, including the capability to quickly bring an idea to fruition and promptly correct our course if it proves unsuccessful. This is necessary in order to address digital transformation that makes full use of data and digital technologies to transform products, services, and business models based on the needs of customers and society. To this end, I believe we must encourage the establishment of an agile organizational system that is able to make decisions more quickly. We must also encourage the cultivation of human resources and the fostering of a corporate culture that is conducive to boldly taking on challenges while managing risk.

The shift to environmental, social, and governance (ESG)-oriented management is also an important issue. In recent years, we have seen increasing demands to link the resolution of issues related to the environment and society with sustainable corporate growth. In order to put ESG-oriented management at the cornerstone of our management and business, we must take the lead in transforming not only our structures and evaluation systems but also our mindset.

In a management environment that changes dramatically on a daily basis, the Board of Directors will continue endeavoring to conduct diverse discussions and decision-making as it aims to constantly create corporate value and sustainable growth.

Messages from the Outside Directors



Ken Morita

Director

Promoting Discussions Based on Various Perspectives with a Focus on Substance

In 2019, the Toyo Tire Group made several significant changes, such as adopting a new company name and announcing the Growth Strategy for the Next Corporate Stage. I recognize that these changes reflect TOYO TIRE's sense of crisis based on the current situation and future outlook for the Tire Business, realizing that it cannot survive in its current state, as well as the Company's desire and determination to achieve further growth going forward.

In 2020, the Company put into operation a new organization and governance system with the introduction of the Nomination and Compensation Committee, which I participate in as a member, and stock-based compensation. I believe that companies should avoid the belief that any one organization or system they have built will always be the correct one. Rather, companies must focus on the substance of an organization or system and make flexible changes if they discover a better method of doing something. Accordingly, I hope we can engage in deep discussions based on various perspectives without constraining ourselves to conventional ideas.

I believe that the Board of Directors needs to improve its awareness of the importance of focusing on substance at Board meetings. For example, when establishing targets, the Board of Directors should consider the kinds of results the targets aim to achieve as well as what kind of initiatives are appropriate for reaching those targets. In the past, there have been times when I noticed that the Board of Directors had established targets as a formality or simply for the sake of achieving the target. At such times, I made sure to bring this to the attention of the Board and recommend improvements. Board of Directors' meetings are a place for determining and reporting on important issues. However, the purpose of doing so should be to focus on substance, as I mentioned above. To this end, the Board needs to deeply consider desired effects and necessary initiatives and, in the event that an initiative does not go according to plan, the Board must thoroughly investigate what steps it can take to make improvements.

Corporations have cultures and foundations that are cultivated throughout their history. I have thus far focused on the issues the Company needs to address, but in terms of its positive aspects, TOYO TIRE is a very honest and straightforward company. I believe that when creating a product, it is important to focus on its basic functions. If a company concerns itself too much with adding extra features in an effort to achieve differentiation, and the basic functions of that product—which are its true substance—are neglected, such a product will not be accepted by the market. This is something you see from time to time. To create products that center on their basic functions, the most important thing is adopting a straightforward approach, which entails reflecting on the primary purpose of the product and understanding its true substance. I believe TOYO TIRE excels in adopting such an approach. While being sure to emphasize these positive aspects of TOYO TIRE, I will continue to provide advice to help the Company achieve further development going forward.



Atsushi Takeda

Director

Contributing to the Group's Development and Employee Happiness

Over the past several years, TOYO TIRE has made efforts to build a management foundation that enables the Company's directors and officers to concentrate thoroughly on their roles. These efforts have included organizational reforms, business transfers, and the establishment of measures for further growth. The changing of the Company's name to Toyo Tire Corporation represents the culmination of the structural reforms the Company has thus far promoted. With this name change, it is fitting to say that 2019 was truly a year in which TOYO TIRE underwent its second founding.

At the moment, the COVID-19 pandemic is having a major impact on economic activity. Additionally, this pandemic has the potential to accelerate dramatic structural changes to the world itself. In light of this, it is imperative to respond to these changes by swiftly formulating strategies to create businesses making significant contributions to society that can be incorporated into the new social foundation. To this end, I believe it is important for the directors and corporate officers to share their individual ways of thinking and awareness so that the Company can align itself in the direction toward which it will head going forward.

Board of Directors' meetings provide an opportunity to share thoughts on these matters and discuss important issues. Since fiscal 2019, the Company has reformed its management structure to ensure that the role of Chairman of the Board is devoted entirely to management supervision. As a result, lively discussions are now being held much more frequently. Also, starting from this year, the number of outside directors has increased from two to three, and the Company has established the Nomination and Compensation Committee, of which outside directors comprise the majority of members. Opinions are now being exchanged between the president and the outside directors at a greater rate than before regarding such matters as director compensation. I therefore feel that the Company has put in place a corporate governance structure that reflects the current circumstances while also adhering to Japan's Corporate Governance Code. A management structure is not something that should be established as a formality. Rather, it is something that is built as a necessary element to resolving the management issues that a company is facing. In other words, a management structure should meet the needs of a company and, above all else, must be genuinely effective in resolving management issues. Going forward, I will help the Company reap more benefits from the Nomination and Compensation Committee by enhancing discussion at committee meetings.

Since being appointed as a member of the Board of Directors, I have always aimed to be a presence that supplements areas where the Company's management is lacking. Moreover, I have made it my mission to contribute to the Group's development and employee happiness by monitoring the progress the Company is making toward the issues it needs to tackle and providing advice and suggestions for the formulation of growth strategies. To enter the next corporate stage as worldwide structural changes accelerate, I aim to fulfill my duties as an outside director while carrying out a broad range of management initiatives, thereby contributing to the further development of the Group.



Michio Yoneda

Director

Engaging in Discussion Based on My Personal Experiences without Being Constrained Only to Internal Logic

In December 2016, I served as a special adviser overseeing the compliance issues that the Company was dealing with at the time. That was an extremely difficult period for the Company, as the way that it responded to the issues with its seismic isolation rubber products literally determined whether or not it would survive. During the roughly two years that I served as a special adviser, I observed how the directors and corporate officers came together as one to overcome not only these compliance issues, but also a wide range of other issues. Witnessing this, I truly believe that when the Company changed its name to Toyo Tire Corporation in January 2019, this represented far more than simply “changing a billboard.” Rather, it gave me a sense that the Company was thoroughly prepared to truly transform itself from the inside and signal to the world that it is once again ready to contribute to society in areas where it can leverage its strengths.

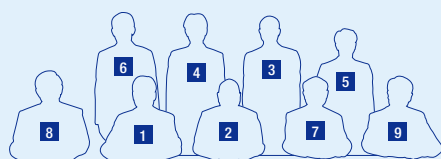
Through efforts such as the introduction of the Nomination and Compensation Committee and stock-based compensation, the Company is taking gradual steps to reinforce its corporate governance. I believe that corporate governance is a crucial means of enhancing corporate value in a sustainable manner. Corporations often discuss matters such as the ideal ratio of outside directors on a board, however, we must be careful that such governance frameworks do not simply value outward appearances and neglect actual substance. To that extent, a company must establish a governance structure that truly functions in accordance with the individual characteristics of that company. In addition, a company must constantly strive to reform itself for the better based on such a structure. I believe these are essential elements in ensuring that corporate governance functions effectively. I was appointed as an outside director in March 2020, and I will fulfill my duties in this position by striving to ascertain the current status of each of the Company’s initiatives so that I can fully participate in Board discussions and provide my opinion when necessary.

Also, I have spent my career working in the finance industry, a field that differs greatly from manufacturing. The Board of Directors will discuss various topics at meetings going forward, and I will provide my opinion in these discussions based on my experiences thus far, without being constrained by the Company’s internal logic.

TOYO TIRE is moving into the period of its second founding, as encapsulated by the changing of its company name. As part of its future growth strategy, the Company is taking steps to actively expand its operations, including through the construction of a new plant in Europe and investment to bolster production in the United States. Under these circumstances, there will be various opportunities for us to listen to opinions and requests that the shareholders communicate to the Company’s management. Although ideas regarding method and process may differ, the Company’s management and the shareholders share the same goal of enhancing corporate value through sustainable growth. I hope to contribute to the further growth of TOYO TIRE by continuing to listen closely to a variety of shareholder opinions.

Directors, Audit & Supervisory Board Members, and Corporate Officers (As of March 27, 2020)

Directors



- | | |
|--|---|
| 1 Yasuhiro Yamada (Director, Chairman of the Board) | 6 Takehiko Sasamori (Director, Corporate Officer) |
| 2 Takashi Shimizu (Representative Director, President & CEO) | 7 Ken Morita* ¹ (Director) |
| 3 Masayuki Kanai (Director, Senior Corporate Officer) | 8 Atsushi Takeda* ¹ (Director) |
| 4 Tatsuo Mitsuata (Director, Corporate Officer) | 9 Michio Yoneda* ¹ (Director) |
| 5 Yoji Imura (Director, Corporate Officer) | |

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members



Masao Yano*²



Satoshi Taketsugu

Audit & Supervisory Board Member



Katsusuke Amano*²

- *1 Outside Director
*2 Outside Audit & Supervisory Board Member
*3 Concurrent with Director Position

Corporate Officers

President & CEO



Takashi Shimizu*³

Senior Corporate Officers



Tomoshige Mizutani



Masayuki Kanai*³



Shinji Tanabe

Corporate Officers



Iori Suzuki



Tatsuo Mitsuata*³



Yoji Imura*³



Takehiko Sasamori*³



Hideaki Takahashi



Satoru Moriya



Hidefumi Uematsu



Masao Takiwaki



Tetsuo Shimomura



Kenta Kuribayashi

TOYO TIRE's Sustainability

The Toyo Tire Group has promoted sustainability by formulating a basic policy in 2014 and setting seven issues (priority themes) to realize a sustainable society.

Furthermore, in 2019 we set out TOYO TIRE's SDGs, which outline the ideal status to be achieved in 2030 and establish 14 goals (for details, please refer to our CSR Report 2020).

In this section, we introduce the Group's sustainability promotion activities in accordance with the seven issues.

| Identified 7 Priority Themes |

1	Product and Service Reliability and Innovation
2	Contribution to the Global Environment
3	Respect for Human Rights and Diversity
4	Collaboration with Business Partners
5	Harmony with Local Communities
6	Creation of Safe and Healthy Workplaces
7	Reinforcement of Corporate Governance and Compliance

1 Product and Service Reliability and Innovation

Conducting Safety Awareness Activities Using a Driving Simulator

With the goal of providing education to enable proper use of the tires that we manufacture and sell, we conduct safety awareness activities on April 8, which has been designated as "Tire Day" in Japan.

In fiscal 2019, we introduced a driving simulator equipped with an original system that enables participants to experience situations in which they can compare handling stability based on different levels of tire pressure that they would not normally be able to experience. Ninety-six percent of the 1,000 participants who have already experienced the driving simulator said

that it had changed their awareness of tire safety.

We will continue contributing to reduction of road traffic accidents through a variety of safety awareness activities.



Driving Simulator

2 Contribution to the Global Environment

Reducing CO₂ Emissions by Improving the Energy Efficiency of Boilers

Tire manufacturing requires a large amount of steam in the vulcanization process, during which heat and pressure are applied to create tire treads and heighten elasticity and durability. This process accounts for the majority of energy consumption in the manufacturing process.

TOYO TYRE MALAYSIA SDN BHD has installed a device for improving energy efficiency, which efficiently recovers waste heat from the steam boiler used in the vulcanization process and preheats the water supply to the boiler.

The installation of this device has enabled us to raise the temperature of the water supply by 30°C and reduce our consumption of natural gas, the boiler fuel, by over 20%.

As a result of these efforts, we have reduced our CO₂ emissions by approximately 2,400 tons per year. This achievement was recognized by Toyota Motor Corporation, to which we supply our products, and we were awarded the Toyota Environmental Award.

3 Respect for Human Rights and Diversity

Promoting Workstyle Reforms

In order to respond to changes in the business environment and for all employees to fulfill their expected roles, we are pursuing workstyle reforms with the aim of designing and optimizing our own workstyles.

In fiscal 2019, we promoted measures to improve the efficiency of work processes by revising work process flows

and increasing the visualization of the duties of each employee. At the same time, we are advancing the diversification of workstyles by expanding working from home and, in response to calls from the Japanese government, we are taking part in the Telework Days campaign, centered on model departments.

4 Collaboration with Business Partners

Implementing Explanatory Forums on the Revised CSR Procurement Guidelines

We have established the CSR Procurement Guidelines to address social issues through the entire supply chain, from production to consumption. We update the guidelines as necessary, based on demands from society and changes in the business environment.

In January 2019, we revised the guidelines to include our policy on the sustainable procurement of raw materials (particularly natural rubber) and held forums to explain the revised CSR Procurement Guidelines to 60 domestic business partners that conduct large volumes of business with TOYO TIRE.

At these forums, we explained the sustainable procurement activities we aim to implement, our current business environment, and the impact of our business activities on society and the environment.



An explanatory forum for business partners in Japan

5 Harmony with Local Communities

Participating in Environmental Activities

We are promoting environmental protection activities in the areas around our business sites with the goal of linking activities for protecting the natural environment to the sustainable development of communities.

For example, at our Kuwana Plant we are engaged in the maintenance of a local thickly wooded area (Toyo Tires *Midori-no Tsunagari*, Mie), in cooperation with an NPO called *Mori-no Kaze*. In fiscal 2019, the fifth year of these

activities, we completed the development of a walking trail and held a ceremony with local residents to celebrate its opening.



Maintenance activities

6 Creation of Safe and Healthy Workplaces

Receiving a Safety Award from the Malaysian Government

TOYO TYRE MALAYSIA SDN BHD participates in the Systematic Occupational Health Enhancement Level Programme (SoHelp) administered by Malaysia's Department of Occupational Safety and Health. SoHelp aims to reduce problems relating to occupational safety and health and promote strict compliance with occupational safety and health laws and regulations. The program boasts the participation of 270 multinational corporations throughout Malaysia.

Based on this program, participating companies implement a series of occupational health and safety management steps

(planning, risk evaluation, correction, management audit, education and training, and government audit). In response to issues that became apparent in risk evaluation, TOYO TYRE MALAYSIA SDN BHD worked to increase visualization in the workplace and undertook education and training.

These activities were recognized by the Malaysian government, and TOYO TYRE MALAYSIA SDN BHD was selected as one of the 10 companies in the Best Overall Workplaces SoHelp Implementation category for companies with the most outstanding initiatives in 2018.

7 Reinforcement of Corporate Governance and Compliance

Implementing the Fiscal 2019 Compliance Survey

We have established the "Toyo Tire Group Charter of Corporate Behavior" setting out corporate action principles shared across the Group in order to conduct our business activities in good faith, and the "Toyo Tire Group Code of Conduct" aiding each director and employee to put the charter into practice.

In addition, we are promoting widespread awareness of compliance on a continuous basis through measures including the implementation of in-house training and e-learning for all employees.

As a result of these activities, we have maintained a consistently high level of compliance awareness among employees,

as was seen in the Fiscal 2019 Compliance Survey (see results to the below).

1. Conducting compliance promotion activities
Conducted at least one activity to raise compliance awareness within the last year

97%
(96% in FY 2018)

2. Awareness and understanding of compliance
Know the meaning of compliance

* TOYO TIRE's compliance: We shall comply with laws and internal rules in all aspects of our business activities and conduct ourselves according to the highest ethical standards

88%
(87% in FY 2018)

3. Making compliance part of the corporate character
Conscious of compliance when conducting your work

93%
(94% in FY 2018)

Consolidated Financial Statements and Notes

» Consolidated Balance Sheets

Toyo Tire Corporation and Consolidated Subsidiaries
December 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
ASSETS			
Current assets:			
Cash and time deposits (Note 10)	¥ 25,121	¥ 31,385	\$ 229,290
Notes and accounts receivable:			
Trade (Note 10)	75,445	81,594	688,618
Other	3,636	3,833	33,187
Inventories (Note 9)	76,569	74,988	698,877
Other current assets	16,945	11,387	154,665
Allowance for doubtful receivables	(444)	(408)	(4,053)
Total current assets	197,272	202,779	1,800,584
Property, plant and equipment (Note 13):			
Land	19,467	19,784	177,683
Buildings and structures	116,718	104,954	1,065,334
Machinery and equipment	398,763	386,086	3,639,677
Construction in progress	12,789	16,879	116,731
Lease assets	1,425	1,407	13,007
Right-of-use assets	5,251	—	47,928
	554,413	529,110	5,060,360
Accumulated depreciation	(347,333)	(338,807)	(3,170,254)
Total property, plant and equipment	207,080	190,303	1,890,106
Intangible assets			
Goodwill	1,123	1,317	10,250
Other assets	5,628	5,052	51,369
Total intangible assets	6,751	6,369	61,619
Investments and other assets:			
Investment in securities (Note 10)	43,436	46,331	396,459
Investments in unconsolidated subsidiaries and affiliates	2,215	2,192	20,217
Long-term loans receivable	197	221	1,798
Net defined benefit asset (Note 15)	1,010	936	9,219
Deferred tax assets (Note 16)	6,291	13,029	57,421
Other assets	4,600	7,322	41,985
Allowance for doubtful receivables	(105)	(105)	(958)
Total investments and other assets	57,644	69,926	526,141
Total assets	¥468,747	¥469,377	\$4,278,450

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Commercial papers (Notes 10 and 14)	¥ —	¥ 14,000	\$ —
Short-term bank loans (Notes 10 and 14)	7,102	16,912	64,823
Current portion of long-term debt (Notes 10 and 14)	32,511	18,226	296,742
Notes and accounts payable:			
Trade (Note 10)	34,138	59,576	311,592
Other	20,882	23,362	190,599
	55,020	82,938	502,191
Accrued expenses	13,110	14,651	119,660
Income and enterprise taxes payable	1,551	1,257	14,157
Customers' deposits	3,093	3,410	28,231
Provision for directors' bonuses	99	82	904
Provision for sales returns	224	219	2,045
Provision for product compensation	7,948	15,947	72,545
Other current liabilities	9,340	6,835	85,248
Total current liabilities	129,998	174,477	1,186,546
Long-term liabilities:			
Long-term debt due after one year (Notes 10 and 14)	75,902	87,460	692,789
Provision for directors' retirement benefits	6	12	55
Provision for environmental remediation	101	274	922
Provision for product compensation	16,564	29,592	151,187
Net defined benefit liability (Note 15)	5,841	7,769	53,313
Deferred tax liabilities (Note 16)	12,083	10,804	110,287
Other long-term liabilities	3,743	1,737	34,163
Total long-term liabilities	114,240	137,648	1,042,716
Contingent liabilities (Note 18)			
Net assets (Note 19):			
Shareholders' equity			
Common stock			
Authorized — 400,000,000 shares			
Issued — 154,111,029 shares	55,935	30,485	510,542
Capital surplus	54,500	28,507	497,444
Retained earnings	86,110	67,881	785,962
Treasury stock, at cost			
2018 — 186,769 shares			
2019 — 188,222 shares	(154)	(152)	(1,405)
	196,391	126,721	1,792,543
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	21,223	21,278	193,711
Deferred gains or losses on hedges	(9)	10	(82)
Foreign currency translation adjustments	2,600	3,848	23,731
Remeasurements of defined benefit plans (Note 15)	2,556	883	23,330
	26,370	26,019	240,690
Non-controlling interests			
	1,748	4,512	15,955
Total net assets	224,509	157,252	2,049,188
Total liabilities and net assets	¥468,747	¥469,377	\$4,278,450

Consolidated Financial Statements and Notes

» Consolidated Statements of Income

Toyo Tire Corporation and Consolidated Subsidiaries
For the years ended December 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales (Note 22)	¥377,458	¥393,220	\$3,445,217
Cost of sales	246,636	259,051	2,251,150
Gross profit	130,822	134,169	1,194,067
Selling, general and administrative expenses	92,374	91,779	843,136
Operating income (Note 22)	38,448	42,390	350,931
Other income (expenses):			
Interest income	495	416	4,518
Dividend income	1,622	1,617	14,805
Equity in earnings of affiliates	162	195	1,479
Rent income	413	266	3,770
Interest expense	(2,262)	(2,601)	(20,646)
Foreign exchange losses	(584)	(2,080)	(5,330)
Loss from liquidation of receivables	(54)	(300)	(493)
Gain on sales of investment securities	3,495	379	31,900
Loss on retirement of fixed assets	(933)	(579)	(8,516)
Loss on impairment of fixed assets (Note 20)	(1,170)	(3,583)	(10,679)
Loss on product compensation	(3,898)	(7,290)	(35,579)
Loss on provision for product compensation	(113)	(10,240)	(1,031)
Other net	(1,565)	(1,522)	(14,286)
Profit (loss) before income taxes	34,056	17,068	310,843
Income taxes:			
Current	1,437	3,810	13,116
Deferred	7,472	2,085	68,200
	8,909	5,895	81,316
Profit (loss)	25,147	11,173	229,527
Loss (profit) attributable to non-controlling interests	(664)	(619)	(6,060)
Profit (loss) attributable to owners of parent	¥ 24,483	¥ 10,554	\$ 223,467
	Yen		U.S. dollars (Note 1)
	2019	2018	2019
Net income per share	¥161.41	¥83.11	\$1.47
Diluted net income per share	—	—	—
Dividends per share	45.00	45.00	0.41

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Toyo Tire Corporation and Consolidated Subsidiaries
 For the years ended December 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Profit (loss)	¥25,147	¥ 11,173	\$229,527
Other comprehensive income			
Valuation difference on available-for-sale securities	(55)	(6,277)	(502)
Deferred gains and losses on hedges	(19)	20	(173)
Foreign currency translation adjustments	(1,262)	(4,492)	(11,519)
Remeasurements of defined benefit plans, net of tax	1,638	(758)	14,951
Share of other comprehensive income of associates accounted for using equity method	3	(153)	27
Total other comprehensive income (Note 7)	305	(11,660)	2,784
Comprehensive income	¥25,452	¥ (487)	\$232,311
Comprehensive income attributable to			
Owners of the parent	¥24,836	¥ (624)	\$226,689
Comprehensive income attributable to non-controlling interests	616	137	5,622

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toyo Tire Corporation and Consolidated Subsidiaries
 For the years ended December 31, 2019 and 2018

	Millions of yen										
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Non- controlling interests	Total net assets
Balance at December 31, 2018	127,179	¥ 30,485	¥ 28,507	¥ 63,042	¥(150)	¥ 27,556	¥(10)	¥ 7,974	¥ 1,676	¥ 4,736	¥ 163,816
Cash dividends		—	—	(5,715)	—	—	—	—	—	—	(5,715)
Net income		—	—	10,554	—	—	—	—	—	—	10,554
Purchases of treasury stock		—	—	—	(2)	—	—	—	—	—	(2)
Net changes in items other than shareholders' equity		—	—	—	—	(6,278)	20	(4,126)	(793)	(224)	(11,401)
Balance at beginning of year	127,179	¥30,485	¥28,507	¥67,881	¥(152)	¥21,278	¥10	3,848	¥ 883	¥4,512	¥157,252
Issuance of new shares		25,450	25,450	—	—	—	—	—	—	—	50,900
Cash dividends		—	—	(6,254)	—	—	—	—	—	—	(6,254)
Net income		—	—	24,483	—	—	—	—	—	—	24,483
Purchases of treasury stock		—	—	—	(2)	—	—	—	—	—	(2)
Purchase of shares of consolidated subsidiaries		—	543	—	—	—	—	—	—	—	543
Net changes in items other than shareholders' equity		—	—	—	—	(55)	(19)	(1,248)	1,673	(2,764)	(2,413)
Balance at December 31, 2019	154,111	¥55,935	¥54,500	¥86,110	¥(154)	¥21,223	¥ (9)	¥2,600	¥2,556	¥1,748	¥224,509

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains and losses on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Non- controlling interests	Total net assets
Balance at beginning of year	\$278,249	\$260,195	\$619,579	\$(1,387)	\$194,213	\$ 91	\$35,122	\$ 8,060	\$41,183	\$1,435,305
Issuance of new shares	232,293	232,293	—	—	—	—	—	—	—	464,586
Cash dividends	—	—	(57,084)	—	—	—	—	—	—	(57,084)
Net income	—	—	223,467	—	—	—	—	—	—	223,467
Purchases of treasury stock	—	—	—	(18)	—	—	—	—	—	(18)
Purchase of shares of consolidated subsidiaries	—	4,956	—	—	—	—	—	—	—	4,956
Net changes in items other than shareholders' equity	—	—	—	—	(502)	(173)	(11,391)	15,270	(25,228)	(22,024)
Balance at December 31, 2019	\$510,542	\$497,444	\$785,962	\$(1,405)	\$193,711	\$(82)	\$23,731	\$23,330	\$15,955	\$2,049,188

See the accompanying notes to the consolidated financial statements.

Consolidated Financial Statements and Notes

» Consolidated Statements of Cash Flows

Toyo Tire Corporation and Consolidated Subsidiaries
For the years ended December 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ 34,056	¥ 17,067	\$ 310,843
Depreciation and amortization	25,162	25,796	229,664
Settlement package	(284)	—	(2,592)
Increase (decrease) in net defined benefit liability	168	1,065	1,533
Interest and dividend income	(2,117)	(2,033)	(19,323)
Interest expense	2,262	2,601	20,646
Foreign exchange losses (gains)	(98)	623	(894)
Share issuance cost	460	—	4,199
Equity in (earnings) losses of affiliates	(162)	(195)	(1,479)
Loss (gain) on sales of investment securities	(3,495)	(379)	(31,900)
Loss on retirement of noncurrent assets	933	579	8,516
Impairment loss	1,170	3,583	10,679
Loss on product compensation	3,898	7,290	35,579
Loss on provision for product compensation	113	10,240	1,031
Decrease (increase) in notes and accounts receivable—trade	5,583	(4,165)	50,958
Decrease (increase) in inventories	(2,151)	(7,221)	(19,633)
Decrease (increase) in notes and accounts payable—trade	(25,365)	(774)	(231,517)
Other, net	2,560	3,191	23,367
Subtotal	42,693	57,268	389,677
Interest and dividend income received	2,246	2,167	20,500
Interest expense paid	(2,328)	(2,746)	(21,249)
Settlement package received	285	—	2,601
Payment of product compensation	(25,078)	(34,363)	(228,897)
Income taxes paid	(7,696)	(4,364)	(70,245)
Income taxes refunded	1,108	1,102	10,114
Net cash provided by operating activities	11,230	19,064	102,501
Cash flows from investing activities:			
Purchase of property, plant and equipment	(43,146)	(27,361)	(393,812)
Proceeds from sales of property, plant and equipment	535	181	4,883
Purchase of intangible assets	(1,850)	(1,252)	(16,886)
Proceeds from sales of intangible assets	—	1	—
Purchase of investment securities	(270)	(269)	(2,464)
Proceeds from sales and redemption of investment securities	6,583	794	60,086
Other, net	(123)	(523)	(1,122)
Net cash used in investing activities	(38,271)	(28,429)	(349,315)
Cash flows from financial activities:			
Net increase (decrease) in short-term bank loans	(9,576)	(5,049)	(87,404)
Net increase in commercial paper	(14,000)	12,000	(127,784)
Proceeds from long-term debt	21,564	31,069	196,824
Repayment of long-term debt	(17,447)	(13,932)	(159,246)
Redemption of bonds	—	(5,000)	—
Cash dividends paid	(6,248)	(5,714)	(57,028)
Dividends paid to noncontrolling interests	(312)	(361)	(2,848)
Payments from changes in investments in capital of subsidiaries that do not result in change in scope of consolidation	(518)	—	(4,728)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,008)	—	(18,328)
Proceeds from issuance of common shares	50,441	—	460,396
Other, net	(1,164)	(183)	(10,624)
Net cash provided by (used in) financing activities	20,732	12,830	189,230
Effect of exchange rate changes on cash and cash equivalents	(79)	(884)	(722)
Net increase (decrease) in cash and cash equivalents	(6,388)	2,581	(58,306)
Cash and cash equivalents at beginning of period	30,468	27,887	278,094
Cash and cash equivalents at end of period (Note 8)	¥ 24,080	¥ 30,468	\$ 219,788

» Notes to Consolidated Financial Statements

Toyo Tire Corporation and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Toyo Tire Corporation (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 December 31, 2019, which was ¥109.56 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 Toyo Tire Corporation (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 41 significant majority owned subsidiaries (41 in 2018). The factors effecting an increase or decrease in the number of consolidated subsidiaries were respectively due to the establishment of new companies, the sales of all equity interest to others, and the liquidation of the subsidiaries. All significant inter-company transactions and accounts have been eliminated in consolidation. Investments in 4 affiliates (4 in 2018) were accounted for by the equity method.

Cash and cash equivalents

In preparing the consolidated statements of cash flows, 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. For certain doubtful receivables, the uncollectable amount has been individually estimated.

Inventories

Inventories are stated principally at the lower of weighted average cost or net realizable value.

Property, plant and equipment (except lease assets and right of use assets)

Property, plant and equipment are stated at cost. Depreciation of buildings and certain tools and equipment of the consolidated domestic subsidiaries 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. However, for structures acquired on or after April 1, 2016, the straight-line method is

applied. 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.

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 5 years.

Lease assets

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

Right-of-use assets

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

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 subsidiaries.

Securities

Securities classified as available-for-sale securities are stated at fair market value with unrealized gains and losses, net of applicable taxes, recorded as a component of net assets. Securities with no fair market value are stated at cost. If securities decline in value significantly and the decline is not considered recoverable, the value of the securities is reduced to net realizable value and the reduction in the value of the securities charged to income. The cost of securities sold is determined based on the average cost of all the shares of securities held at the time of sale.

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

Consolidated Financial Statements and Notes

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.

Amortization of deferred assets

All business bond issuance expenses are expensed when payment is made.

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.

Provision for sales returns

The provision for sales returns is calculated for losses incurred on the return of snow tires sold during the fiscal year but returned after the balance sheet date. The provision is based on an estimate using the historical rate of such returns.

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 product compensation

The provision for product compensation is estimated and recorded to provide for potential future costs of repair work and other measures.

Severance and retirement benefits

1) Employees

In determining retirement benefit obligations, the estimated amount of retirement benefits is attributed to periods on the benefit formula basis. Past service costs 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 (mainly 15 years). 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.

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. The amounts included in the liability for severance and retirement benefits at December 31, 2019 and 2018 were ¥6 million (\$55 thousand) and ¥12 million, respectively.

Research and development expenses

Research and development expenses are charged to income as incurred. Such expenses for the years ended December 31, 2019 and 2018 were ¥11,093 million (\$101,249 thousand) and ¥10,878 million, respectively.

Income taxes

The asset-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

Declarations of dividends and appropriations of unappropriated 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 operations 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.

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

Year ended December 31, 2019

Effective from the year ended December 31, 2019, the overseas consolidated subsidiaries have applied IFRS No. 16 Leases (Publication in January, 2016). When applying IFRS No. 16, the overseas consolidated subsidiaries use the method that recognizes the cumulative impact of the application of this standard, which is permitted as a transitional measure, on the start date of the application.

For leases that have been classified as operating leases by applying IAS No. 17 in the past, the overseas consolidated subsidiaries recognize the right-of-use assets and lease liabilities at the

date of initial application. In addition, the overseas consolidated subsidiaries also change certain assets that were included in the other assets in investments and other assets to right-of-use assets.

As a result of the application of this standard, right-of-use assets in the consolidated balance sheets increased by ¥4,556 million, current liabilities by ¥657 million and other fixed liabilities by ¥1,618 million and investments and other assets decreased by ¥2,189 million. In addition, the impact of this change in standard on the consolidated statements of income was insignificant.

4. Unadopted Standard and Guidance

The Company and domestic consolidated subsidiaries
Accounting Standard for Revenue Recognition
(ASBJ Statement No. 29, March 30, 2018)
Implementation Guidance for Revenue Recognition
(ASBJ Implementation Guidance No. 30, March 30, 2018).

1. Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps.

- Step 1: Identify contracts with customers.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when the entity satisfies a performance obligation.

2. Effective date

Effective from the beginning of the fiscal year ending
December 31, 2022

3. Effects of application

The monetary impact arising from the application of this standard and implementation guidance and their interpretations are under evaluation.

Overseas consolidated subsidiaries

The establishment or revision of accounting standards applicable to overseas consolidated subsidiaries but not applied as of December 31, 2019 are set forth below. The monetary impact arising from the application of this standard and interpretation is under evaluation.

- (1) Name of Accounting standard, etc.
Leases (US GAAP No. 2016-02)
- (2) Overview
Revision of the accounting treatment for leases
- (3) Effective date
Effective from the beginning of the fiscal year ending
December 31, 2021

5. Change in Presentation

Year ended December 31, 2019

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) from the beginning of the current fiscal year, the Company and its domestic subsidiaries have changed the presentation and related notes of deferred tax assets and deferred tax liabilities such that deferred tax assets and deferred tax liabilities are classified as part of "investments and other assets" and "long-term liabilities," respectively.

As a result, in the balance sheet of the previous fiscal year, deferred tax assets of ¥6,395 million classified as "current assets" have been included in deferred tax assets (¥13,029 million) in "investments and other assets," and deferred tax liabilities of ¥20 million classified as "current liabilities" have been included in deferred tax liabilities (¥10,804 million) classified as "long-term liabilities."

In addition, the notes related to tax effect accounting included those described in Note 8 (excluding total amount of valuation reserves) and Note 9 of "Accounting Standard for Tax Effect Accounting," which are required in Paragraphs 3 to 5 of Statement No. 28. However, this additional information corresponding to the previous fiscal year is not disclosed, in accordance with the transitional treatments prescribed in Paragraph 7 of Statement No. 28.

6. Additional Information

Consolidated subsidiaries in the USA have applied "Revenue from Contract with Customers" (US GAAP No. 2014-09) from the year ended December 31, 2019. The monetary impact arising from the application of this standard and interpretations is insignificant.

Consolidated Financial Statements and Notes

7. Comprehensive income

For the years ended December 31, 2019 and 2018.

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation difference on available-for-sale securities			
Increase during the year	¥ 3,418	¥ (8,680)	\$31,198
Reclassification adjustments	(3,495)	(363)	(31,900)
Subtotal, before tax	(77)	(9,043)	(702)
Tax (expense) or benefit	22	2,766	200
Subtotal, net of tax	(55)	(6,277)	(502)
Deferred gains and losses on hedges			
Increase (decrease) during the year	(27)	29	(246)
Subtotal, before tax	(27)	29	(246)
Tax (expense) or benefit	8	(9)	73
Subtotal, net of tax	(19)	20	(173)
Foreign currency translation adjustments			
Increase (decrease) during the year	(1,262)	(4,492)	(11,519)
Reclassification adjustments	—	0	—
Subtotal	(1,262)	(4,492)	(11,519)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	2,492	(838)	22,746
Reclassification adjustments	(130)	(249)	(1,187)
Subtotal, before tax	2,362	(1,087)	21,559
Tax (expense) or benefit	(724)	329	(6,608)
Subtotal, net of tax	1,638	(758)	14,951
Share of other comprehensive income of affiliates accounted for using equity method			
Increase (decrease) during the year	(33)	(169)	(301)
Reclassification adjustments	36	—	328
Subtotal, before tax	3	(169)	27
Tax (expense) or benefit	—	16	—
Subtotal, net of tax	3	(153)	27
Total other comprehensive income	¥ 305	¥(11,660)	\$ 2,784

8. Statements of Cash Flows

1) Cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets at December 31, 2019 and 2018 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥25,121	¥31,385	\$229,290
Less time deposits with maturities exceeding three months	(1,041)	(917)	(9,502)
Cash and cash equivalents	¥24,080	¥30,468	\$219,788

9. Inventories

(1) Inventories at December 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Finished goods	¥58,042	¥58,054	\$529,774
Work-in-process	3,572	2,940	32,603
Raw materials and supplies	14,955	13,994	136,500
	¥76,569	¥74,988	\$698,877

10. Financial Instruments

A. Status of financial instruments

(1) Policies for using financial instruments

The Companies procure the capital required under plans of investment in plant and equipment primarily from bank loans and bond issues. The Companies manage surplus capital using financial instruments that carry little or no risk and procure short-term working capital from bank loans. The Companies use derivatives to mitigate the risks that are described below and, as a matter of policy, do not use derivatives for speculative transactions.

(2) Financial instruments and exposures to risk

Notes and accounts receivable expose the Companies to customer credit risk. In addition, receivables denominated in foreign currencies, which arise as the result of doing business globally, expose the Companies to the risk of exchange rate fluctuations. In principle, the Companies hedge 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 Companies do business or have capital alliances and expose the Companies to the risk of changes in market prices.

Almost all notes and accounts payable are due within one year. The Companies procure the capital required for their investments in plant and equipment generally through bank loans and bond issues and incurs lease liabilities for lease transactions. Although exposure to the risk of interest rate fluctuations may arise, the Companies hedge the risk with derivatives transactions (interest rate swaps).

The Companies use 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.

(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 risks 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 December 31, 2019 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 investments in securities, the Company periodically examines the fair value of the securities and the financial condition of the issuing entity.

For derivative transactions, the Financial Department handles the transactions, books them and makes reconciliations in accordance with the basic policies approved by the Board of Directors pursuant to established internal control procedures for financial risk. In addition, the Financial Department reports the monthly amounts to the 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 capital deployment plans based on reports from each division.

(4) Supplemental information on fair values

The contractual amounts of the derivative transactions discussed in Note 13, "Derivative Financial Instruments and Hedging Transactions," do not reflect the market risk associated with the derivatives transactions themselves.

Consolidated Financial Statements and Notes

B. Fair values of financial instruments

The fair value of financial instruments, amounts presented in the consolidated balance sheets and any differences as of December 31, 2019 and 2018 are set forth in the tables below. Items whose fair market value was considered to be very difficult to assess are not presented in the tables.

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

Assets

Cash and time deposits

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥25,121	¥31,385	\$229,290
Fair value	25,121	31,385	229,290
Differences	¥ —	¥ —	\$ —

Notes and accounts receivable—trade

Because notes and accounts receivable—trade are highly liquid, the fair value is similar to the 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
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥75,445	¥81,594	\$688,618
Fair value	75,445	81,594	688,618
Differences	¥ —	¥ —	\$ —

Investment securities

The fair value of shares, etc., is based on prices established on exchanges. In addition, Note 10, "Securities," provides information on marketable securities by the intent for which they are held.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥43,000	¥45,870	\$392,479
Fair value	43,000	45,870	392,479
Differences	¥ —	¥ —	\$ —

Liabilities

Notes and accounts payable—trade

Because notes and accounts payable—trade are highly liquid, the fair value is similar to the 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
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥34,138	¥59,576	\$311,592
Fair value	34,138	59,576	311,592
Differences	¥ —	¥ —	\$ —

Commercial paper

Because commercial paper is highly liquid, the fair value is similar to the book value. Consequently, the fair value of commercial paper is based on book value.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥ —	¥14,000	\$ —
Fair value	—	14,000	—
Differences	¥ —	¥ —	\$ —

Short-term bank loans

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥7,102	¥16,912	\$64,823
Fair value	7,102	16,912	64,823
Differences	¥ —	¥ —	\$ —

Long-term bank loans (including the current portion)

The fair value of 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
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥108,413	¥105,685	\$989,531
Fair value	108,328	105,064	988,755
Differences	¥ (85)	¥ (621)	\$ (776)

Derivatives transactions

The fair value of derivatives transactions is stated at the price presented by the counterparty financial institution. Derivatives transactions using interest rate swap contracts that meet specified conditions and receivables denominated in foreign currencies that meet specified conditions are treated with hedged items. The fair value of these derivatives transactions is included in the applicable items and stated accordingly. The net asset or liability which results from derivatives transactions except for these show the net amount. If the account balance is a debt, it is indicated by parenthesis ().

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts presented in the consolidated balance sheets	¥850	¥1,814	\$7,758
Fair value	850	1,814	7,758
Differences	¥ —	¥ —	\$ —

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Non-listed equity securities	¥1,404	¥1,398	\$12,815

(3) The redemption schedule for receivables after the close of the fiscal year

	Millions of yen		Thousands of U.S. dollars
(Notes and accounts receivable—trade)	2019	2018	2019
Within 1 year	¥75,445	¥81,594	\$688,618
From 1 year to 5 years	—	—	—
From 5 years to 10 years	—	—	—
Over 10 years	—	—	—

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Within 1 year			
Bonds payable	¥ —	¥ —	\$ —
Long-term bank loans	32,510	18,226	296,733
Lease obligations	826	161	7,539
	¥33,336	¥18,387	\$304,272
From 1 year to 2 years			
Bonds payable	¥ —	¥ —	\$ —
Long-term bank loans	13,430	31,864	122,581
Lease obligations	611	134	5,577
	¥14,041	¥31,998	\$128,158
From 2 years to 3 years			
Bonds payable	¥ —	¥ —	\$ —
Long-term bank loans	10,678	11,332	97,463
Lease obligations	518	107	4,728
	¥11,196	¥11,439	\$102,191
From 3 years to 4 years			
Bonds payable	¥ —	¥ —	\$ —
Long-term bank loans	18,803	8,099	171,623
Lease obligations	432	94	3,943
	¥19,235	¥ 8,193	\$175,566
From 4 years to 5 years			
Bonds payable	¥ —	¥ —	\$ —
Long-term bank loans	4,491	16,165	40,991
Lease obligations	514	71	4,692
	¥ 5,005	¥16,236	\$ 45,683
Over 5 years			
Bonds payable	¥ —	¥ —	\$ —
Long-term bank loans	28,500	20,000	260,131
Lease obligations	129	162	1,178
	¥28,629	¥20,162	\$261,309

11. Securities

A. The following tables summarize acquisition costs and book values (fair values) of securities with available fair values as of December 31, 2019 and 2018.

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Acquisition cost:			
Equity securities	¥12,365	¥15,704	\$112,860
Bonds	—	—	—
Other	—	—	—
	12,365	¥15,704	\$112,860
Book value:			
Equity securities	¥42,383	¥45,780	\$386,847
Bonds	—	—	—
Other	—	—	—
	¥42,383	¥45,780	\$386,847
Difference:			
Equity securities	¥30,018	¥30,076	\$273,987
Bonds	—	—	—
Other	—	—	—
	¥30,018	¥30,076	\$273,987

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Acquisition cost:			
Equity securities	¥688	¥132	\$6,280
Bonds	—	—	—
Other	—	—	—
	¥688	¥132	\$6,280
Book value:			
Equity securities	¥618	¥ 90	\$5,641
Bonds	—	—	—
Other	—	—	—
	¥618	¥ 90	\$5,641
Difference:			
Equity securities	¥ (70)	¥ (42)	\$ (639)
Bonds	—	—	—
Other	—	—	—
	¥ (70)	¥ (42)	\$ (639)

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B. Total sales of available-for-sale securities for the years ended December 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amount of sales			
Equity securities	¥6,583	¥794	\$60,086
Bonds	—	—	—
Other	—	—	—
	¥6,583	¥794	\$60,086
Total gain on sales			
Equity securities	¥3,497	¥379	\$31,919
Bonds	—	—	—
Other	—	—	—
	¥3,497	¥379	\$31,919
Total loss on sales			
Equity securities	¥ 2	¥ —	\$ 18
Bonds	—	—	—
Other	—	—	—
	¥ 2	¥ —	\$ 18

12. Derivative Financial Instruments and Hedging Transactions

Year ended December 31, 2019

A. Derivative transactions for which hedge accounting does not apply

(1) Currency related

Millions of yen					
Classification	Type	Contract amount	Portion over 1 year	Fair value	Recognized gain (loss)
Non-market transactions	Currency swap contracts	¥3,780	¥ —	¥864	¥(916)

Thousands of U.S. dollars					
Classification	Type	Contract amount	Portion over 1 year	Fair value	Recognized gain (loss)
Non-market transactions	Currency swap contracts	\$34,502	\$ —	\$7,886	\$(8,361)

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

(2) Interest rate related

None

B. Derivative transactions for which hedge accounting applies

(1) Currency related

Millions of yen					
Hedge accounting method	Type of transaction	Hedged items	Contract amount	Portion over 1 year	Fair value
Deferred hedges	Forward foreign exchange contracts				
	Selling: USD	Accounts receivable—trade	¥1,545	—	¥(5)
	Selling: EUR		205	—	(2)
	Selling: CAD		206	—	(3)
	Selling: AUD		111	—	(4)
Hedged receivables translated using forward contract rates	Forward foreign exchange contracts				
	Selling: USD	Accounts receivable—trade	¥ 260	—	(Note 2)
	Selling: EUR		513	—	(Note 2)
	Selling: CAD		322	—	(Note 2)
	Selling: AUD		121	—	(Note 2)

Thousands of U.S. dollars

Hedge accounting method	Type of transaction	Hedged items	Contract amount	Portion over 1 year	Fair value
Deferred hedges	Forward foreign exchange contracts				
	Selling: USD	Accounts receivable—trade	\$14,102	—	\$(46)
	Selling: EUR		1,871	—	(18)
	Selling: CAD		1,880	—	(27)
	Selling: AUD		1,013	—	(37)
Hedged receivables translated using forward contract rates	Forward foreign exchange contracts				
	Selling: USD	Accounts receivable—trade	\$ 2,373	—	(Note 2)
	Selling: EUR		4,682	—	(Note 2)
	Selling: CAD		2,939	—	(Note 2)
	Selling: AUD		1,104	—	(Note 2)

Note: 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 the corresponding receivables.

(2) Interest rate related

Millions of yen

Hedge accounting method	Type of transaction	Hedged items	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	¥15,200	¥100	(Note)

Thousands of U.S. dollars

Hedge accounting method	Type of transaction	Hedged items	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	\$138,737	\$913	(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 December 31, 2018

A. Derivative transactions for which hedge accounting does not apply

(1) Currency related

Millions of yen

Classification	Type	Contract amount	Portion over 1 year	Fair value	Recognized gain (loss)
Non-market transactions	Currency swap contracts	¥7,493	¥3,830	¥1,800	¥(665)

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

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(2) Interest rate related
None

B. Derivative transactions for which hedge accounting applies

(1) Currency related

Millions of yen					
Hedge accounting method	Type of transaction	Hedged items	Contract amount	Portion over 1 year	Fair value
Deferred hedges	Forward foreign exchange contracts				
	Selling: USD	Accounts receivable—trade	¥1,234	—	¥8
	Selling: EUR		124	—	1
	Selling: CAD		167	—	2
	Selling: AUD		267	—	3
Hedged receivables translated using forward contract rates	Forward foreign exchange contracts				
	Selling: USD	Accounts receivable—trade	¥ 56	—	(Note 2)
	Selling: EUR		202	—	(Note 2)
	Selling: CAD		161	—	(Note 2)
	Selling: AUD		269	—	(Note 2)

Note: 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 the corresponding receivables.

(2) Interest rate related

Millions of yen					
Hedge accounting method	Type of transaction	Hedged items	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	¥15,300	¥15,200	(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.

13. Pledged Assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Property, plant and equipment—net of accumulated depreciation	¥16,027	¥16,231	\$146,285
	¥16,027	¥16,231	\$146,285

There is no obligation corresponding to the assets above.

14. Short-term Debt and Long-term Debt

Short-term debt at December 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Commercial paper at December 31, 2018 bore interest at the average rate of 0.05%.			
Short-term bank loans at December 31, 2019 and 2018 bore interest at the weighted average rate of 3.05% and 0.86%, respectively.			
Commercial paper	¥ —	¥14,000	\$ —
Short-term bank loans	¥7,102	¥16,912	\$64,823
	¥7,102	¥30,912	\$64,823

Long-term debt at December 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans principally from banks and insurance companies at December 31, 2019 and 2018 bore interest at the weighted average rate of 1.75% and 2.11%, respectively.			
Unsecured	¥108,413	¥105,685	\$989,531
	108,413	105,685	989,531
Less amounts due within one year	(32,511)	(18,225)	(296,742)
	¥ 75,902	¥ 87,460	\$692,789

Annual maturities of long-term debt at December 31, 2019 were as follows:

Years ended December 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 32,511	\$296,742
2021	13,430	122,581
2022	10,678	97,463
2023	18,803	171,623
2024 and thereafter	32,991	301,122
	¥108,413	\$989,531

Long-term loans include syndicated loan agreements with financial covenants. The covenants mainly consist of the following:

- 1) On December 31 and June 30 of each year, the amount of total shareholders' equity in the consolidated balance sheets should be more than 75% of the amount from the previous period, and more than ¥101,437 million (\$925,858 thousand) on a consolidated basis.
- 2) Ordinary income recorded in the consolidated statement of operations should not be negative for two consecutive fiscal years.

15. Severance and Retirement Benefits

1. Summary of adopted retirement benefit plans

The Companies have funded or unfunded defined benefit pension plans and funded or unfunded defined contribution pension plans to provide retirement and severance benefits to substantially all employees. Under the defined benefit pension plans (all funded type), employees are entitled to lump-sum payments or pension payments based on their earnings and the length of service at retirement or termination of employment. Under lump-sum pension plans (some of these plans are funded by pension trusts), employees are entitled to lump-sum payments based on their earnings and the length of service at retirement or termination of employment. In addition, certain subsidiaries use the simplified method to determine pension benefit obligations.

2. Defined benefit plans, including plans applying the simplified method

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at January 1	¥21,844	¥22,764	\$199
Service cost	1,208	1,407	11
Interest cost	126	116	1
Actuarial loss (gain)	299	(546)	3
Benefits paid	(1,149)	(1,240)	(10)
Decrease due to deconsolidation	—	(726)	—
Other	(0)	69	(0)
Balance at December 31	¥22,328	¥21,844	\$204

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(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at January 1	¥15,011	¥17,118	\$137
Expected return on plan assets	2	8	0
Actuarial loss (gain)	2,791	(1,384)	25
Contributions paid by employer	14	57	0
Benefits paid	(320)	(443)	(3)
Decrease due to deconsolidation	—	(345)	—
Balance at December 31	¥17,498	¥15,011	\$160

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 18,505	¥ 18,043	\$ 169
Plan assets	(17,498)	(15,011)	(160)
	1,007	3,032	9
Unfunded retirement benefit obligations	3,824	3,801	35
Total net liability (asset) for retirement benefits	4,831	6,833	44
Net defined benefit liability	5,841	7,769	53
Net defined benefit asset	(1,010)	(936)	(9)
Total net liability (asset) for retirement benefits	¥ 4,831	¥ 6,833	\$ 44

(4) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥1,208	¥1,407	\$11
Interest cost	126	116	1
Expected return on plan assets	(2)	(8)	(0)
Net actuarial loss amortization	(129)	(249)	(1)
Past service costs amortization	(0)	(0)	(0)
Other	(1)	(7)	(0)
Total retirement benefit costs	¥1,202	¥1,259	\$11

(5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Past service costs	¥ (0)	¥ (0)	\$ (0)
Actuarial gains and losses	2,363	(1,087)	22
Total balance	¥2,363	¥(1,087)	\$22

(6) Accumulated adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Past service costs yet to be recognized	¥ 1	¥ 1	\$ 0
Actuarial gains and losses yet to be recognized	3,682	1,320	34
Total balance	¥3,683	¥1,321	\$34

Note: The above includes the relevant adjustments recorded at Toyo Tire Corporation and its consolidated subsidiaries. Adjustments of an affiliated company accounted for by the equity-method are recorded as accumulated adjustments for retirement benefits for the equity portion owned by the Company.

(7) Plan assets

1. Plan assets comprise:

	2019	2018
Equity securities	92%	86%
Life insurance accounts	1%	4%
Bonds	5%	5%
Other	2%	5%
Total	100%	100%

Note: 1. The pension trust set up for lump-sum plans held 90% of total plan assets and 83% of total plan assets at December 31, 2019 and 2018, respectively.

2. Life insurance accounts consist of investments in life insurance general accounts and special accounts. General accounts are guaranteed for the amount of principal and interest, while special accounts are not guaranteed for their investment returns.

2. Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets are considered in determining long-term expected rates of return.

(8) Actuarial assumptions

Principal actuarial assumptions

		2019	2018
Discount rate	Mainly	0.3%	0.7%
Long-term expected rate of return	Mainly	0.0%	0.0%

3. Defined contribution plan

Contributions to the plans of the consolidated subsidiaries were ¥1,518 million (\$13,855 thousand) and ¥1,434 million at December 31, 2019 and 2018, respectively.

16. Income Taxes

1. Significant components of deferred tax assets and liabilities:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets			
Accrued bonuses	¥ 629	¥ 719	\$ 5,741
Accrued expenses	595	554	5,431
Valuation of inventories	329	150	3,003
Unrealized profits	2,841	2,866	25,931
Loss on impairment of fixed assets	996	1,151	9,091
Investment deduction of the overseas consolidated subsidiaries	5,032	4,268	45,929
Net defined benefit liability	1,515	2,064	13,828
Loss on set up of employee retirement benefit trust	525	1,529	4,792
Provision for product compensation	7,610	13,926	69,460
Loss carryforwards	7,263	7,912	66,292
Other	4,179	3,816	38,144
Subtotal deferred tax assets	31,514	38,955	287,642
Less: valuation allowance for tax loss carryforwards	(3,331)	—	(30,403)
Less: valuation allowance for tax loss temporary differences	(6,893)	—	(62,916)
Total valuation allowance	(10,224)	(12,424)	(93,319)
Total deferred tax assets	¥ 21,290	¥ 26,531	\$ 194,323
Deferred tax liabilities			
Unrealized losses	¥ (106)	¥ (154)	\$ (968)
Accelerated depreciation of the overseas consolidated subsidiaries	(10,881)	(9,324)	(99,315)
Net unrealized gains on securities	(9,339)	(9,371)	(85,241)
Undistributed profits of subsidiaries	(1,854)	(1,675)	(16,922)
Other	(4,901)	(3,782)	(44,734)
Total deferred tax liabilities	(27,081)	(24,306)	(247,180)
Net deferred tax assets (liabilities)	¥ (5,791)	¥ 2,225	\$ (52,857)

Notes: 1. Total valuation allowances decreased by ¥2,201 million (\$20,089 thousand) due mainly to a decrease in the valuation allowance for the retirement benefit trust.

2. Tax loss carryforwards and breakdown of deferred tax assets thereof by expiration dates were as follows:

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Millions of yen

	2019						Total
	Within once year	One to two years	Over two to three years	Over three to four years	Over four to five years	Over five years	
Tax loss carryforwards (a)	270	57	38	80	103	6,715	7,263
Valuation allowance	(270)	(57)	(38)	(51)	(96)	(2,819)	(3,331)
Deferred tax assets	0	—	—	29	7	3,896 (b)	3,932

Thousands of U.S. dollars

	2019						Total
	Within once year	One to two years	Over two to three years	Over three to four years	Over four to five years	Over five years	
Tax loss carryforwards (a)	2,464	520	347	730	940	61,291	66,292
Valuation allowance	(2,464)	(520)	(347)	(465)	(876)	(25,731)	(30,403)
Deferred tax assets	0	—	—	265	64	35,560 (b)	35,889

(a) Tax loss carryforwards are calculated by applying the statutory income tax rate.

(b) Deferred tax assets of ¥3,932 million (\$35,889 thousand) were recognized for tax loss carryforwards of ¥7,263 million (\$66,292 thousand) (after applying the statutory tax rate) for the year ended December 31, 2019, which is came mainly from recognizing all the remaining tax loss carryforwards of ¥3,868 million (\$35,305 thousand) of the Company (after applying the statutory tax rate). The tax loss carryforward for which this deferred tax asset was booked arose from the reversal of the allowance for provision for product compensation from the fiscal year ended December 31, 2017 and, based on the prospects for future taxable income, it is judged to be recoverable, and the valuation allowance is not recognized.

2. Significant items in the reconciliation between the statutory tax rate and the effective tax rate were as follows:

	2019	2018
Statutory tax rate	30.6 %	30.8 %
Permanently nontaxable income	(0.4)%	(0.8)%
Equity in net income of unconsolidated subsidiaries and affiliates	(0.2)%	(0.4)%
Amortization of goodwill	0.2 %	0.4 %
Difference in statutory tax rates of subsidiaries	(1.2)%	(4.6)%
Valuation allowance	(6.5)%	5.1 %
Other	3.7 %	4.0 %
Effective tax rate	26.2 %	34.5 %

17. Leases

(1) Finance leases, as lessee

Information at December 31, 2019 and 2018 for finance leases which did not transfer ownership of the leased property to the lessee and which were commenced prior to April 1, 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Original lease obligations, including finance charges, for machinery, equipment and buildings	¥608	¥608	\$5,549
Payments made	441	410	4,025
Balance remaining	¥167	¥198	\$1,524

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Future minimum payments			
Payments due within one year	¥ 31	¥ 31	\$ 283
Payments due after one year	136	167	1,241
	¥167	¥198	\$1,524

Rental expenses under non-capitalized finance leases for the years ended December 31, 2019 and 2018 were ¥31 million (\$283 thousand) and ¥31 million, respectively.

(2) Operating leases, as lessee

Lease obligations under operating leases at December 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Future minimum payments			
Payments due within one year	¥1,368	¥2,108	\$12,487
Payments due after one year	1,980	3,532	18,072
	¥3,348	¥5,640	\$30,559

The main reason for the decrease in operating lease transactions is the recording of Right-of-use assets from the fiscal year ended December 31, 2019.

18. Contingent Liabilities

Contingent liabilities were as follows:

1) The Company had been manufacturing and selling seismic isolation rubber itself and through its subsidiary, Toyo Chemical Industrial Products, Ltd., which was certified by Japan's Ministry of Land, Infrastructure, Transport and Tourism. However, it was discovered that some delivered products (2,907 units in 154 structures) did not conform to ministry certification performance standards. The company has a policy 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 for product compensation due to the incident has been posted for the repair cost and other measures for which the amounts can be reasonably estimated.

For the structures for which the cost of repair work and other measures are already known (2,823 units in 146 structures) from the receipt of estimations, etc., a specific reserve has been provided for each structure. For the remaining structures, a reserve is provided based on the Company's internal assessment for the cost of repair work and other measures for each structure. As the nature of the cost of repair work is highly

unique for each structure, there is a possibility that the cost of the repair work and other measures to be determined in the future may exceed the provided reserve amount, particularly in the event the preconditions of the reserve calculations are changed. In addition, it is difficult to make reasonable estimates for certain costs to be incurred for business compensation or compensation for delayed damages at this point in time.

Therefore, depending upon the progress status, the Company's consolidated business results for future fiscal years may be impacted by posting additional reserves.

2) On November 26, 2013 (U.S. time), the Company reached a settlement with the U.S. Department of Justice to pay a fine of \$120 million for the breach of U.S. antitrust laws pertaining to the sale of automotive anti-vibration rubber parts and joint boots and paid this penalty in response to the judgment from the court on February 6, 2014. A class action concerning this matter has also 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 impact.

19. 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 in which 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, 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 March 27, 2020, the shareholders approved cash dividends amounting to ¥3,848 million (\$35,122 thousand). These appropriations had not been accrued in the consolidated financial statements as of December 31, 2019. Such appropriations are recognized in the period in which they are approved by the shareholders.

Consolidated Financial Statements and Notes

20. Loss on impairment of fixed assets

During the fiscal year ended December 31, 2019 the Companies recorded an impairment loss for certain asset groups. Business assets are grouped by business segment based on internal

management. Leased assets, assets decided for disposal, such as sale, and idle assets that are not expected to be used in the future are grouped by individual property.

Location	Use	Item	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Inabe-gun, Mie, etc.	Automobile parts, manufacturing facilities	Machinery, equipment, buildings, etc.	¥1,113	\$10,159
Iwanuma-city, Miyagi	Idle assets	Machinery, equipment, buildings, etc.	¥57	\$520
Total			¥1,170	\$10,679

With respect to the automotive parts manufacturing facilities in Inabe-gun, Mie, where a consolidated subsidiary was manufacturing automobile parts, impairment loss was recognized for the amount the Company reduced the book values of the assets to the recoverable amounts since the Company continued to incur losses from its operating activities and there were indications of impairment. The breakdown of the impairment loss recognized for the assets was 539 million yen (\$4,920 thousand) for Machinery & equipment, 196 million yen (\$1,789 thousand) for Tools, furniture & fixtures, 186 million yen (\$1,698 thousand) for Construction in progress, 85 million yen (\$776 thousand) for Buildings & structures, 107 million yen (\$976 thousand) for Software. The recoverable values of these asset groups were measured based on net selling prices and real estate appraisals for Land and

Buildings and memorandum values for Machinery & equipment, Tools, furniture & fixtures, etc.

With respect to the idle assets in Iwanuma-city, Miyagi, impairment loss was recognized for the amount the Company reduced the book values of the assets to the recoverable amounts since there were no prospects for using those assets for business in the future. The breakdown of the impairment loss recognized for the assets was 50 million yen (\$456 thousand) for Machinery & equipment and 7 million yen (\$64 thousand) for Buildings & structures. The recoverable values of these asset groups were measured based on net selling prices and real estate appraisals for Land and Buildings and memorandum values for Machinery & equipment, Tools, furniture & fixtures, etc.

During the fiscal year ended December 31, 2018, the Companies recorded an impairment loss for certain asset groups. Business assets are grouped by business segment based on internal

management. Leased assets, assets decided for disposal, such as sale, and idle assets that are not expected to be used in the future are grouped by individual property.

Location	Use	Item	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Inabe-gun, Mie etc.	Automobile parts, manufacturing facilities	Machinery, equipment, buildings, etc.	¥3,250	\$29,279
Kentucky, USA	Automobile parts, manufacturing facilities	Machinery, equipment, buildings, etc.	¥ 333	\$ 3,000
Total			¥3,583	\$32,279

With respect to the automotive parts manufacturing facilities in Inabe-gun, Mie, where a consolidated subsidiary was manufacturing automobile parts, impairment loss was recognized for the amount the Company reduced the book values of the assets to the recoverable amounts since the Company continued to incur losses from its operating activities and there were indications of impairment. The breakdown of the impairment loss recognized for the assets was 2,159 million yen (\$19,450 thousand) for Machinery & equipment, 445 million yen (\$4,009 thousand) for Tools, furniture & fixtures, 245 million yen (\$2,207 thousand) for Construction in progress, 120 million yen (\$1,081 thousand) for Buildings & structures, 77 million yen (\$694 thousand) for Land, 59 million yen (\$532 thousand) for Software and 145 million yen (\$1,306 thousand) for Others. The recoverable values of these asset groups were measured based on net selling prices and real

estate appraisals for Land and Buildings and memorandum values for Machinery & equipment, Tools, furniture & fixtures, etc..

With respect to the automotive parts manufacturing facilities in Kentucky, USA, where a consolidated subsidiary was manufacturing automobile parts, impairment loss was recognized for the amount the Company reduced the book values of the assets to the recoverable amounts since the Company continued to incur losses from its operating activities and there were indications of impairment. The breakdown of the impairment loss recognized for the facilities was 156 million yen (\$1,405 thousand) for Machinery & equipment, 70 million yen (\$631 thousand) for Construction in progress, 61 million yen (\$550 thousand) for Buildings & structures and 46 million yen (\$414 thousand) for Tools, furniture & fixtures. The recoverable values of these asset groups were measured at fair values based on US GAAP, and the fair values were calculated by a third-party evaluation organization.

21. Related Party Transactions

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

22. Business 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 purpose of allocating of management resources and evaluating business performance.

The Company has two divisions corresponding to the operational headquarters of the Tires business and the Automotive Parts business. Each division formulates comprehensive strategies for both domestic and overseas markets and develops business activities. Therefore, the Company identifies "Tires" and "Automotive Parts" as reportable segments. The Tires segment includes the manufacture and sale of tires for a range of autos, buses and other vehicles and equipment. The Automotive Parts segment includes the manufacture and sale of automotive parts such as rubber vibration isolators.

(2) Measuring reportable segment income or loss, segment assets and other material items

The accounting policies for reportable business segments are generally the same as those described in "Significant Accounting Policies in the Preparation of Consolidated Financial Statements." Internal sales and transfers between segments are based mainly on prices for third-party transactions.

Figures for reportable segment income are based on operating income.

We applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year ended December 31, 2019, and the segment assets information for the year ended December 31, 2018 were adjusted in accordance with the transitional treatment prescribed in the Partial Amendments to Tax Effect Accounting.

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

For the year ended December 31, 2019

	Reportable segments					Millions of yen	
	Tires	Automotive Parts	Subtotal	Other (Note 1)	Total	Adjustments (Note 2) (Note 3)	Amount reported on consolidated financial statements
Net sales							
Sales to outside customers	¥332,838	¥44,552	¥377,390	¥ 68	¥377,458	¥ —	¥377,458
Intersegment sales and transfers	1	—	1	79	80	(80)	—
Total	332,839	44,552	377,391	147	377,538	(80)	377,458
Segment income or loss (Operating income or loss)	41,394	(2,920)	38,474	14	38,488	(40)	38,448
Segment assets	373,228	28,404	401,632	31,535	433,167	35,580	468,747
Other items							
Depreciation and amortization	23,201	866	24,067	1,095	25,162	—	25,162
Increase in property, plant and equipment and intangible assets	38,619	2,589	41,208	1,425	42,633	—	42,633

For the year ended December 31, 2018

	Reportable segments					Millions of yen	
	Tires	Automotive Parts	Subtotal	Other (Note 1)	Total	Adjustments (Note 2) (Note 3)	Amount reported on consolidated financial statements
Net sales							
Sales to outside customers	¥341,694	¥51,466	¥393,160	¥ 60	¥393,220	¥ —	¥393,220
Intersegment sales and transfers	1	—	1	73	74	(74)	—
Total	341,695	51,466	393,161	133	393,294	(74)	393,220
Segment income (Operating income)	46,880	(4,538)	42,342	80	42,422	(32)	42,390
Segment assets	355,119	32,697	387,816	33,353	421,169	48,208	469,377
Other items							
Depreciation and amortization	22,621	1,993	24,614	1,182	25,796	—	25,796
Increase in property, plant and equipment and intangible assets	24,739	3,781	28,520	1,203	29,723	—	29,723

Consolidated Financial Statements and Notes

For the year ended December 31, 2019

	Reportable segments					Thousands of U.S. dollars	
	Tires	Automotive Parts	Subtotal	Other (Note 1)	Total	Adjustments (Note 2) (Note 3)	Amount reported on consolidated financial statements
Net sales							
Sales to outside customers	\$3,037,952	\$406,645	\$3,444,597	\$ 620	\$3,445,217	\$ —	\$3,445,217
Intersegment sales and transfers	9	—	9	721	730	(730)	—
Total	3,037,961	406,645	3,444,606	1,341	3,445,947	(730)	3,445,217
Segment income or loss							
(Operating income or loss)	377,820	(26,652)	351,168	128	351,296	(365)	350,931
Segment assets	3,406,608	259,255	3,665,863	287,834	3,953,697	324,753	4,278,450
Other items							
Depreciation and amortization	211,765	7,905	219,670	9,994	229,664	—	229,664
Increase in property, plant and equipment and intangible assets	352,492	23,631	376,123	13,006	389,129	—	389,129

Note: 1. "Other" is not included in reportable segments. It includes finance loans, purchasing credits to domestic affiliates, real estate businesses and other.

2. "Adjustments" in segment income of ¥(40) million (\$365 thousand) and ¥(32) million at December 31, 2019 and 2018, respectively, comprised the elimination of intersegment transactions.

3. "Adjustments" in segment assets of ¥35,580 million (\$324,755 thousand) and ¥48,209 million at December 31, 2019 and 2018, respectively, comprised mainly cash and cash equivalents and investment securities of the Company.

Relative information

For the year ended December 31, 2019

Information about products and services

This was omitted because the same information was disclosed in the Segment Information.

Information about geographic areas

Net sales

Japan	North America		Other	Total
	United States	Other		
¥104,525	¥175,488	¥16,394	¥81,051	¥377,458

Note: Net sales are classified into countries and regions based on customer location.

Property, plant and equipment

Japan	North America		Other		Total
	United States	Other	Malaysia	Other	
¥69,315	¥81,257	¥889	¥39,878	¥15,741	¥207,080

Information about major customers

The Name of customers	Millions of yen	
	Net Sales	Related segments
American Tire Distributors, Inc.	¥38,054	Tires

For the year ended December 31, 2018

Information about products and services

This was omitted because the same information was disclosed in Segment Information.

Information about geographic areas

Net sales

Japan	North America		Other	Total
	United States	Other		
¥112,000	¥175,627	¥16,456	¥89,137	¥393,220

Note: Net sales are classified into countries and regions based on customer location.

Property, plant and equipment

Millions of yen					
Japan	North America		Other		Total
	United States	Other	Malaysia	Other	
¥69,839	¥80,151	¥53	¥25,553	¥14,707	¥190,303

Information about major customers

This was omitted because there were no outside customers the sales to which comprised over 10% of net sales.

For the year ended December 31, 2019

Net sales

Thousands of U.S. dollars				
Japan	North America		Other	Total
	United States	Other		
\$954,043	\$1,601,752	\$149,636	\$739,786	\$3,445,217

Property, plant and equipment

Thousands of U.S. dollars					
Japan	North America		Other		Total
	United States	Other	Malaysia	Other	
\$632,667	\$741,667	\$8,114	\$363,983	\$143,675	\$1,890,106

[Information on impairment loss on noncurrent assets by reportable segment](#)

For the year ended December 31, 2019

Millions of yen						
	Reportable segments			Other	Eliminations and corporate assets	Total
	Tires	Automotive Parts	Subtotal			
Impairment loss	¥57	¥1,113	¥1,170	¥—	¥—	¥1,170

For the year ended December 31, 2018

Millions of yen						
	Reportable segments			Other	Eliminations and corporate assets	Total
	Tires	Automotive Parts	Subtotal			
Impairment loss	¥—	¥3,583	¥3,583	¥—	¥—	¥3,583

For the year ended December 31, 2019

Thousands of U.S. dollars						
	Reportable segments			Other	Eliminations and corporate assets	Total
	Tires	Automotive Parts	Subtotal			
Impairment loss	\$520	\$10,159	\$10,679	\$—	\$—	\$10,679

Consolidated Financial Statements and Notes

Information on amortization of goodwill and unamortized balance by reportable segment

For the year ended December 31, 2019

	Reportable segments					Millions of yen
	Tires	Automotive Parts	Subtotal	Other	Eliminations and corporate assets	Total
Amortization of goodwill	¥ 186	¥ —	¥ 186	¥ —	¥ —	¥ 186
Balance at end of period	1,123	—	1,123	—	—	1,123

For the year ended December 31, 2018

	Reportable segments					Millions of yen
	Tires	Automotive Parts	Subtotal	Other	Eliminations and corporate assets	Total
Amortization of goodwill	¥ 192	¥ —	¥ 192	¥ —	¥ —	¥ 192
Balance at end of period	1,317	—	1,317	—	—	1,317

For the year ended December 31, 2019

	Reportable segments					Thousands of U.S. dollars
	Tires	Automotive Parts	Subtotal	Other	Eliminations and corporate assets	Total
Amortization of goodwill	\$ 1,698	\$ —	\$ 1,698	\$ —	\$ —	\$ 1,698
Balance at end of period	10,250	—	10,250	—	—	10,250

Information on negative goodwill by reportable segment

Nothing to be noted.

23. Subsequent Events

Introduction of Restricted Stock Compensation Plan

The Company revised its remuneration system for officers and resolved at its Board of Directors meeting held on February 19, 2020 to introduce a restricted stock compensation plan (the "Plan"). The proposal for the Plan was approved and resolved at the 104th Ordinary General Meeting of Shareholders (the "Meeting of Shareholders") held on March 27, 2020.

1. Purpose of introducing the Plan

For the purpose of granting medium to long-term incentives to directors (the "Target directors") excluding the Company's outside directors and sharing shareholder value, the Company will introduce the Plan as a new remuneration system for eligible Directors of the Company and executive officers who do not concurrently serve as Directors (the "Target directors, etc.>").

In addition, it was approved at the Meeting of Shareholders that based on the Plan, as a monetary reward to become a stake in the acquisition of restricted stock the Target directors shall receive monetary compensation receivables up to 50 million yen per year, and the transfer restriction period for restricted stock shall be from the date assigned by this allotment agreement to the time immediately after they retired from a position pre-determined by the Company's Board of Directors.

2. Overview of the Plan

The Target directors, etc., shall pay all monetary compensation receivables provided by the Company as in-kind property under the Plan and issue or receive the Company's common stock. Also, the total number of common shares issued or disposed of by the Company to the Target directors under the Plan shall be no more than 50,000 shares per year, and the amount paid per share shall be determined by the Board of Directors based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of each board resolution (If the transaction is not closed on the same day, the closing price on the last trading day preceding it) to the extent that the amount is not particularly advantageous to the Target directors, etc., who will subscribe for the common shares.

Also, when issuing or disposing of the Company's common stock under the Plan, a restricted stock allotment agreement will be concluded between the Company and the Target directors, etc. Its contents shall include that ①The Target directors, etc., must not transfer, set security interests or dispose of the Company's common stock allocated under the restricted stock allotment agreement for a certain period of time and that ②If certain events occur, the Company will acquire the common stock free of charge, etc.

Independent Auditor's Report

To the Board of Directors of Toyo Tire Corporation :

We have audited the accompanying consolidated financial statements of Toyo Tire Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income and 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.

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 misstatement, 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 judgment, 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 Corporation and its consolidated subsidiaries as at December 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attentions to :

Note 18 "Contingent Liabilities" to the consolidated financial statements, specifically section 1 of the note, which describes the fact that some seismic isolation rubber that Toyo Tire Corporation and its subsidiary had been manufacturing and selling did not conform to ministry certification performance standards. Based on the incident, a provision for product compensation was posted for an amount that can be reasonably estimated for the cost of repair work and other measures. Depending upon the progress status, Toyo Tire Corporation and its consolidated business results for future fiscal years may be impacted by posting additional reserves.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2019 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

April 20, 2020
Osaka, Japan

Domestic Facilities (As of December 31, 2019)

Headquarters (Hyogo)

Tokyo Branch (Tokyo)

Nagoya Office (Aichi)

Hiroshima Office (Hiroshima)

Sendai Plant (Miyagi)

Kuwana Plant (Mie)

Hyogo Manufacturing Complex (Hyogo)

Corporate Technology Center (Hyogo)

Tire Technical Center (Hyogo)

Automotive Parts Technical Center (Aichi)

Miyazaki Tire Proving Ground (Miyazaki)

Saroma Tire Proving Ground (Hokkaido)

Consolidated Subsidiaries (As of December 31, 2019)

● Tire Business ● Automotive Parts Business ● Other Business

Japan

- Fukushima Rubber Co., Ltd.
- Toyo Soflan Co., Ltd.
- Ayabe Toyo Rubber Co., Ltd.
- Toyo Tires Logistics Co., Ltd.
- Toyo Tire Japan Co., Ltd.
- Nitto Japan Co., Ltd.
- Toyo Chemical Industrial Products Co., Ltd.
- Showa Estate Co., Ltd.
- Orient Machinery Co., Ltd.
- F.T.G Co., Ltd.
- Sendai Service Co., Ltd.
- Kuwana Service Co., Ltd.

The Americas

- TOYO TIRE HOLDINGS OF AMERICAS INC. (U.S.A.)
- TOYO TIRE U.S.A. CORP. (U.S.A.)
- NITTO TIRE U.S.A. INC. (U.S.A.)
- TOYO TIRE NORTH AMERICA OE SALES LLC (U.S.A.)
- TOYO TIRE NORTH AMERICA MANUFACTURING INC. (U.S.A.)
- TOYO AUTOMOTIVE PARTS (USA), INC. (U.S.A.)
- TMM (USA), INC. (U.S.A.)
- TOYO TIRE CANADA INC. (Canada)
- NITTO TIRE CANADA INC. (Canada)
- NT MEXICO S. DE R.L. DE C.V. (Mexico)
- TOYO AUTOMOTIVE PARTS DE MEXICO, S.A. DE C.V. (Mexico)

Europe

- TOYO TIRE EUROPE GMBH (Germany)
- TOYO TIRE DEUTSCHLAND GMBH (Germany)
- TOYO TYRE (UK) LTD. (U.K.)
- TOYO TIRE BENELUX B.V. (Netherlands)
- TOYO TIRE ITALIA S.p.A. (Italy)
- TOYO TIRE RUS LLC (Russia)

Oceania

- TOYO TYRE AND RUBBER AUSTRALIA LTD. (Australia)

Asia

- SILVERSTONE BERHAD (Malaysia)
- SILVERSTONE MARKETING SDN BHD (Malaysia)
- SILVERSTONE POLYMER INDUSTRIES SDN BHD (Malaysia)
- TOYO TYRE MALAYSIA SDN BHD (Malaysia)
- TOYO TYRE SALES AND MARKETING MALAYSIA SDN. BHD. (Malaysia)
- TOYO RUBBER CHEMICAL PRODUCTS (THAILAND) LIMITED (Thailand)
- TOYO TIRE (THAILAND) CO., LTD. (Thailand)
- TOYO TIRE (SHANGHAI) CO., LTD. (China)
- TOYO TIRE ZHANGJIAGANG CO., LTD. (China)
- TOYO TIRE (ZHUCHENG) CO., LTD. (China)
- TOYO AUTOMOTIVE PARTS (GUANGZHOU) CO., LTD. (China)

Investor Information

Stock Information (As of December 31, 2019)

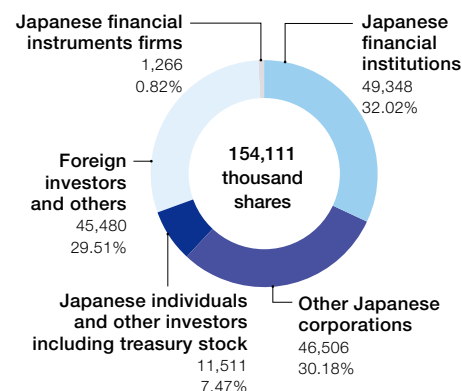
Common Stock:	Authorized 400,000,000 shares Issued 154,111,029 shares
Number of Shareholders:	11,569
Shareholder Register Administrator and Transfer Account Management Institution for Special Account:	Mitsubishi UFJ Trust and Banking Corporation
Independent Auditors:	KPMG AZSA LLC
Fiscal Year:	January 1–December 31
Annual General Meeting of Shareholders:	March

Major Shareholders

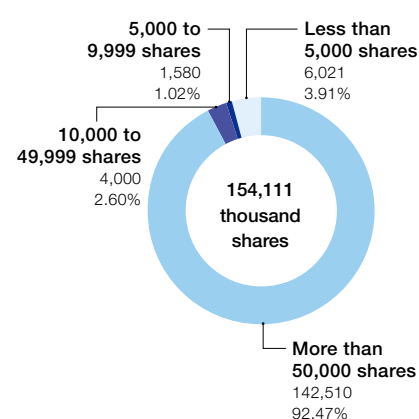
Shareholders	Number of holding shares (Thousands)	Percentage of share ownership* (%)
Mitsubishi Corporation	30,822	20.02
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,706	6.95
Japan Trustee Services Bank, Ltd. (Trust Account)	10,638	6.91
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,031	3.91
Bridgestone Corporation	5,000	3.24
Toyota Motor Corporation	4,774	3.10
ORBIS SICAV	4,130	2.68
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL ACCOUNT NO.1	3,776	2.45
MUFG Bank, Ltd.	2,823	1.83
SSBTC CLIENT OMNIBUS ACCOUNT	2,391	1.55

* Percentage of share ownership is calculated excluding treasury stock (188,222 shares).

Breakdown by Shareholder Type



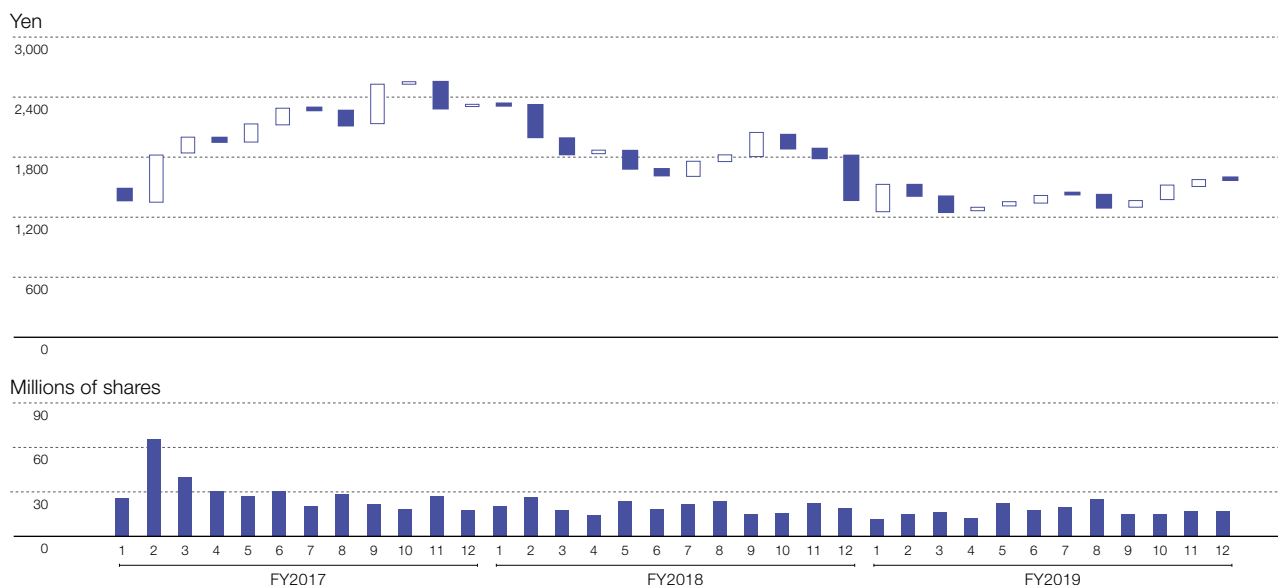
Breakdown by Number of Holding Shares



Rating Information (As of the date of this report's publication)

Rating institution	Rating assigned	Rating	Announced
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating	BBB+	October 21, 2019

Stock Price Range and Trading Volume (Tokyo Stock Exchange)





Corporate Data (As of December 31, 2019)

Company Name:	Toyo Tire Corporation
Website:	https://www.toyotires-global.com/
Founded:	August 1, 1945
Paid-in Capital:	¥55,935,326,411
Number of Consolidated Subsidiaries:	41 (Japan, 12; Overseas, 29)
Number of Employees:	13,132 (Consolidated, Excluding Temporary Employees)

Toyo Tire Corporation

Corporate Administration Division,
Corporate Administration Department

2-2-13 Fujinoki, Itami City, Hyogo 664-0847, Japan
Tel: +81-72-789-9111

The names of products, services, and other items in this report are the registered trademarks of Toyo Tire Corporation.