

Financial Strategy and Shareholder Return Policy



Working to enhance corporate value while striking a balance between financial soundness and capital efficiency.

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Under YOKOHAMA Transformation 2023 (YX2023), our medium-term management plan, we are working to further increase sales revenue and profitability while boosting our ability to generate cash through organic business growth. Aimed at achieving growth through our financial capital strategy, we continue focusing on four key issues; namely (1) increasing earnings power by exploiting existing businesses and exploring ways to address market changes, (2) improving capital efficiency by increasing the business asset turnover rate, (3) ensuring and sustaining financial stability by balancing growth investments with greater capital efficiency and reduced liabilities, and (4) building internal reserves while maintaining a stable dividend and allocating these funds to growth areas while maintaining an appropriate level of financial leverage.

Progress of Medium-Term Management Plan

Under YX2023, which kicked off in fiscal 2021, we aim to achieve our best performance ever by simultaneously pursuing the “Exploitation”

of strengths in existing businesses while “Exploration” to create new value in the Midst of a Once in a Century Transformation.

Financial Position

(Billions of yen)

	FY2018	FY2019	FY2020	FY2021	FY2022
Sales revenue	650.2	650.5	551.1	670.8	860.5
Business profit	59.3	50.1	35.9	62.2	70.1
Business profit margin (%)	9.1	7.7	6.5	9.3	8.1
Operating profit	53.5	58.6	36.0	83.6	68.9
Operating profit margin (%)	8.2	9.0	6.5	12.5	8.0
Profit attributable to owners of parent	35.6	42.0	26.3	65.5	45.9
Total assets	855.8	907.6	860.4	985.0	1,151.1
Interest-bearing debt	260.4	239.9	207.8	177.2	238.7
Total liabilities	473.4	479.9	437.5	452.0	528.0
Equity	382.4	427.7	422.9	533.0	623.1
ROE (return on equity) (%)	9.5	10.6	6.3	13.9	8.1
D/E ratio (times)	0.70	0.57	0.50	0.34	0.39
Net D/E ratio (times)	0.61	0.51	0.43	0.26	0.27
ROIC (%)	6.1	6.5	4.5	8.2	5.2

In fiscal 2022, we recorded sales revenue of ¥860.5 billion and business profit of ¥70.1 billion as a result of efforts to improve the MIX, raise prices, and expand sales. With regard to capital efficiency, ROIC was 5.2% and ROE was 8.1% thanks to our initiatives to increase profitability and divest real estate holdings and cross-shareholdings. In addition, the D/E ratio stood at 0.39 times and the net D/E ratio 0.27 times, enabling us to secure sufficient debt capacity for growth investments. Even in an uncertain environment, our robust financial base was highly evaluated and we were able to raise funds in a variety of ways. The acquisition of Trelleborg Wheel Systems Holding AB

(TWS) was completed in May 2023 at an acquisition price of ¥307.2* billion with the aim of strengthening our footprint in commercial tires. Based on a financial base supported by strong relationships with banks, we have reduced the cost of capital by raising funds for growth investments through bank borrowing within the range of appropriate financial leverage and achieved a sustainable enhancement of corporate value. In this manner, we have been able to secure investment funds in growth areas while maintaining a JCR credit rating of A+.

* The enterprise value was estimated at 2,074 million euro (using a performance-linked earn-out method)

Investments in Intellectual Capital and Human Capital

The theme of YX2023 is to maximize corporate value by actively investing for future growth and balancing both profit growth and increased capital efficiency. In terms of investment in human capital, we have made digital investment for work style reforms, educational

investment, and recruitment investment, greatly transforming the way employees work over the past three years. We are investing in human and intellectual capital that will support the future of our business.

Strengthening Cash Management

In terms of cash management, we will generate operating cash flow through solid operations and use the cash generated from asset disposals to repay debts to improve our financial position. While promoting existing businesses that maintain high utilization rates through "Exploitation" and "Exploration," creating operating cash flow

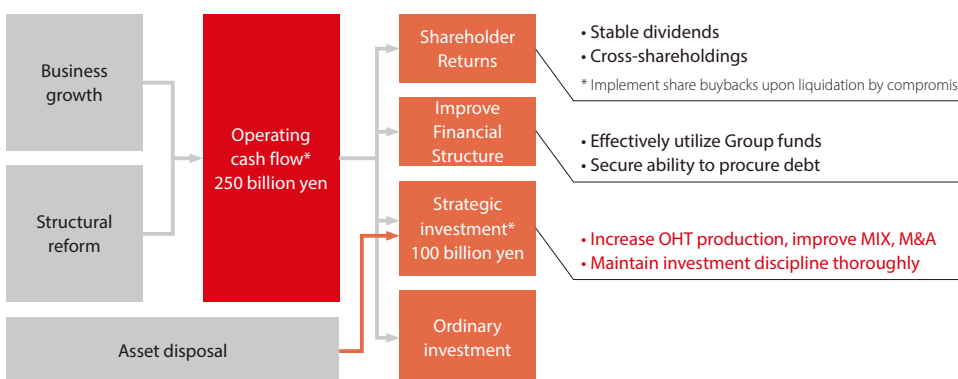
through early inclusion of TWS, and making growth investments (increasing production, improving MIX), we will curb investment cash flow by continuing to sell non-operating assets and reduce external debts by effectively utilizing the Groups funds, including TWS.

Funding and Capital Costs

Fundraising is conducted by the most appropriate means, such as our own funds, borrowing, or the sale of assets, according to various conditions such as the timing and amount necessary for the business. When raising funds by increasing debt, it is our policy to

maintain financial discipline ensuring that our JCR issuer rating stays at A+. In addition, we calculate and determine the hurdle rate adopted for investment decisions for each individual project based on interest rates, country risk, and expected rate of return.

Capital Allocation



* Cumulative total over three years (2021 to 2023)

Together with operating cash flow earned from organic growth over the three years of YX2023 and cash from asset disposals, we will allocate funds in a well-balanced manner to growth investments, shareholder returns, and debt repayment. Specifically, cash will be allocated to investments, improving our financial position, and shareholder returns, and the maintaining financial discipline with a JCR issuer rating of A+, while optimizing liabilities and assets, as necessary.

Financial Strategy and Shareholder Return Policy

Approach to Shareholder Returns

We consider the improvement of TSR as an important management issue in order to enhance corporate value through the implementation of shareholder returns based on medium- to long-term business plans and appropriate stock price formation. We will continue to pay dividends while securing internal funds to implement capital investment and R&D, which are essential for maintaining market

competitiveness and improving earnings. Dividends will be determined by holistically taking into account performance trends, financial position, dividend payout ratio, and other factors. We are committed to paying continuous dividends and returning profits from business growth to our shareholders.

TSR (10 years, dividends included)



Investment period	1 year	3 years		5 years		10 years	
	Cumulative/ annualized	Cumulative	Annualized	Cumulative	Annualized	Cumulative	Annualized
Yokohama Rubber	+15.2%	+5.7%	+1.9%	-13.9%	-3.0%	+106.9%	+7.5%
TOPIX	-2.5%	+18.1%	+5.7%	+17.2%	+3.2%	+174.2%	+10.6%

*Total shareholder return (TSR): Total rate of return on investment that combines capital gains with dividends

*TSR for Yokohama Rubber is calculated based on cumulative dividends and stock price fluctuations. TSR for TOPIX is calculated with a stock price index including dividends. (Created by Yokohama Rubber using Bloomberg data and other sources.)

*TSR values are index numbers calculated by setting the market closing price as of December 31, 2012 as 100. (Holding period ends December 31, 2022)

ROIC Management

We have introduced ROIC as a business management indicator. We are using it as an indicator of how much profit we were able to generate from the funds invested in our business. In order to improve ROE and enhance corporate value, it is necessary to exceed WACC,

which is the cost of raising investment capital, at the very minimum, and we are promoting management that is conscious of capital costs in addition to profitability.

Ensuring Financial Stability

Ensuring the stability of our financial base is an important management issue. We have set a financial target to keep our D/E ratio at less than 0.4 times, and while maintaining a JCR credit rating of A+ as a financial discipline, and we are returning profits with an awareness of shareholder returns, such as via growth investments and stable dividends. Our ability to generate cash has steadily improved, and we have secured sufficient debt capacity for growth investments.



Importance of Dialogue with Markets

We place importance on dialogue with the capital markets, and we believe that it is necessary to fulfill our accountability to shareholders and to demonstrate that our shareholder returns are appropriate. It is also important to obtain perspectives, suggestions, and advice from the capital markets through dialogue.

Going forward, we will need to examine how corporate value is formed with intangible assets such as human capital and intellectual assets, and how non-financial capital is linked to financial value. We hope to build relationships of trust with the capital markets through engagement.

