ANNUAL REPORT 2017

The Yokohama Rubber Co., Ltd. Year ended December 31, 2016

YOKOHAMA

Established 1917: Celebrating 100 Years

The Yokohama Rubber Co., Ltd. was established in Yokohama in 1917 with a view to domestic production of rubber products — indispensable to Japan' s modernization process — and doing our part for society by manufacturing high-quality rubber products.

On the occasion of our 100th anniversary, officially October 13th, 2017, we are pleased to present a new vision to mark the launch of our next century of growth and of working for an affluent future for people around the world.

100th Anniversary Logo
The five red line motif represents the YOKOHAMA identity in a dynamic shape indicating the Company's spirit of moving strongly forward into the future. The interlinked 0s represent the mutual respect and spirit of cooperation between the Company, its markets, and everyone related to YOKOHAMA as we move forward together to create the next 100 years.

PROFILE

The Yokohama Rubber Co., Ltd., established in 1917, is a leading tire manufacturer. It has also deployed its polymer expertise in several lines of diversified business, including high-pressure hoses, sealants and adhesives, other industrial products, aircraft fixtures and components, and golf equipment. Yokohama is laying a foundation for sustainable growth in tires and in diversified products in Japan and overseas by developing high-functionality products and by expanding its production capacity.

BASIC PHILOSOPHY

To enrich people's lives and contribute to their greater happiness and well-being by devoting our wholehearted energies and advanced technology to the creation of beneficial products.

MANAGEMENT POLICIES

Take on the challenge of new technologies to produce new value.
Develop proprietary business fields to expand the scope of business.
Create a workplace that values, improves and energizes people.
Deal fairly with society and value harmony with the environment.

ACTION GUIDELINES

Develop ourselves so that we may give our personal best.
Trust, challenge and improve one another.
Nurture a welcoming, open spirit.

CORPORATE SLOGAN

Excellence by nature

CONTENTS

Forward-Looking Statements
This annual report contains forward-looking estimates and forecasts based on management's plans, which are subject to unforeseeable risks and uncertainties. The Company's business results could differ significantly from those estimates and forecasts.

TO OUR STAKEHOLDERS

Our profit attributable to owners of parent declined 48.3% in fiscal 2016 (January to December 2016), to ¥18.8 billion, on declines of 22.4% in operating income, to ¥42.3 billion, and 5.3% in net sales, to ¥596.2 billion. We paid an annual dividend of ¥52 per share, which comprised interim and year-end dividends of ¥26.

The downturns in sales and earnings resulted from overseas weakness in our Tires segment, which reflected the appreciation of the yen and declining prices, and weakness in our MB (Multiple Business) segment, which reflected slumping demand. Those developments occurred amid a contrasting mix of macroeconomic trends. The US economy expanded gradually, and economic growth in China appeared to have stabilized after a period of slowing. Economic uncertainty mounted in Europe, however, in the wake of the UK vote to exit the European Union. In Japan, economic recovery proceeded gradually despite the adverse effect of the appreciating yen on exports in the first half. Supporting the recovery were increased public works spending in autumn and the weakening of the yen after the US presidential election.

We continue working to fulfill the goals of our medium-term management plan, Grand Design 100, which we adopted in 2006. Grand Design 100 extends to 2017 and comprises four three-year phases. In the culminating Phase IV, we are concentrating on the theme "All for Growth—Focusing our energy on growth." Our chief financial targets for Phase IV were to achieve annual net sales of ¥770.0 billion and annual operating income of ¥80.0 billion by 2017. Our latest projections for 2017 are below those figures. The shortfall is chiefly on account of unanticipated adverse developments in the business environment.

Our projections for 2017, our centennial year, call for profit attributable to owners of parent to increase 59.7%, to ¥30.0 billion, on a 12.2% increase in operating income, to ¥47.5 billion, and a 10.7% increase in net sales, to ¥660.0 billion. We will adopt the International Financial Reporting Standards (IFRS) in fiscal 2017. Recalculating the fiscal 2017 projections under those standards results in projections of ¥51.0 billion for operating profit and ¥635.0 billion for sales revenue.

Our centennial, which we will mark this October, is of course a hugely significant juncture in our corporate history. We are determined to accompany this important anniversary with progress in tackling our immediate goals and in laying the groundwork for a second century of growth. And we welcome your careful attention to our efforts and our results.

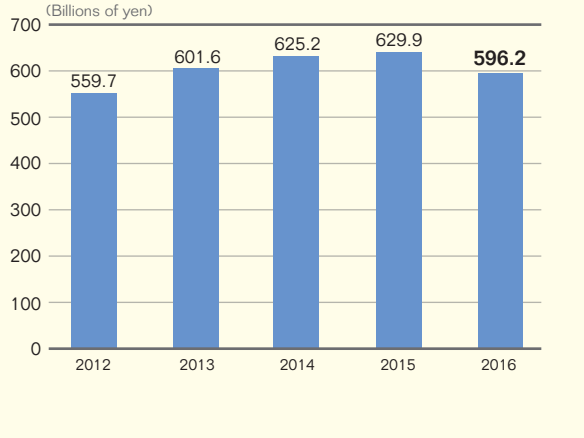
May 2017

Tadanobu Nagumo (*right*)
Chairman and Representative Member of the Board

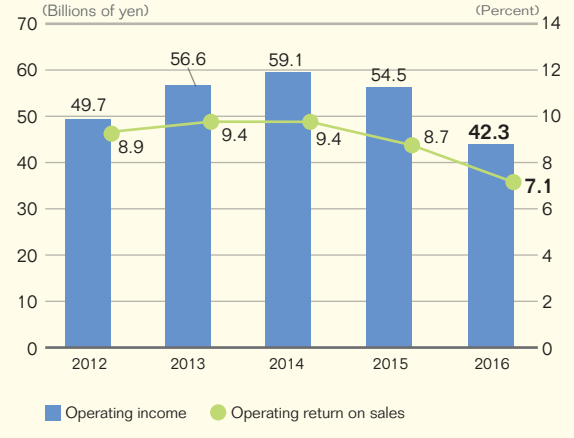
Masataka Yamaishi
President and Representative Member of the Board

FINANCIAL HIGHLIGHTS

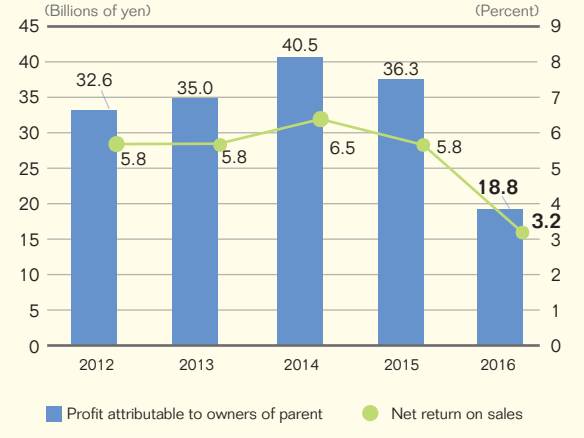
Net Sales



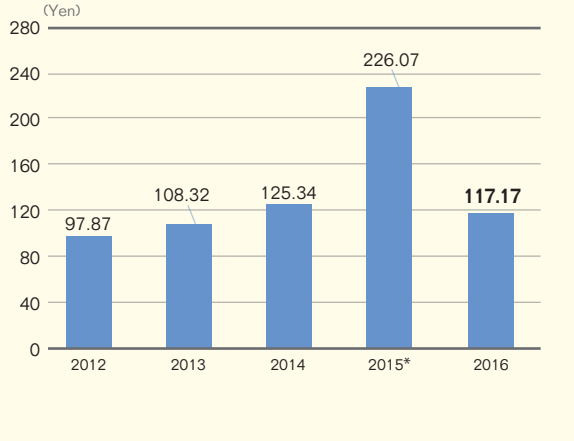
Operating Income and Operating Return on Sales



Profit Attributable to Owners of Parent Net Return on Sales

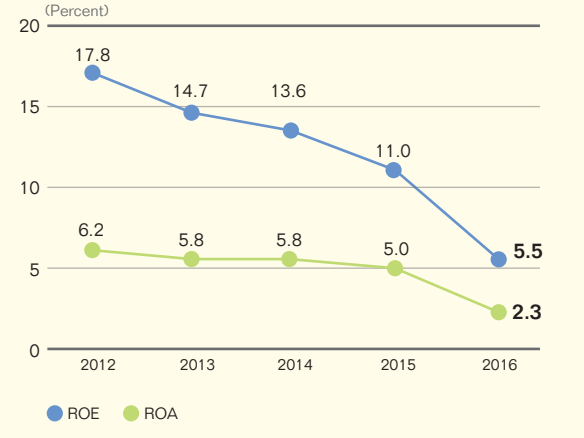


Profit Attributable to Owners of Parent per Share

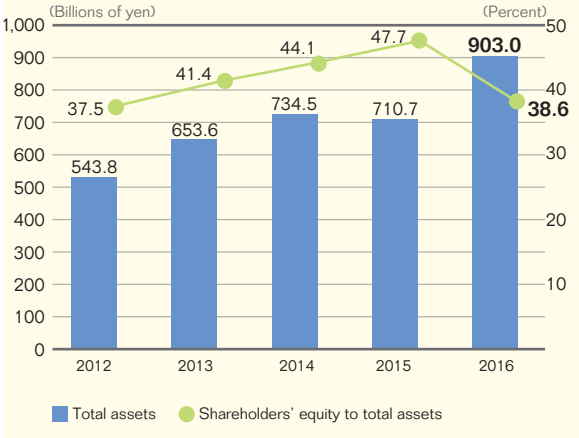


* A one-for-two share merger conducted on July 1, 2015, halved the number of Yokohama shares outstanding, and the year-end dividend reflects that merger.

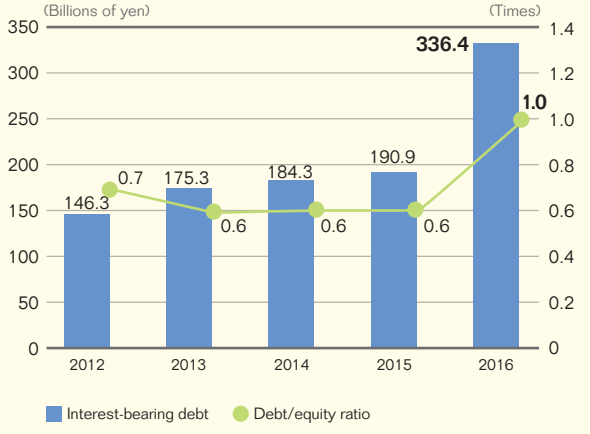
Return on Shareholders' Equity (ROE) and Return on Assets (ROA)



Total Assets and Ratio of Shareholders' Equity to Total Assets

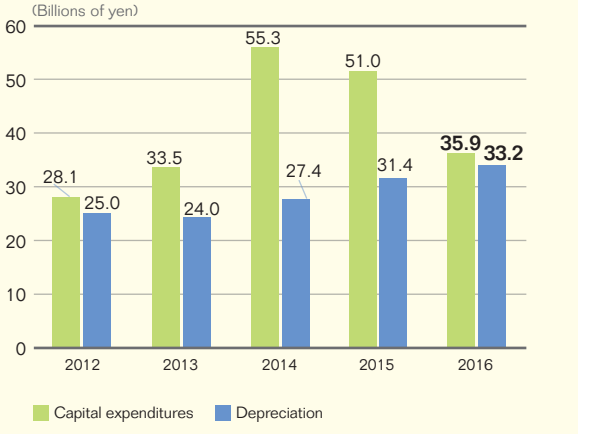


Interest-Bearing Debt and Debt/Equity Ratio*

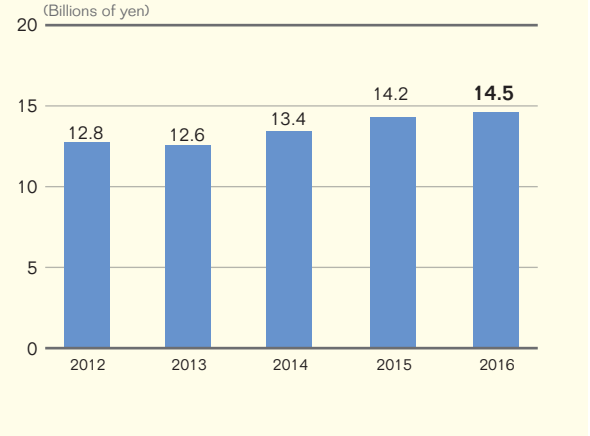


* Interest-bearing debt divided by net assets less non-controlling interests

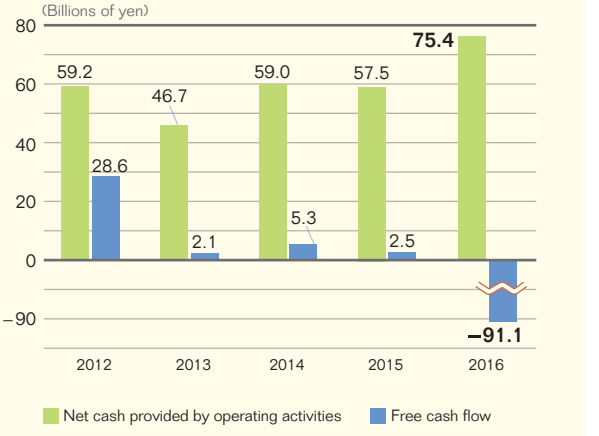
Capital Expenditures and Depreciation



R&D Expenditures

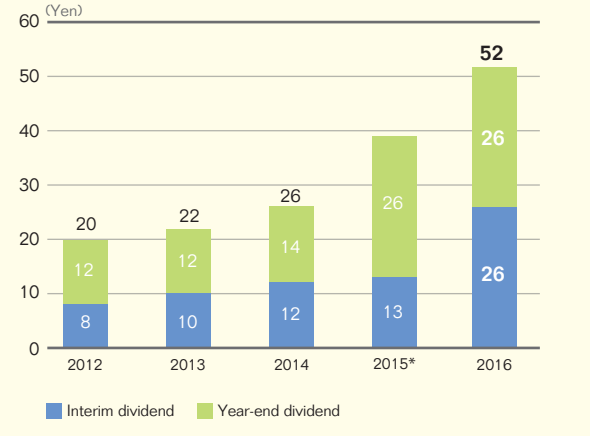


Net Cash Provided by Operating Activities and Free Cash Flow*



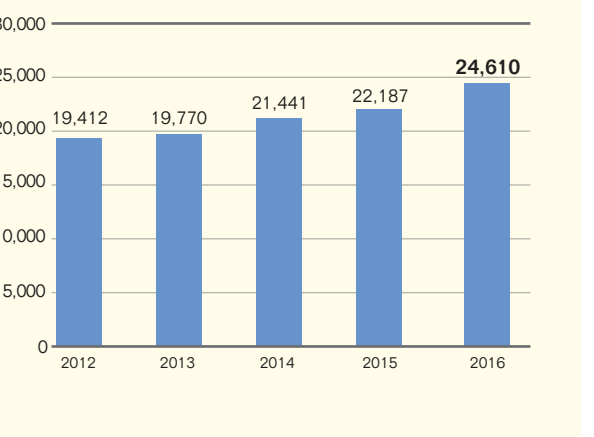
* Net cash provided by operating activities less net cash used in investing activities

Cash Dividends per Share



* A one-for-two share merger conducted on July 1, 2015, halved the number of Yokohama shares outstanding, and the year-end dividend reflects that merger. The aggregate annual dividend accords with the projection announced by Yokohama Rubber in February 2015, adjusted for the share merger.

Employees



Grand Design 100 Medium-Term Management Plan

We launched the medium-term management plan Grand Design 100 in 2006 as a roadmap for the 12 years to our centennial in 2017. The plan comprises four three-year phases. Two thousand sixteen was the second year of the concluding phase of Grand Design 100.

— GD100 Vision and Basic Policy —

By Our Centenary in 2017

To evoke a distinctive global identity in building corporate value and in building a strong market presence

Long-Term Financial Targets*
(year to December 31, 2017)

Net sales: ¥1 trillion
Operating income: ¥100 billion
Operating profit margin: 10%

Basic Policy

Deliver the best products at competitive prices and on time

Assert world-class strengths in technologies for protecting the environment

Foster a customer-oriented corporate culture that honors rigorous standards of corporate ethics

*Targets as established in 2006. Subsequent developments in the business environment have obliged us to extend the time horizon for attaining the targets to 2020 and beyond.

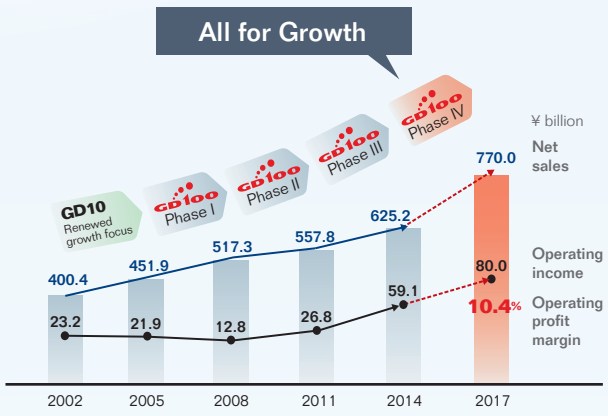
Grand Design 100 Phase IV 2015–2017

● Theme:

All for Growth

Focusing our energy on growth

We are working in Phase IV to resolve issues that have arisen during the first three phases, to culminate Grand Design 100 on a positive note, and to set the stage for progress in our company's second century. Our work in the first three phases of Grand Design 100 fostered growth momentum and growth potential in individual units and in our organization overall. In Phase IV, we initially aimed to consolidate that momentum and potential with an eye to attaining annual net sales of ¥770.0 billion, annual operating income of ¥80.0 billion, and an operating profit margin of 10.4% by 2017. Our latest projections for 2017 suggest, however, that we will fall short of those targets.



Basic Approach in Phase IV

Maximize Customer Value and Expand Our Global Scope to Remain a Leader in the Tire and Rubber Industry for Another 100 Years

Channel all our activity company-wide into maximizing customer satisfaction

Offer distinctive, Yokohama-like products

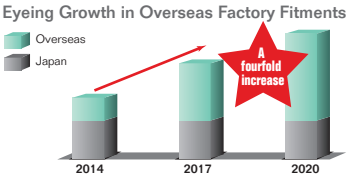
Undertake vigorous investment based on a strong financial position

Tire Strategy

Allocate More Resources to Winning Business with Automakers

In appealing to automakers, we will deploy world-class fuel-saving technology to serve the automakers' needs and to thus win more technological approvals and more vehicle fitments worldwide. Our targets are to increase our annual unit deliveries to automakers overseas fourfold by 2020, compared with 2014.

Eyeing Growth in Overseas Factory Fitments



High-profile factory fitments ADVAN Sport V105

Strengthen Our Presence in Our Principal Markets

Our partnership agreement with the English Premier League's Chelsea Football Club and our vigorous activity in motor sports raise our profile in the world's largest tire markets—China, Europe, and North America—and in tire markets where we have an especially strong position, such as Japan and Russia. We are also strengthening our presence in priority markets through expanded production capacity. We have earmarked ¥120.0 billion for investment in expanding tire production capacity during the three years of Phase IV. That investment will increase our annual production capacity to 75 million tires by 2018 year-end, from 68 million at 2014 year-end.

Visual advertising featuring Chelsea FC

Expand Business in Commercial Tires

Two recent acquisitions have fortified our business in commercial tires: the July 2016 acquisition of Alliance Tire Group B.V., which specializes in manufacturing and marketing off-highway tires, and the March 2017 acquisition of Aichi Tire Industry Co., Ltd., which manufactures and markets tires for forklifts and other industrial machinery. Meanwhile, our truck and bus tire plant in Mississippi, opened in 2015, has expanded our local production in a principal market.

Off-highway tires for agricultural machinery

Multiple Business (diversified products) Strategy

Expand Business Globally in Automotive Components

We are building production and sales networks to serve automakers worldwide. And we will apply high-value-added technologies to automotive hoses and sealants.

Automotive hoses

Build on Our Market Leadership in Marine Products

Our strategy in marine products centers on fortifying our already-large global market share in pneumatic marine fenders and in marine hoses. In marine products, we have begun the full-scale marketing of marine hoses produced at our Italian plant under the Yokohama Seaflex brand. And we have begun producing pneumatic marine fenders at our marine products plant in Indonesia.

Marine hoses

Strengthen Our Position in the Mining and Construction Sectors Worldwide

We will develop business worldwide in hydraulic hoses for construction equipment. Our supply capacity in hoses increased with the 2015 start-up of a plant we built in China. In conveyor belts, we will incorporate leading-edge technology to appeal to customers with advances in durability and in energy-saving performance.

Conveyor belts

Foster Growth in New Ventures Based on Original Technologies

We are fostering growth in new ventures, meanwhile, by deploying original technologies. That includes establishing a foothold in the fuel cell vehicle sector with hoses for hydrogen stations and supplying hard coatings for the fast-growing smartphone sector.

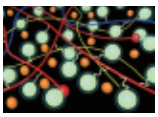
Hard coatings (such as for blocking blue light)

Fuel cell business (artist's rendering of hydrogen station)

Technology Strategy

Open a New Phase for Yokohama Technology

We will apply our advanced recycling technologies to improve resource efficiency. And we will develop materials and technologies for minimizing environmental impact through molecular engineering.



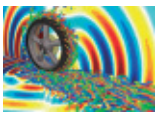
Computer rendering of molecular structure

Earn Customer Satisfaction with Yokohama Quality

Unifying tire specifications at a high level at our plants worldwide will support increased flexibility in serving demand. And we augmented our tire-development capabilities by supplementing our development centers in Japan, China, and Thailand with a new US center in September 2016.

Lay a Next-Generation Technological Foundation

Joint R&D with other companies and organizations will speed our work in developing next-generation technologies.



Simulation of fluid acoustics around a tire

Common Strategy for All Operations

In Phase IV, we are tapping external resources through stepped-up activity in corporate acquisitions and alliances. We will work to reduce costs by ¥30 billion during Phase IV through our *mudadori* cost-cutting activities, under way since 2006. In addition, we will continue working to foster human resources capable of functioning in a global context and will adopt the International Financial Reporting Standards (IFRS) in 2017.

Corporate Social Responsibility

We work to fulfill our corporate responsibility in accordance with our CSR Management Vision, issued in 2008, and with the basic policy of Grand Design 100. Our approach centers on seven priorities established in 2010 on the basis of the ISO 26000 seven core subjects.

Seven Priorities

- Organizational governance
- Human rights
- Labor practices
- Environment
- Fair operating practices
- Consumer issues
- Community involvement and development

Message from Newly Named President Masataka Yamaishi

Positioning Yokohama to Keep Growing even through Times of Adverse Business Conditions

I became the president of Yokohama on March 30, 2017. The timing of my appointment, coinciding with our company's centennial, heightens the attendant sense of responsibility. I am keenly aware of the role expected of me in positioning Yokohama for continued growth in its second century.

Masataka Yamaishi

President

Fifty-four years old
Yamaishi's duties before being named president included heading the MD Promotion Department, the Secretariat Department, Yokohama Europe GmbH, the Corporate Planning Department, and the Tire Business Planning Division. Most recently, he has headed our Tire Business and, in a continuing position, the Corporate Planning Division.In the Corporate Planning Division, Yamaishi was instrumental in drafting our medium-term management plan, Grand Design 100.

Our 2016 Performance

We posted a decline of 5.3% in net sales in 2016, to ¥596.2 billion; a decline of 22.4% in operating income, to ¥42.3 billion; and a decline of 48.3% in profit attributable to owners of parent, to ¥18.8 billion. Those declines reflected adverse business conditions, including an overall weakening of demand, the appreciation of the yen, and escalating price competition. The adverse conditions more than offset our continuing progress in fortifying our corporate vitality with appealing new products, with stepped-up marketing, and with cost reductions.

Grand Design 100

We have entered the final year of the fourth and culminating three-year phase (2015 to 2017) of our medium-term management plan, Grand Design 100. The Grand Design 100 Phase IV priorities for our tire operations call for allocating more resources to winning business with automakers worldwide, strengthening our presence in principal markets, and expanding business in commercial tires. In our MB segment, we are working in Phase IV to expand business globally in automotive components, to build on our market leadership in marine products, to strengthen our position in the mining and construction sectors worldwide, and to foster growth in new ventures based on original technologies. We are tackling initiatives throughout our operations to fulfill fiscal projections for the year that we announced in February 2017: net sales of ¥660.0 billion, operating income of ¥47.5 billion, and profit attributable to owners of parent of ¥30.0 billion.

Growth in Original Equipment and in China

We marked important progress in 2016 in addressing our Grand Design 100 emphasis on winning business with automakers worldwide. Our business growth in the original equipment sector was especially robust in the huge Chinese market. Automakers there contend with increasingly stringent fuel-economy regulations, and that has stimulated demand for our fuel-saving tires. Chinese consumers place a great deal of confidence in the original equipment tires on their vehicles, so our expanding business with automakers in China bodes well for our business in the replacement market there.

We took a step toward fortifying our original equipment business in March 2016 by dissolving our joint venture with Continental AG. That joint venture was a marketing platform for serving Japanese and Korean automakers with tires under both companies' brands. We will focus hereafter on serving automakers everywhere with tires under our own brand. That will include stepping up our marketing to US and European automakers.

Yokohama is one of the world's few tire manufacturers capable of meeting automakers' demanding criteria for original equipment purchasing. Our superior technological attainment has earned business with leading automakers worldwide. All of Japan's principal automakers install our tires as factory equipment. We have also earned fitments on models from several other automakers, including high-profile fitments on premium, high-performance models. And our tire offerings are attracting interest from a broadening spectrum of automakers. We aim to increase our unit shipments to automakers fourfold by 2020, compared with 2014. And we are pursuing a long-term goal of winning a 10% share of the original equipment market worldwide.

Visual advertising features Chelsea FC

Benefits from the Chelsea Partnership Agreement

We are undertaking several initiatives in connection with the Grand Design 100 emphasis on strengthening our presence in our principal markets. Highlighting those initiatives is our partnership agreement with a standout in the English Premier League, the Chelsea Football Club (Chelsea FC). That agreement, which took effect in July 2015, raises our profile in the world at large. It has already generated a visible contribution to our marketing effort in Europe, in Asian nations, and elsewhere.

We accompany our rising market profile with optimized global production for serving demand in the world's largest markets, North America, Europe, and China, and in two large markets where we assert special strengths, Japan and Russia. Our plans call for expanding our annual production capacity to 75 million tires by the end of 2018. We cultivate and serve demand, meanwhile, through a growing global network of marketing channels. Those channels center on the Yokohama Club Network of affiliated tire dealers.

A Fortified Presence in Commercial Tires through Acquisitions

Important initiatives are also addressing our third Grand Design 100 emphasis in tires: expanding business in commercial tires. Those tires are technologically demanding and therefore enable us to assert a compelling edge over low-cost competitors based in emerging nations. Our initiatives in commercial tires have included two recent acquisitions.

We acquired Alliance Tire Group, a company that specializes in manufacturing and marketing off-highway tires, in July 2016, and Aichi Tire Industry, which manufactures and markets tires for forklifts and other industrial machinery, in March 2017. Those acquisitions have secured for us a new presence in tires for agricultural and forestry machinery and the largest share of Japan's market for forklift tires. They have increased the weighting of commercial tires in our tire sales portfolio to 32%, from 20% before the acquisitions. Alliance Tire Group, especially, brings to our organization its historical momentum of high profitability and steady growth.

Joining hands with Alliance Tire Group and with Aichi Tire Industry offers diverse possibilities for generating synergies. A good example is a new line of cost-competitive passenger car tires that we launched in May 2017 in Europe under the Alliance name. Alliance Tire Group enjoys excellent name recognition in Europe, and our new brand gives us a vehicle for coping with low-cost competitors in Europe without compromising the Yokohama brand.

Automotive and Marine Emphases in the MB Segment

We are reexamining our broad-ranging MB product portfolio and will focus resources on items that offer the best profitability and growth potential. That will include addressing our Grand Design 100 emphases on expanding business globally in automotive components and building on our market leadership in marine products. We underpin our presence in both of those product categories with production capabilities located near our principal markets.

Our production network comprises plants for high-pressure hoses, including automotive hoses, in six nations and plants for marine products in three nations. In 2016, we took several measures to strengthen network and to exercise its capacity more effectively. Those measures included increasing shipments of oil hoses for diesel turbochargers to a Japanese automaker from a Thai plant, consolidating two formerly separate production platforms for automotive components in Nagano Prefecture at a single plant, commencing full-scale marketing of Seaflex-brand marine hoses produced at our Italian plant, and inaugurating production of pneumatic marine fenders in Indonesia.

Sustainable Vitality in Our Second Century

A corporation is responsible for achieving lasting, profitable growth, even through times of adverse business conditions, and for fulfilling management's pledges to investors. My duties as president center on fostering the corporate vitality essential to fulfilling those responsibilities in Yokohama's second century.

Yokohama, in its first century, has built world-class capabilities in technological development. Those capabilities have spawned numerous breakthrough products, and I am determined to do my part in continuing to assert those capabilities in Yokohama-like breakthroughs.

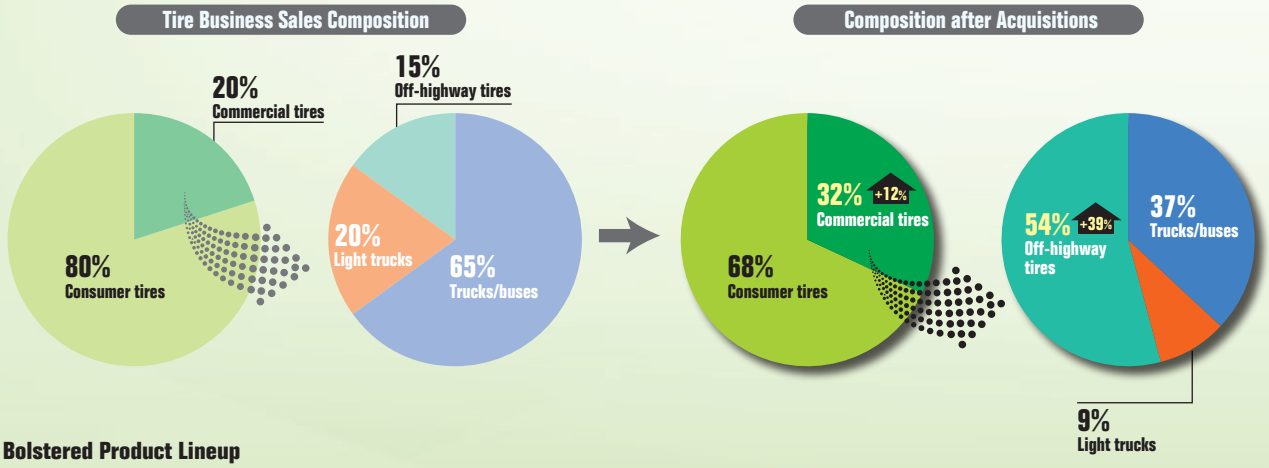
The world tire industry comprises more than 200 manufacturers. Basic competence in manufacturing and product development is, in itself, insufficient to ensure lasting corporate viability. To achieve sustainable growth, we need to position Yokohama as a market presence whose name and brands convey a distinctive identity. I will focus on honing our world-class strengths in technology and product innovation with an eye to capturing the imagination of customers worldwide.

Pursuing Further Growth through Strengthened Business in Commercial Tires

Expanding business in commercial tires is a core emphasis in our tire-sector growth strategy in Phase IV of Grand Design 100. We addressed that emphasis with the July 2016 acquisition of Alliance Tire Group (ATG), which produces and markets off-highway tires, and with the March 2017 acquisition of Aichi Tire Industry, which produces and markets tires for forklifts and other industrial machinery. Those acquisitions have bolstered our product offerings in commercial tires and have improved the consumer-commercial balance in our sales portfolio.

Improved Composition of Sales Portfolio

The acquisitions of Alliance Tire Group and Aichi Tire Industry have improved the balance between consumer tires and commercial tires in our sales portfolio to 7:3, from 8:2.



Bolstered Product Lineup

Acquiring Alliance Tire Group has secured a presence for us in tires for agricultural machinery and for forestry machinery. Acquiring Aichi Tire Industry has broadened our presence in tires for industrial machinery.

Yokohama Rubber	ATG	Aichi Tire Industry
Truck & bus tires • Tires for trucks/buses • Tires for buses/tractors • Tires for trailers/carriers • Tank lorry tires • Dumpster/mixer tires	**Agricultural machinery tires** • Agriculture machinery tires (Flotation tires for tractors, combines, harvesters) • Tires for other small special-purpose machinery	
Small truck tires • Light commercial vehicle tires • Light van tires • Light truck/bus tires	**Forestry machinery tires** • Tires used on forestry equipment	
Industrial machinery tires • Off-The-Road (OTR) tires (Tires for dump trucks, graders, wheel loaders) • Crane tires • Tires for port-use vehicles, forklifts	**Industrial machinery tires** • Off-The-Road (OTR) tires • Tires for port-use vehicles, forklifts • Skid steer tires	**Industrial machinery tires** • Forklift tires - Cushion tires (small to large) - Small solid tires (urethane/rubber)

Fostering Synergies with Alliance Tire Group

A Foothold in the Growing Market for Agricultural Equipment
Alliance Tire Group's business centers on tires for agricultural machinery and for forestry machinery. The global market for tires in those categories is large, and demand in the agricultural sector, especially, is poised for sustained growth. Demand for foodstuffs will grow in step with population growth, and the global business information provider MarketLine projects that demand for agricultural machinery will grow at an average annual pace of 5.7% over the years from 2014 to 2019. That will spawn comparable growth in demand for agricultural tires.

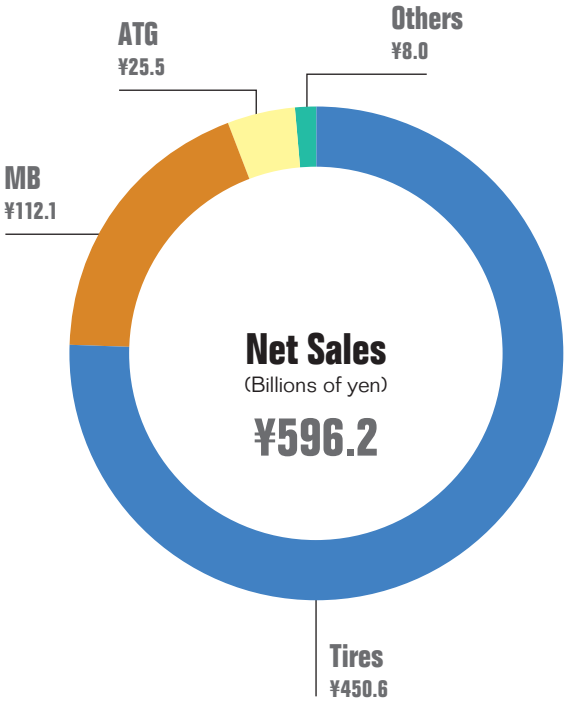
Advanced Technology and Cost-competitive Production
The production resources at Alliance Tire Group comprise a plant in Israel and two plants in India. That company conducts product development and produces high-value-added tires in Israel. Its two production platforms in India provide cost-competitive, high-quality supply capacity for large-volume tires.

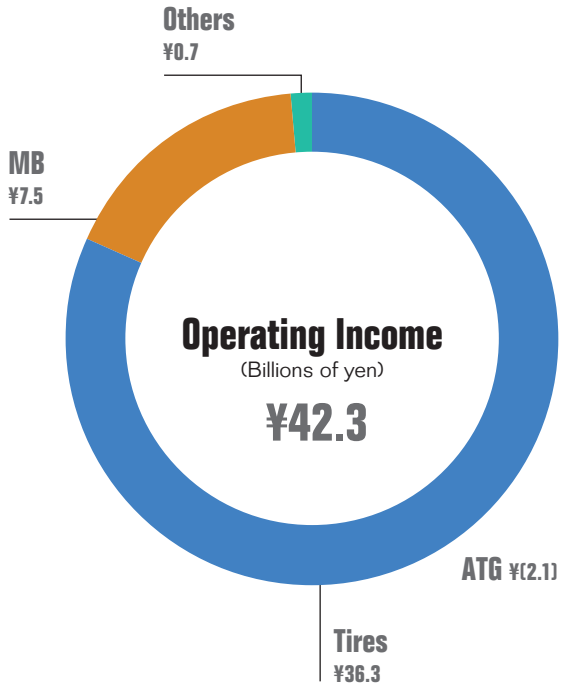
Attentive Customer Care
Alliance Tire Group has earned high regard among customers for its careful attention to their needs. It has developed products, for example, in response to customer requests for tires that do not damage farm field ridges and for tires that do not sink into the farm field soil. Customers frequently cite that kind of responsiveness as a reason for choosing Alliance Tire Group tires.

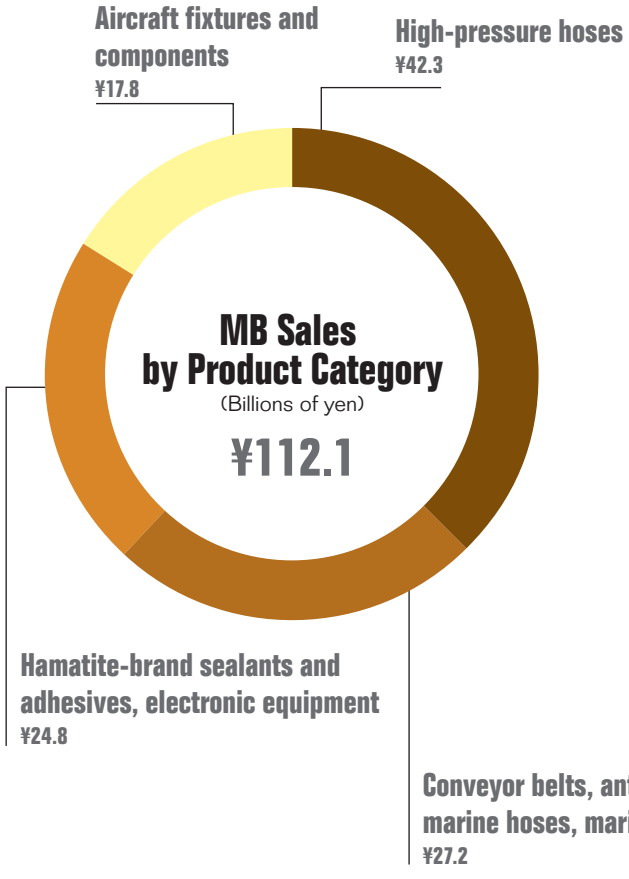
Hikomitsu Noji
Vice Chairman and Member of the Board, Chairman of Alliance Tire Group

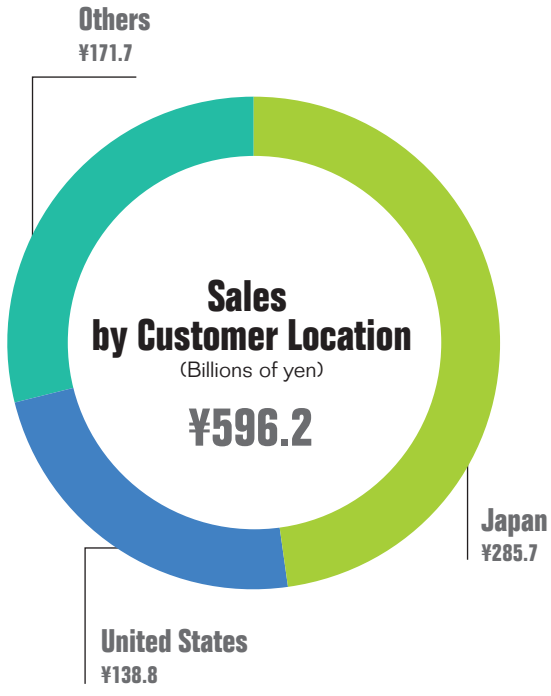
Passenger Car Tires under the Alliance Brand in Europe
We have tapped Alliance Tire Group's excellent name recognition in Europe with a new line of cost-competitive passenger car tires. In May 2017, we launched the new line in Europe under the Alliance name, our first-ever second-brand offering. The Alliance tires enable us to compete at the lower end of the price spectrum without compromising the Yokohama-brand cachet.

YOKOHAMA AT A GLANCE









PRODUCTS AND COMPANIES BY BUSINESS SEGMENT

As of December 31, 2016

Tires




Principal products
Tires for passenger cars and light trucks; for trucks and buses; for construction and mining equipment; and for motor sports and tire tubes, aluminum alloy wheels, other peripheral products

Principal production companies

Japan
Yokohama Rubber Co., Ltd.; Yokohama Tire Retread Co., Ltd.; Kameyama Bead Co., Ltd.

Overseas
Yokohama Tire Manufacturing Virginia LLC. (United States); LLC Yokohama R.P.Z. (Russia); Hangzhou Yokohama Tire Co., Ltd. (China);Yokohama Tire Philippines, Inc. (Philippines); Yokohama Tire Manufacturing (Thailand) Co., Ltd. (Thailand); Yokohama Tyre Vietnam Inc. (Vietnam); Yokohama India Pvt. Ltd. (India)

Principal sales and marketing support companies

Japan
Yokohama Tire Japan Co., Ltd.

Overseas
Yokohama Tire Corporation (United States); Yokohama Tire (Canada) Inc. (Canada); Yokohama Tire Mexico S. de R.L. de C.V. (Mexico); Yokohama H.P.T. Ltd. (United Kingdom); Yokohama Europe GmbH (Germany); Yokohama Russia L.L.C. (Russia); Yokohama Tire Sales (Shanghai) Co., Ltd. (China); Yokohama Tire Sales Philippines, Inc. (Philippines); Yokohama Tire Sales (Thailand) Co., Ltd. (Thailand)

Employees: 17,747

MB (Multiple Business)




Principal products
High-pressure hoses, conveyor belts, marine hoses and pneumatic marine fenders, antiseismic products and roadway joints, Hamatite-brand sealants and adhesives, coatings for electronic equipment, aircraft fixtures and components

Principal production companies

Japan
Yokohama Rubber Co., Ltd.

Overseas
Yokohama Industries Americas Inc. (United States); Yokohama Industries Mexico S. de R.L. de C.V. (Mexico); Yokohama Industrial Products Italy S.r.l. (Italy); Yokohama Industrial Products-Hangzhou Co., Ltd. (China); SC Kingflex Corporation (Taiwan); PT Yokohama Industrial Products Manufacturing Indonesia (Indonesia); Yokohama Rubber (Thailand) Co., Ltd. (Thailand)

Principal sales and marketing support companies

Japan
Yokohama Industrial Products Japan Co., Ltd.

Overseas
Yokohama Aerospace America, Inc. (United States); Yokohama Industrial Products Europe, GmbH (Germany); Yokohama Industrial Products Sales-Shanghai Co., Ltd. (China); Yokohama Industrial Products Asia-Pacific Pte. Ltd. (Singapore)

Employees: 3,376

ATG (Alliance Tire Group)

Principal products
Tires for agricultural, industrial, construction, and forestry machinery

Principal production companies
ATC Tires Private Ltd. (India); Alliance Tire Company Ltd. (Israel)

Principal sales, marketing, and other support companies
Alliance Tire Group B.V. (Netherlands); Alliance Tire Holding Ltd. (Israel); Alliance Tire Europe B.V. (Netherlands); Alliance Tire Americas Inc. (United States); Alliance Tire South Africa (Pty) Ltd. (South Africa)

Employees: 2,251

Other operations

Principal products
Golf equipment, services for Yokohama Rubber and its subsidiaries and affiliates

Principal companies

Japan
PRGR Co., Ltd.; Hamagomu Fudousan Co., Ltd.; Acty Co., Ltd.; Yokohamagomu Finance Co., Ltd.; Yokohama Mold Co., Ltd.

Overseas
Y.T. Rubber Co., Ltd. (Thailand); Yokohama Rubber (China) Co., Ltd. (China); Yokohama Rubber Singapore Pte. Ltd. (Singapore)

Employees: 1,236

ADVAN FLEVA V701 promotional graphic

Sales and Earnings Performance in 2016

Operating income in the Tires segment declined 15.6% in 2016, to ¥36.3 billion, on a 10.0% decline in sales, to ¥450.6 billion. The segment accounted for 85.9% of consolidated operating income and for 75.6% of consolidated net sales.

Japan: Original Equipment Tires

Our business in Japan's original equipment market declined in sales value on account of a decline in unit vehicle production and slumping prices. Operating income in our Japanese original equipment business rose, however, on account of declining prices for raw materials.

Japan: Replacement Tires

In the Japanese replacement market for tires, our business declined in unit volume, but successful promotion of high-value-added products improved the composition of our sales portfolio and produced an increase in operating income. Successful product launches included the ADVAN FLEVA V701, a high-performance sport tire; the GEOLANDAR A/T G015, an all-terrain tire for sport-utility vehicles; and the iceGUARD SUV G075, a studless snow tire for sport-utility vehicles.

Overseas

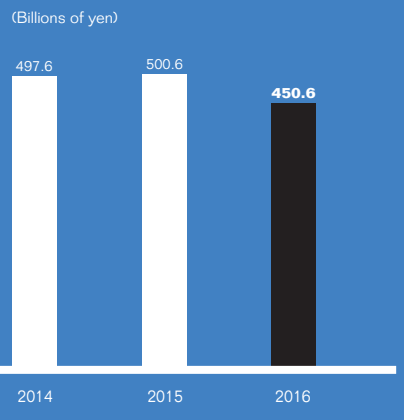
Our tire business outside Japan declined in sales and in operating income on account of the appreciation of the yen and escalating price competition, though unit volume increased. Unit volume was flat in North America but increased in Europe, partly as the result of our progress in cultivating new sales channels, and also increased in the Chinese original equipment market.

Outlook for 2017

We project that operating income in the Tires segment will remain unchanged in 2017, at ¥36.3 billion, on a 5.4% increase in sales, to ¥475.0 billion.

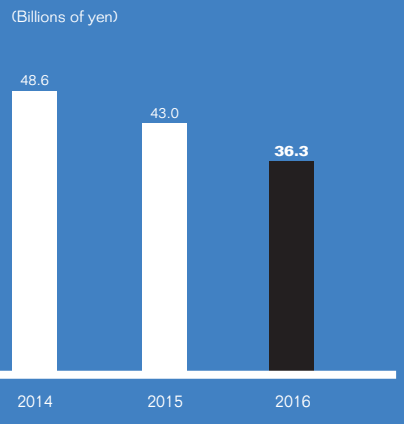
Sales

¥450.6 billion



Operating Income

¥36.3 billion



ADVAN FLEVA V701

GEOLANDAR A/T G015

iceGUARD SUV G075

The MB (Multiple Business) segment, established in 2015, comprises the operations formerly categorized as "Industrial Products" and the aircraft fixtures and components business formerly included in "Other Products." We have restated our results by business segment for 2014 to reflect this change retroactively.

Sales and Earnings Performance in 2016

Operating income in the MB segment declined 28.9% in 2016, to ¥7.5 billion, on a 7.9% decline in sales, to ¥112.1 billion. The segment accounted for 17.7% of consolidated operating income and for 18.8% of consolidated net sales.

High-pressure Hoses

Sales in high-pressure hoses declined, reflecting a decline in Japanese production of construction equipment and weakening demand in the automotive sector.

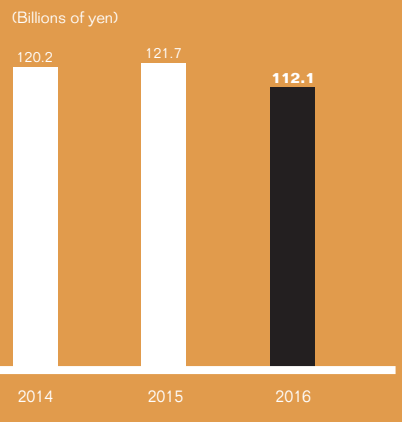
Industrial Materials

Sales also declined in industrial materials amid a downturn in Japanese steel production and slumping prices for natural resources.

SAE/EN-compliant Versatran high-pressure hose

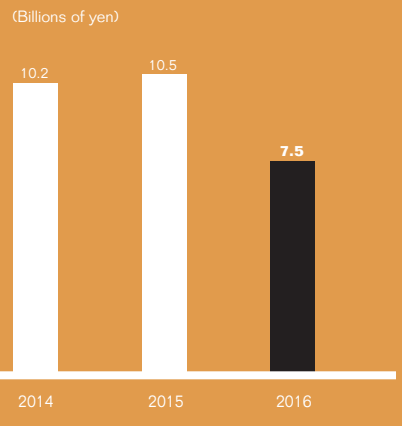
Sales

¥112.1 billion



Operating Income

¥7.5 billion



Hamatite-brand Sealants and Adhesives and Coatings for Electronic Equipment

Operating income increased in Hamatite-brand sealants and adhesives and in electronic equipment coatings, driven by North American sales gains in automotive sealants, but sales declined overall on account of slumping Japanese demand.

High-elasticity Hamatite Hyper Sealant for automotive windows

Aircraft Fixtures and Components

Sales declined in aircraft fixtures and components as weakness in the commercial sector more than offset sales gains in the government sector.

Outlook for 2017

We project that operating income in the MB segment will increase 20.1% in 2017, to ¥9.0 billion, on a 4.3% increase in sales, to ¥117.0 billion.

Sales	Operating Loss
¥25.5 billion	¥2.1 billion

We have established the ATG segment to accommodate the operations of Alliance Tire Group, which we acquired and consolidated on July 1, 2016. Our consolidated results thus include the ATG segment for the six months from that date to December 31, 2016.

Sales and Earnings Performance in 2016

Sales in the ATG segment totaled ¥25.5 billion, accounting for 4.3% of net sales. ATG business in the agricultural sector suffered from a slump in grain prices, and price competition affected sales and earnings adversely across the entire ATG line of off-highway tires. Vigorous marketing succeeded, however, in achieving our expectations in regard to unit volume and sales value. We recorded an operating loss of ¥2.1 billion for the ATG segment in fiscal 2016. That loss reflects the inclusion of acquisition-related expenses under selling, general and administrative expenses and the amortization of goodwill.

Outlook for 2017

Our projections call for operating income of ¥1.2 billion in the ATG segment in 2017 on sales of ¥60.0 billion.

The Alliance Agriflex 372

GOLF
Equipment

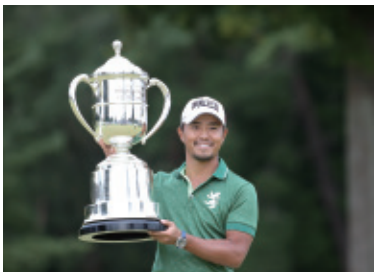
We market golf clubs and other golf equipment under the PRGR brand. Our business in this product category centers on Japan, but we are building a market presence in the Republic of Korea, in China, in Taiwan, and in Southeast Asian nations.

The RS series driver

Highlights of 2016

The All-new RS Series
Our RS series of golf clubs debuted in August 2016 as the successor to the iD nabla RS series. The new clubs provide impressive advances in high initial speed, combining increased distance with easier handling. They are ideal for athletically oriented golfers and for golfers who are working seriously to improve their game. The RS series comprises drivers, irons, fairway woods, and utility clubs. It also includes golf balls and caddy bags.

A Tournament Win for a Yokohama-sponsored Golfer
Satoshi Kodaira, a professional golfer sponsored by Yokohama, won the Bridgestone Open Golf Tournament in October 2016. Kodaira ranked sixth in tour winnings for the year. His win at the Bridgestone Open was his fourth career victory on the Japanese tour.


Satoshi Kodaira

Yokohama Tire Golf Tournament PRGR Ladies Cup
We hosted the ninth Yokohama Tire Golf Tournament PRGR Ladies Cup in March 2016.That stop on the Japanese pro tour focuses attention on our continuing contributions to golf through the PRGR brand.

Erina Hara, a Yokohama-sponsored professional golfer, at the 2016 PRGR Ladies Cup

CORPORATE PHILOSOPHY AND CORPORATE SOCIAL RESPONSIBILITY

Yokohama Rubber established its corporate philosophy in 1990. It consists of the Basic Philosophy, Management Policies, Action Guidelines, and Corporate Slogan. The Basic Philosophy embodies the types of business where Yokohama Rubber commits itself in all activities. The Management policies outline basic administrative principles for upper-level management to commitment themselves to. The Action Guidelines are the code of conduct for each employee to comply with.

In 2006, we drew up a medium-term management plan, Grand Design 100, and set a clear target of becoming a global company with ¥1 trillion in net sales by 2017. Also, since our Basic Philosophy has been compiled based on the strong awareness of the expectations and needs arising from the international community, the plan places a strong emphasis on CSR by adopting these two basic points; to assert world-class strengths in technologies for protecting the environment and fostering a customer-oriented corporate culture as our first priority by respecting higher standards of corporate ethics. In 2008, we reformed our corporate structure by establishing the CSR Division, followed by announcing our vision of CSR management both internally and externally. Our vision, to build a trusted identity as a contributing member of the global community, incorporates our desire to change the letter "R" in CSR to "Reliability", instead of the original "Responsibility." By doing so, we are hoping to make the concept more accessible and practical in our daily operations.

Corporate Philosophy (Launched in 1992)

Basic Philosophy

To enrich people's lives and contribute to their greater happiness and well-being by devoting our wholehearted energies and advanced technology to the creation of beneficial products.

Management Policies

- Take on the challenge of new technologies to produce new value.
- Develop proprietary business fields to expand the scope of business.
- Create a workplace that values, improves and energizes people.
- Deal fairly with society and value harmony with the environment.

Action Guidelines

- Develop ourselves so that we may give our personal best.
- Trust, challenge and improve one another.
- Nurture a welcoming, open spirit.

Corporate Slogan

Excellence by nature

CSR Management Vision (Launched in 2008)

To build a trusted identity as a contributing member of the global community

CSR Action Guidelines

- Identify continually changing social trends.
- Ascertain the items that can contribute.
- Act swiftly to earn affirm trust.
- Practice CSR in one's own work.

Grand Design 100 (GD100) Medium-Term Management Plan (Established in 2006)

GD100 Vision and Basic Policy

To mark the Yokohama Centennial in FY2017, we will evoke a distinctive global identity in building corporate value and in building a strong market presence.

Long-Term Financial Targets (FY2017)

Net sales: ¥1 trillion; operating income: ¥100 billion; operating margin: 10%

Basic Policy

- Deliver the best products at competitive prices and on time.
- Assert world-class strengths in technologies for protecting the environment.
- Foster a customer-oriented corporate culture that honors rigorous standards of corporate ethics.

GD100 and Our Approach to the Environment (Established in 2006)

Basic Policy

Following the principle of dealing fairly with society and valuing harmony with the environment, we shall assert our world-class strengths in technologies for protecting the environment.

- Continued improvement of environmental management.
- Action to combat global warming.
- Contributing to the creation of a sustainable recycling society.

Seven Pillars of Core Subjects

The entire Yokohama Rubber Group, including all domestic and overseas subsidiaries, observes as action guidelines the 10 Principles of the United Nations Global Compact and the ISO 26000 seven core subjects, in accordance with PDCA carried out.

UN Global Compact's 10 Principles

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

ISO 26000 Seven Core Subjects

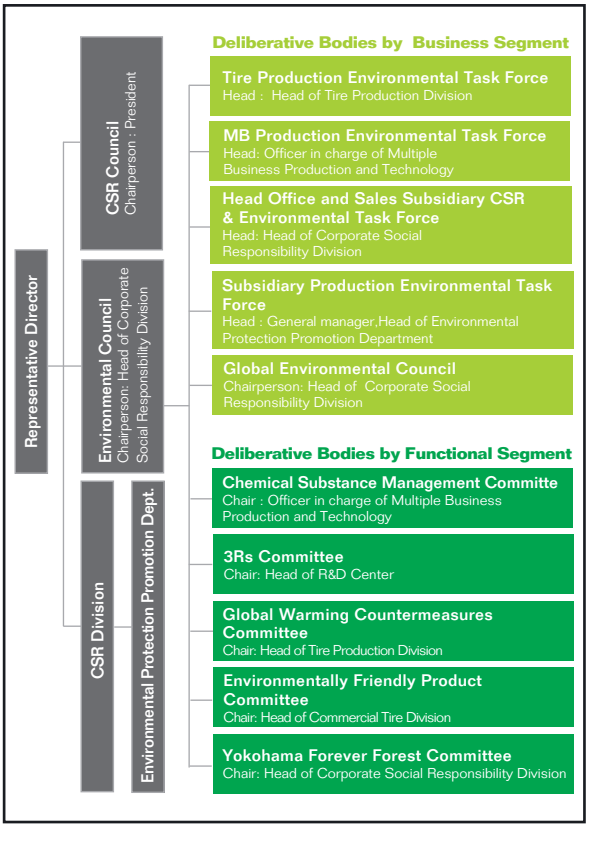
1. Organizational governance
2. Human rights
3. Labor practices
4. The environment
5. Fair operating practices
6. Consumer issues
7. Community involvement and development

CSR and Environmental Management Promotion Framework

Overseeing our measures for fulfilling corporate social responsibility is our CSR Council, headed by our company president. Safeguarding the environment is a central emphasis, of course, in those measures, and we have established the Environmental Council, headed by Head of Corporate Social Responsibility Division, to oversee our work in maintaining environmental quality. Each council meets twice yearly to establish priorities and to evaluate our progress in tackling those priorities. They evaluate our progress in reference to our seven pillars of critical issues and issue instructions as appropriate for making improvements in our approach.

Fulfilling our corporate social responsibility is a global undertaking in the Yokohama Group, and representatives of group companies worldwide gather annually for a global environmental conference. In addition, we have begun holding regional gatherings of the managers responsible for environmental protection at Yokohama Group companies from 2014.

CSR and Environmental Promotion Framework

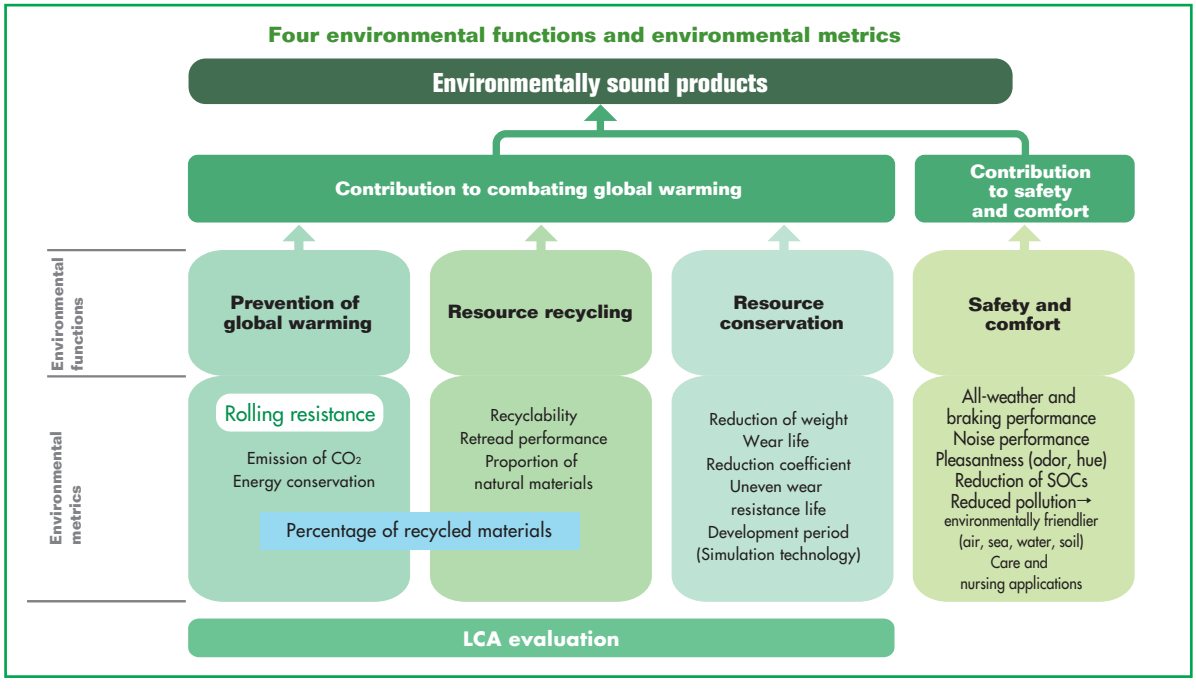


Shaping an Environmentally Sound Product Portfolio

Our medium-term management plan, Grand Design 100, calls for us to assert world-class strengths in technologies for protecting the environment. That includes deploying environmentally sound offerings in our product portfolio.

Definition

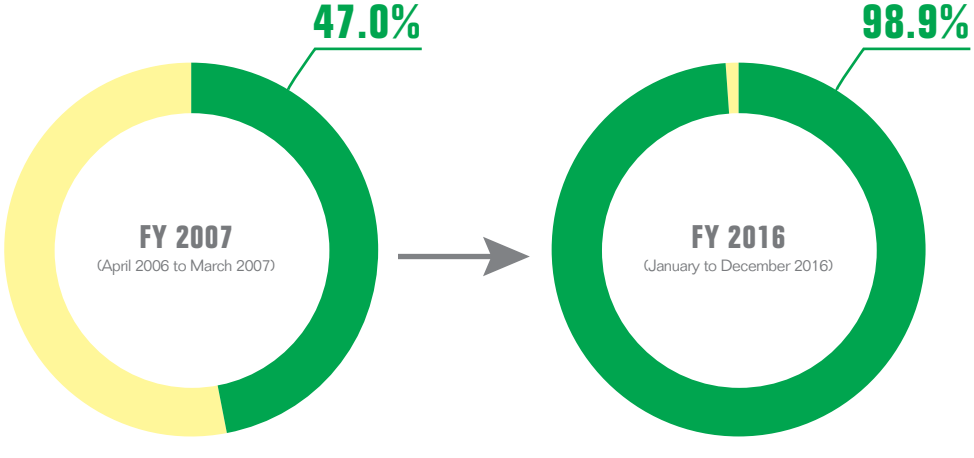
We evaluate products in regard to four environmental functions: prevention of global warming, resource recycling, resource conservation, and safety and comfort. Our guidelines mandate that all new products achieve an aggregate improvement of at least 5% over existing products and that they at least match existing products in regard to all four functions.



Attainment

We aim to increase the environmentally sound weighting of our product portfolio to 100% by the end of 2017. By the end of 2016, 98.9% of our products fulfilled our functions for minimizing environmental impact.

Proportion of Environmentally Sound Products among All Products



Environmentally Sound Product Highlights

BluEarth Fuel-saving Tires

We launched the BluEarth line of fuel-saving tires in 2010. Those tires have earned a global following with their fuel savings and superior wet-grip performance. We continue to hone the BluEarth attainment in fuel savings and in all-around handling. And we have broadened the BluEarth line to encompass vans, light trucks, and small buses, as well as passenger cars.

Left: the BluEarth-1 EF20, which has secured the top designations for low rolling resistance and wet grip under Japan's tire-labeling system;
right: the fuel-saving BluEarth LT152R, for vans, light trucks, and small buses

Retreaded Tires

Japanese have begun awakening to the value of retreading tires in conserving resources through recycling and reuse. We produce and market retreaded tires in Japan through a subsidiary and have expanded that company's operations in recent years.

Our LT151R retreaded tire for vans, light trucks, and small buses

Hoses for Hydrogen Filling Stations

We began development work in 2003 on hoses for hydrogen filling stations for fuel-cell vehicles. That work has spawned products for accommodating pressures of 35 megapascals (MPa), 70 MPa, and 82 MPa. And we are working on global -standard hoses that will accommodate pressures of up to 87.5 MPa.

A Yokohama hose at a hydrogen filling station

R&D on Next-Generation Products for Safeguarding the Environment

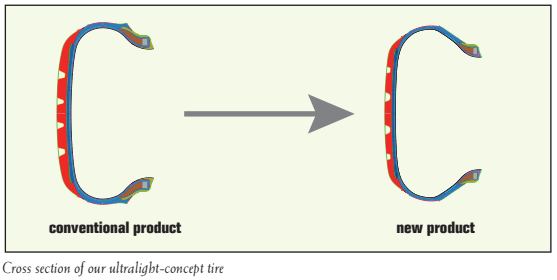
Aerodynamic Tires

Original advances in tire aerodynamics have allowed us to couple gains in fuel economy with improved vehicle handling. Fins on the outer sides of the tires reduce air drag and help keep the tires in sound contact with the road surface, which improves handling.

An aerodynamically optimized tire

Ultralight-concept Tires

We have developed technology that allows for reducing tire weight 25% without compromising basic tire performance. That technology promises to contribute to substantial gains in fuel economy, and we aim to begin marketing products based on the new technology in 2017.

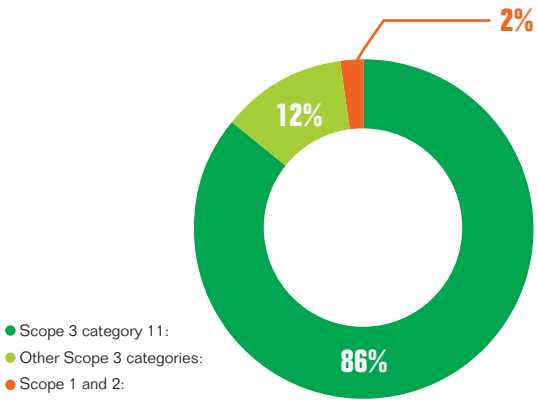


Cross section of our ultralight-concept tire

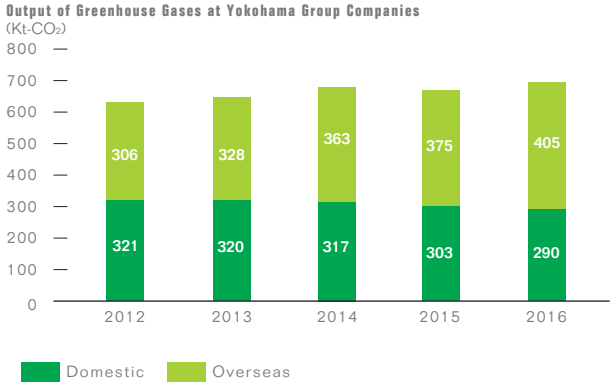
Reducing Output of Greenhouse Gases

Our medium-term target in Japan is to reduce our annual greenhouse emissions 25% by 2020, compared with 1990. In 2016, our overall reduction reached 20%. Our long-term target worldwide is to reduce our output of carbon dioxide more than 50% across our entire value chain by 2050, compared with 2005. That target encompasses indirect "Scope 3" emissions as defined under the Greenhouse Gas Protocol Corporate Standard, as well as emissions from our directly owned operations.

Emissions associated with product usage account for about 85% of our Scope 3 emissions. We are working to reduce those emissions by deploying fuel-saving performance in tires and other product features for minimizing environmental impact. Our efforts include working with suppliers and other partners to reduce emissions of greenhouse gases throughout our value chain.



Output of Greenhouse Gases at Yokohama Group Companies
(Kt-CO_2)



Scope 3 Emissions at Yokohama Group Companies
(Kt-CO_2)

	Scope 3 category	2015	2016
1	Purchased products and services	2,364	2,340
2	Capital goods	302	371
3	Fuel and energy	108	115
4	Transportation and distribution (upstream)	148	148
5	Waste	2	2
6	Business travel	14	22
7	Commuting employees	18	27
8	Upstream leased assets	—	—
9	Downstream transportation and distribution	50	51
10	Processing of sold products	4	4
11	Use of products	20,273	20,275
12	Disposal of products	464	456
13	Downstream leased assets	0	0
14	Franchises	—	—
15	Investment	84	111
	Total	**23,832**	**23,920**

Reducing Output of Waste

Most of our plants participate in a program for reducing waste per unit of production (by value) at least 1% annually. In 2016, the ongoing participants—14 plants in Japan and 12 overseas—achieved an aggregate reduction of 4.0%, though the first-time participation by four new overseas plants resulted in an overall increase of 9.3%.

We are also working at our plants worldwide to eliminate output of landfill waste completely. All of our plants in Japan had achieved that goal by the end of March 2006, 12 of our overseas plants had attained that goal by the end of 2016, and we continue working to attain the goal at our remaining plants.

Annual Output of Landfill Waste
(1,000 t)

Public-Interest Activities in Japan and Overseas

Below are some examples of public-interest activities at our operations around the world in 2016.

Japan

Shinshiro Plant

Our Shinshiro Plant was a prominent participant in a community festival held on behalf of preserving the vicinity's cherry trees. The plant ran a study booth at the festival and donated seedlings cultivated by plant employees.

Hiratsuka Factory

Concern about traffic safety prompted the creation of an innovative map at our Hiratsuka Factory. The map, supplied to the city and to the local police, indicates intersections and stretches of road the present special risks for commuters.

Overseas

Yokohama Aerospace America, Inc. (United States)

Employees at Yokohama Aerospace America support a local charity, Northwest Harvest/Kent, that provides meals to needy individuals and families. Company employees have participated annually since 2014 in packing foodstuffs for the charity.

Yokohama Tire Philippines, Inc. (Philippines)

Sixty-five kindergarten and elementary school students received meals from Yokohama Tire Philippines for 60 days. That initiative, aimed at alleviating malnutrition, included the provision of dishes and vitamins, as well as food.

ATC Tires Private Ltd. (India)

In India, ATC Tires supports practical education for schoolgirls and other women in its community. That support includes free-of-charge classes for sewing and for using computers.

Yokohama Industrial Products-Hangzhou Co., Ltd. (China)

Employees at Yokohama Industrial Products-Hangzhou participated in local forestation activities. They also provided tree-planting guidance to children at an arboreal festival held at a local elementary school.

International Regard for Our Approach to Corporate Social Responsibility

Prestigious Acknowledgement in CDP Environmental Reports

We earned a place on the Supplier Engagement Leader Board announced by CDP (formerly Carbon Disclosure Project) in January 2017. CDP is a nonprofit organization that provides a global framework for companies and cities to measure, disclose, manage, and share vital environmental information. Earlier, we earned a place on the "A list" of corporate leaders in forestalling global warming cited in the "CDP Climate Change Report 2016." That followed our appearance in the Climate Disclosure Leadership Index included CDP's 2015 climate change report.

Continued Inclusion in FTSE4Good Index

Our company has appeared annually in the FTSE4Good Index, a global index for socially responsible investment, for the past 12 years. The inclusion in that index is in recognition of our forestation work in the Yokohama Forever Forest project, our work in energy conservation at our plants, and our work in developing environmentally friendly products.

CORPORATE GOVERNANCE

Basic Approach

We in the Yokohama Group work in the spirit of our corporate philosophy to achieve continuing growth in corporate value and to thereby earn the unwavering confidence of all our stakeholders. That means abiding rigorously by the Tokyo Stock Exchange's Corporate Governance Code and devoting high priority to securing the rights and equal treatment of shareholders, to engaging in appropriate cooperation with stakeholders other than shareholders, to ensuring appropriate information disclosure and transparency, to ensuring the fulfillment of the responsibilities of the Board of Directors, and to maintaining robust dialog with shareholders. Our efforts have included building a corporate governance framework for ensuring sound management that is fair and transparent, and we have worked continuously to reinforce that framework.

Framework

Our management framework centers on governance entities prescribed by Japan's Company Act: the annual General Meeting of Shareholders, representative members of the Board, the Board of Directors, the Audit and Supervisory Board, and an independent public accountancy. We supplement those entities with officers, who are responsible for operational management, to speed the process of making and implementing decisions. Presently, the senior management team comprises 12 members of the Board, headed by the chairman of the Board and the president, and 17 officers, not including officers who serve concurrently as members of the Board. The members of the Board include 7 members who serve concurrently as officers and 3 independent members of the Board.

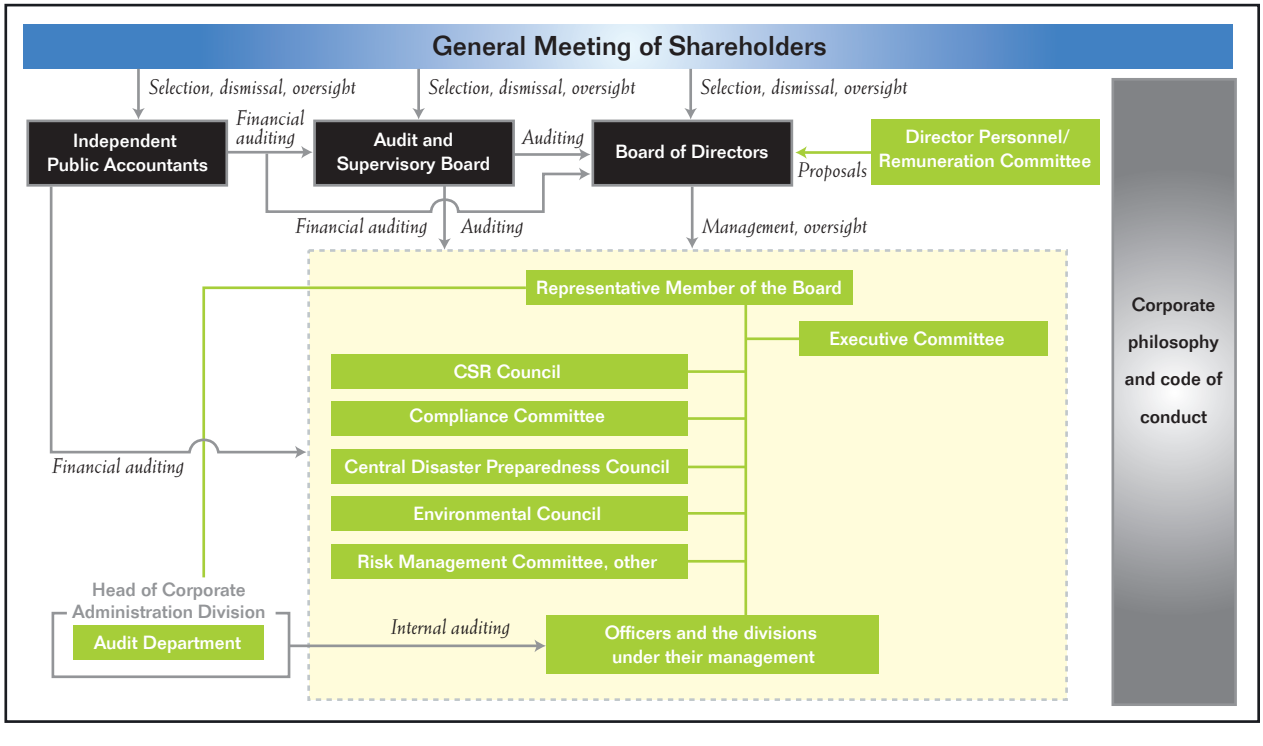
We reinforce our management framework with the Executive Committee, which comprises the chairman of the Board, other selected members of the Board, and other executives. That committee monitors our performance in fulfilling our business plans and deliberates on matters pertinent to our business strategy.

In the interest of clarifying management responsibility, we employ a one-year term for members of the Board. And we abide by the principles of transparency and fairness in personnel and remuneration decisions in regard to the Board. Our Director Personnel/Remuneration Committee, the members of which include one or more independent directors, reviews proposals for matters under its purview and makes recommendations to the Board of Directors, which makes the final decisions.

Audit and Supervisory Board members

Auditing at Yokohama is a tripartite undertaking by our Audit and Supervisory Board, which monitors management; an independent public accounting firm, which monitors the company's financial accounting; and

The Yokohama Framework of Corporate Governance



our Audit Department, which conducts operational and financial auditing of the parent company and its principal subsidiaries and affiliates. We reinforce the auditing function by maintaining autonomy among those units.

The Audit and Supervisory Board comprises five members, including three recruited from outside the company to help ensure objectivity in the auditing function. They participate in meetings of the Executive Committee and of other management gatherings where important matters are discussed and receive reports about the status of our business operations. The Audit and Supervisory Board members also obtain important information from the independent public accounting firm and from the 13-member Audit Department. We assign an assistant to the Audit and Supervisory Board members to help them carry out their work smoothly and effectively.

Independent Members of the Board and Independent Audit and Supervisory Board Members

Our Board and our Audit and Supervisory Board each include, as noted, three independent members recruited from outside the company. In appointing the independent members of the Board and the independent Audit and Supervisory Board members, we refer to guidelines established by the Tokyo Stock Exchange for ensuring independence.

The independent members of the Board receive reports from the Audit Department about the results of internal audits and about the maintenance and operation of our framework of internal controls. They also receive regular reports from the Audit and Supervisory Board members about pertinent matters. The independent members of the Board thereby secure a grasp of the status of the Yokohama Group and of issues faced by the group, and they express their views on matters of importance to their fellow members of the Board as they deem appropriate.

Our independent Audit and Supervisory Board members receive reports in the same manner as the independent members of the Board. They further fortify their capacity for conducting audits efficiently and effectively by exchanging information with our independent public accounting firm, with our Audit Department, and with corporate auditors at Yokohama subsidiaries.

Internal Controls

The Board of Directors adopted a basic policy for internal controls based on Japan's Company Law in May 2006. In April 2009, the Board of Directors adopted guidelines to prevent involvement with organized crime and strengthen our framework of internal controls. And in June 2015, the Board of Directors strengthened our internal controls further by adopting measures related to managing subsidiaries and conducting internal audits. Those measures were in conjunction with a revision of Japan's Companies Act. Below is a summary of our internal controls in regard to risk management and ethical compliance.

Risk Management

Spearheading risk-preparedness measures at Yokohama is our Risk Management Committee, chaired by the director responsible for risk management. That committee evaluates risk from a cross-sector perspective and devises precautionary measures. We have also established committees to manage risk, respond to incidents, establish guidelines, and distribute manuals in regard to ethical compliance, safety, disaster preparedness, environmental quality, information security, personal information management, and exports. Our Board of Directors, Executive Committee, and CSR Council receive timely reports from all of those committees.

Ethical Compliance

Compliance Committee and Corporate Compliance Department

A member of the Board who discovers evidence of a serious legal or regulatory breach or of any other serious misconduct reports his or her suspicion to the chairman of our Compliance Committee, who is the director responsible for ethical compliance, and to the Audit and Supervisory Board members. Responsible for enforcing ethical compliance is our Corporate Compliance Department. That department establishes guidelines for ethical behavior in the Yokohama Group and conducts training and awareness-raising activities in regard to ethical compliance for the members of the Board, our officers, and our employees.

Enforcement at subsidiaries and affiliates

Each principal Yokohama subsidiary and affiliate has prepared and observes ethical guidelines based on the action guidelines established by the Compliance Committee. The Corporate Compliance Department and compliance officers designated by that department at our Japanese subsidiaries and affiliates share information and develop a common grasp of issues. In addition, the Corporate Compliance Department reports regularly to the CSR Council about the status of ethical compliance in the Yokohama Group. The Audit Department, meanwhile, systematically monitors the auditing functions for accounting, operations, and ethical compliance at the subsidiaries and affiliates and reports its findings to the members of the Board, to the pertinent divisions, and to the Audit and Supervisory Board members.

MEMBERS OF THE BOARD, AUDIT & SUPERVISORY BOARD MEMBERS, AND OFFICERS

As of March 30, 2017

Front row, from left: *Hikomitsu Noji, Tadanobu Nagumo, Masataka Yamaishi*
Middle row, from left: *Shigeru Nakano, Osamu Mikami, Takao Oishi, Hideto Katsuragawa, Shigeo Komatsu, Masaki Noro*
Back row, from left: *Hideichi Okada, Naozumi Furukawa, Nobuo Takenaka*

Members of the Board

Tadanobu Nagumo
Chairman and Representative Member of the Board

Hikomitsu Noji
Vice Chairman and Member of the Board
Chairman of Alliance Tire Group

Masataka Yamaishi
President and Representative Member of the Board
Head of Corporate Planning Div.

Takao Oishi
Member of the Board and Senior Managing Officer
President of Multiple Business

Hideto Katsuragawa
Member of the Board and Senior Managing Officer
CEO of Yokohama Corporation of North America

Osamu Mikami
Member of the Board and Senior Managing Officer
President of Tire Business, Head of Japan Replacement Tire Sales & Marketing Div.

Shigeo Komatsu
Member of the Board and Managing Officer
Head of Corporate Administration Div., Head of Global Procurement Div., in charge of Corporate Social Responsibility Div., President of Yokohama Rubber Singapore Pte. Ltd.

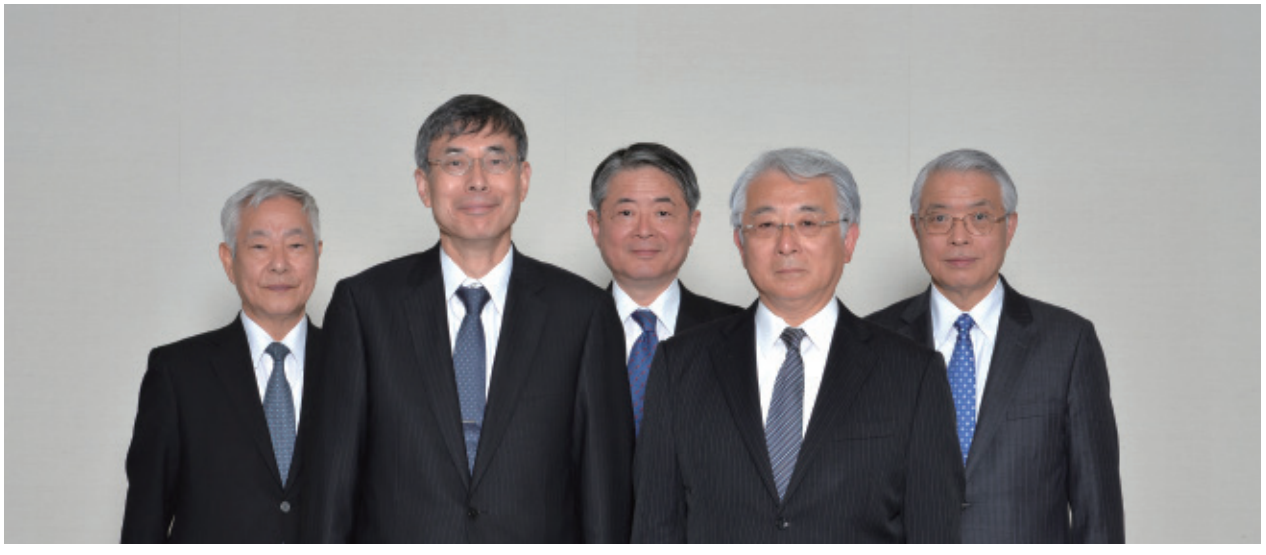
Shigeru Nakano
Member of the Board and Managing Officer
Chief Tire Production Officer, Head of Tire Production Div., Head of Tire Production Technology Div.

Masaki Noro
Member of the Board and Managing Officer
Chief Tire Technical Officer, Head of Consumer Tire Development Div., in charge of R&D Center

Naozumi Furukawa
Member of the Board

Hideichi Okada
Member of the Board

Nobuo Takenaka
Member of the Board



Front row, from left: *Yasushi Kikuchi, Hirohiko Takaoka*
Back row, from left: *Atsushi Kamei, Yoshiki Sato, Akio Yamada*

Audit & Supervisory Board Members

Hirohiko Takaoka

Yasushi Kikuchi

Yoshiki Sato

Akio Yamada

Atsushi Kamei

Officers

Takaharu Fushimi
Managing Officer
Head of Tire Overseas Sales & Marketing Div.

Tetsuya Kuze
Managing Officer
Vice President of Yokohama Corporation of North America, CEO of Yokohama Tire Manufacturing Mississippi, LLC., Head of North America Tire Plant Div.

Tadashi Suzuki
Managing Officer
Head of IT & Management System Planning Div., Head of Tire Logistics Div.

Hirohisa Hazama
Managing Officer
Head of O.E. Tire Sales & Marketing Div.

Atao Kishi
Managing Officer
Head of Commercial Tire Div., General Manager and Head of Commercial Tire Business Planning Dept.

Shigetoshi Kondo
Managing Officer
Chairman and President of Yokohama Rubber (China) Co., Ltd., Chairman of Yokohama Tire Sales (Shanghai) Co., Ltd.

Yasuhiro Kurokawa
Officer
Chairman of Aichi Tire Industry Co., Ltd.

Kazuya Nakazawa
Officer
Head of Hiratsuka Factory

Shinichi Takimoto
Officer
CEO of Yokohama Tire Corporation, CEO of Yokohama Tire (Canada) Inc., CEO of Yokohama Tire Mexico S. de R.L. de C.V.

Shuichi Tsukada
Officer
Head of Corporate Social Responsibility Div.

Hitoshi Kobayashi
Officer
President of Yokohama Tire Philippines, Inc.

Jun Shimada
Officer
Assistant to President of Multiple Business, in charge of Multiple Business Production and Technology

Takashi Shirokawa
Officer
Head of Tire Materials Development Div., Head of R&D Center

Tadaharu Yamamoto
Officer
Head of Tire Business Planning Div.

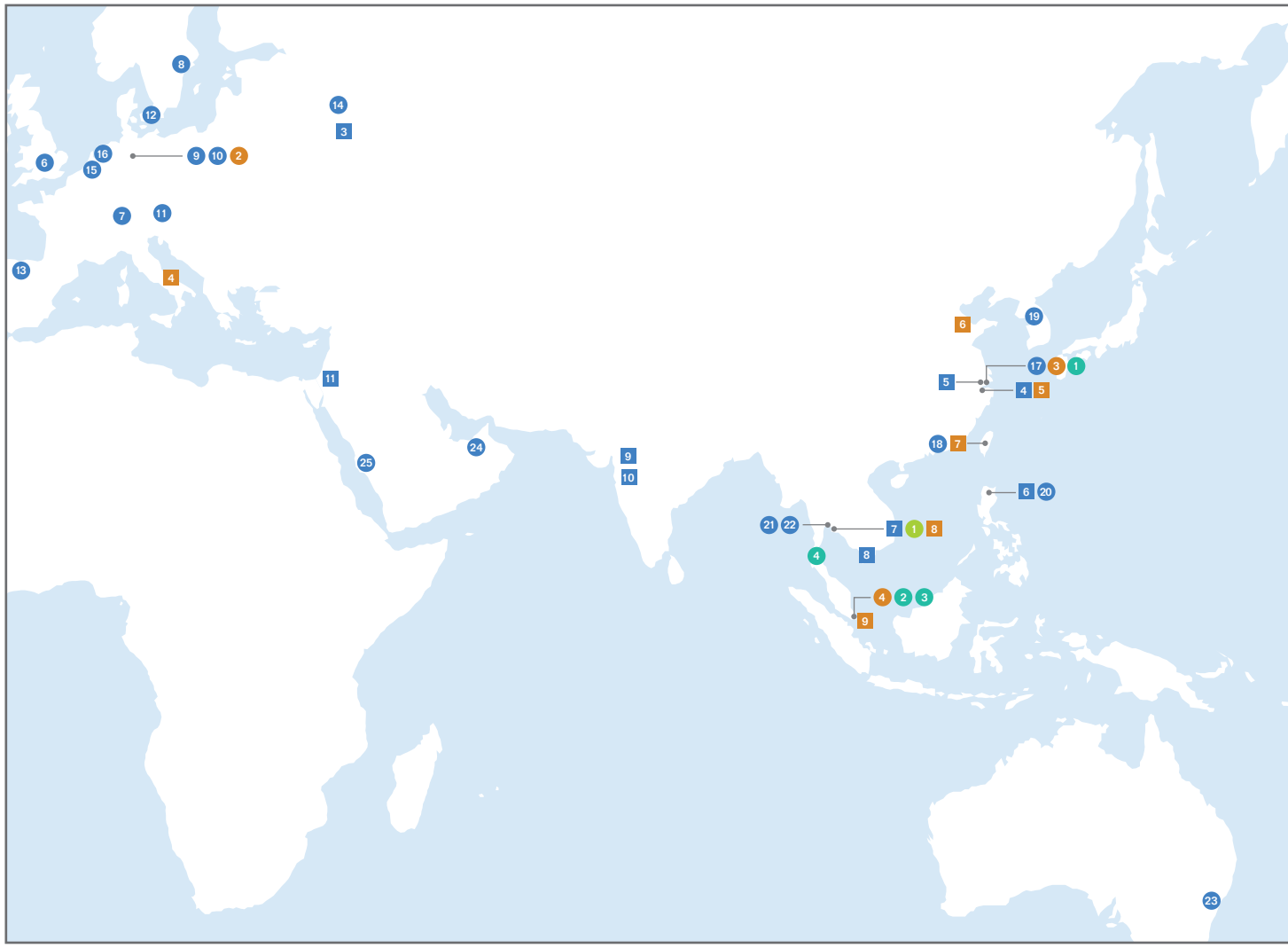
Gota Matsuo
Officer
General Manager and Head of Corporate Finance & Accounting Dept., President of Yokohamagomu Finance Co., Ltd.

Hitoshi Ikeda
Officer
President of Yokohama Tire Japan Co., Ltd., Acting Head of Japan Replacement Tire Sales & Marketing Div.

Hiroyuki Hosoda
Officer
President of Yokohama Industrial Products Japan Co., Ltd.

GLOBAL NETWORK

Overseas Subsidiaries and Affiliates



Tires Segment and ATG Segment

Production and Sales

Americas

1 Yokohama Tire Manufacturing Virginia LLC. (United States)
2 Yokohama Tire Manufacturing Mississippi, LLC. (United States)

Europe

3 LLC Yokohama R.P.Z. (Russia)

Asia

4 Hangzhou Yokohama Tire Co., Ltd. (China)
5 Suzhou Yokohama Tire Co., Ltd. (China)
6 Yokohama Tire Philippines, Inc. (Philippines)
7 Yokohama Tire Manufacturing (Thailand) Co., Ltd. (Thailand)
8 Yokohama Tyre Vietnam Inc. (Vietnam)
9 Yokohama India Pvt. Ltd. (India)
10 ATC Tires Private Ltd. (India)

Middle East

11 Alliance Tire Company Ltd. (Israel)

Sales and Marketing Support

Americas

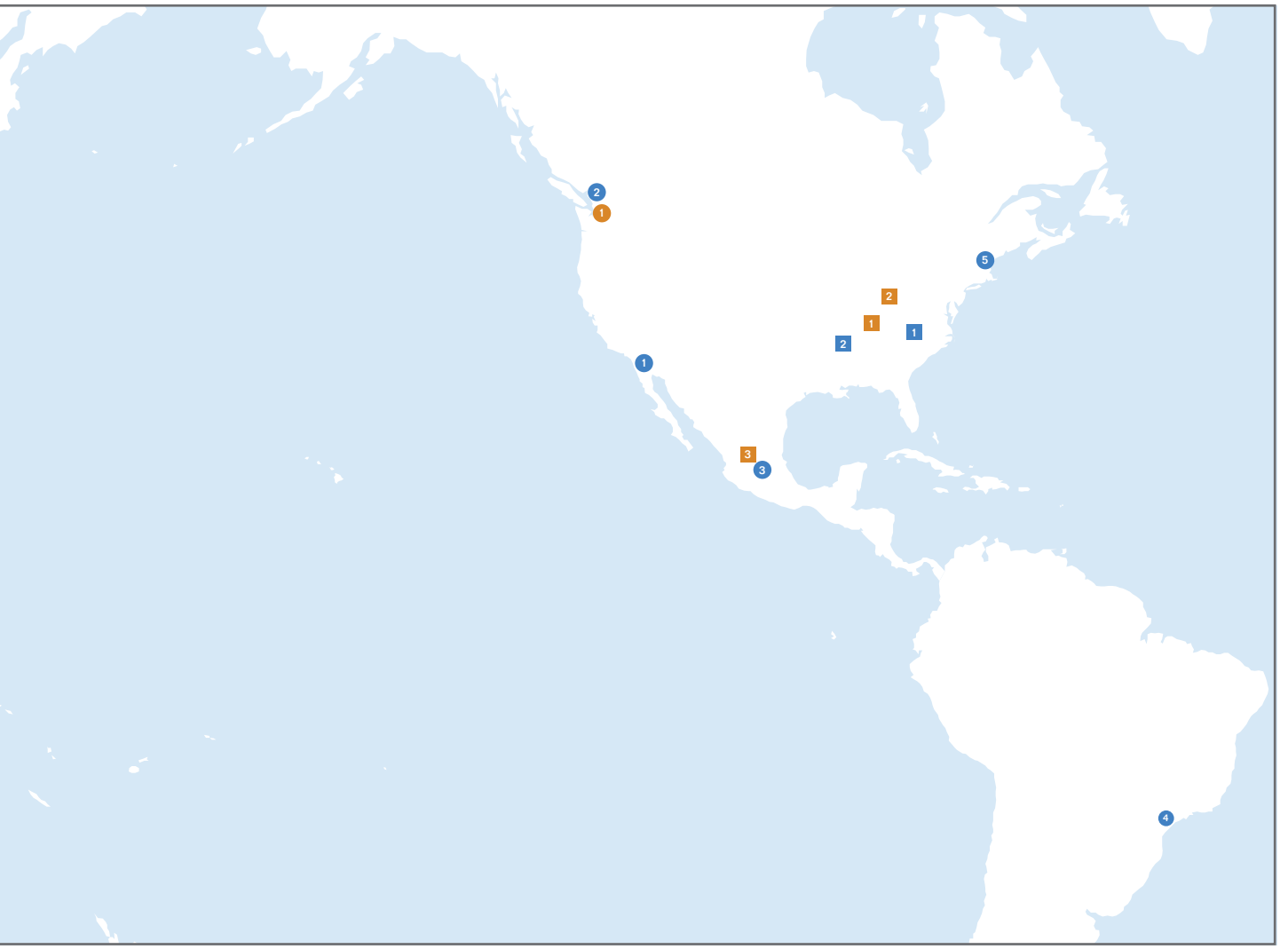
1 Yokohama Tire Corporation (United States)
2 Yokohama Tire (Canada) Inc. (Canada)
3 Yokohama Tire Mexico S. de R.L. de C.V. (Mexico)
4 Yokohama Rubber Latin America Indústria e Comércio Ltda. (Brazil)
5 Alliance Tire Americas Inc. (U.S.A.)

Europe

6 Yokohama H.P.T. Ltd. (United Kingdom)
7 Yokohama Suisse SA (Switzerland)
8 Yokohama Scandinavia AB (Sweden)
9 Yokohama Europe GmbH (Germany)
10 Yokohama Reifen GmbH (Germany)
11 Yokohama Austria GmbH (Austria)
12 Yokohama Danmark A/S (Denmark)
13 Yokohama Iberia, S.A. (Spain)
14 Yokohama Russia L.L.C. (Russia)
15 N.V. Yokohama Belgium S.A. (Belgium)
16 Alliance Tire Europe B.V. (Netherlands)

Asia

17 Yokohama Tire Sales (Shanghai) Co., Ltd. (China)
18 Yokohama Tire Taiwan Co., Ltd. (Taiwan)
19 Yokohama Tire Korea Co., Ltd. (Republic of Korea)



20 Yokohama Tire Sales Philippines, Inc. (Philippines)
21 Yokohama Tire Sales (Thailand) Co., Ltd. (Thailand)
22 Yokohama Asia Co., Ltd. (Thailand)

Oceania

23 Yokohama Tyre Australia Pty., Ltd. (Australia)

Middle East

24 Dubai Head Office (Dubai/Business coordination)
25 Jeddah Office (Saudi Arabia/Business coordination)

Proving Ground

1 Tire Test Center of Asia (Thailand)

MB (Multiple Business) Segment

Production and Sales

Americas

1 Yokohama Industries Americas Inc. (United States)
2 Yokohama Industries Americas Ohio Inc. (United States)
3 Yokohama Industries Americas Mexico S. de R.L. de C.V. (Mexico)

Europe

4 Yokohama Industrial Products Italy S.r.l. (Italy)

Asia

5 Yokohama Industrial Products-Hangzhou Co., Ltd. (China)
6 Shandong Yokohama Rubber Industrial Products Co., Ltd. (China)
7 SC Kingflex Corporation (Taiwan)
8 Yokohama Rubber (Thailand) Co., Ltd. (Thailand)
9 PT Yokohama Industrial Products Manufacturing Indonesia (Indonesia)

Sales and Marketing Support

Americas

1 Yokohama Aerospace America, Inc. (United States)

Europe

2 Yokohama Industrial Products Europe, GmbH (Germany)

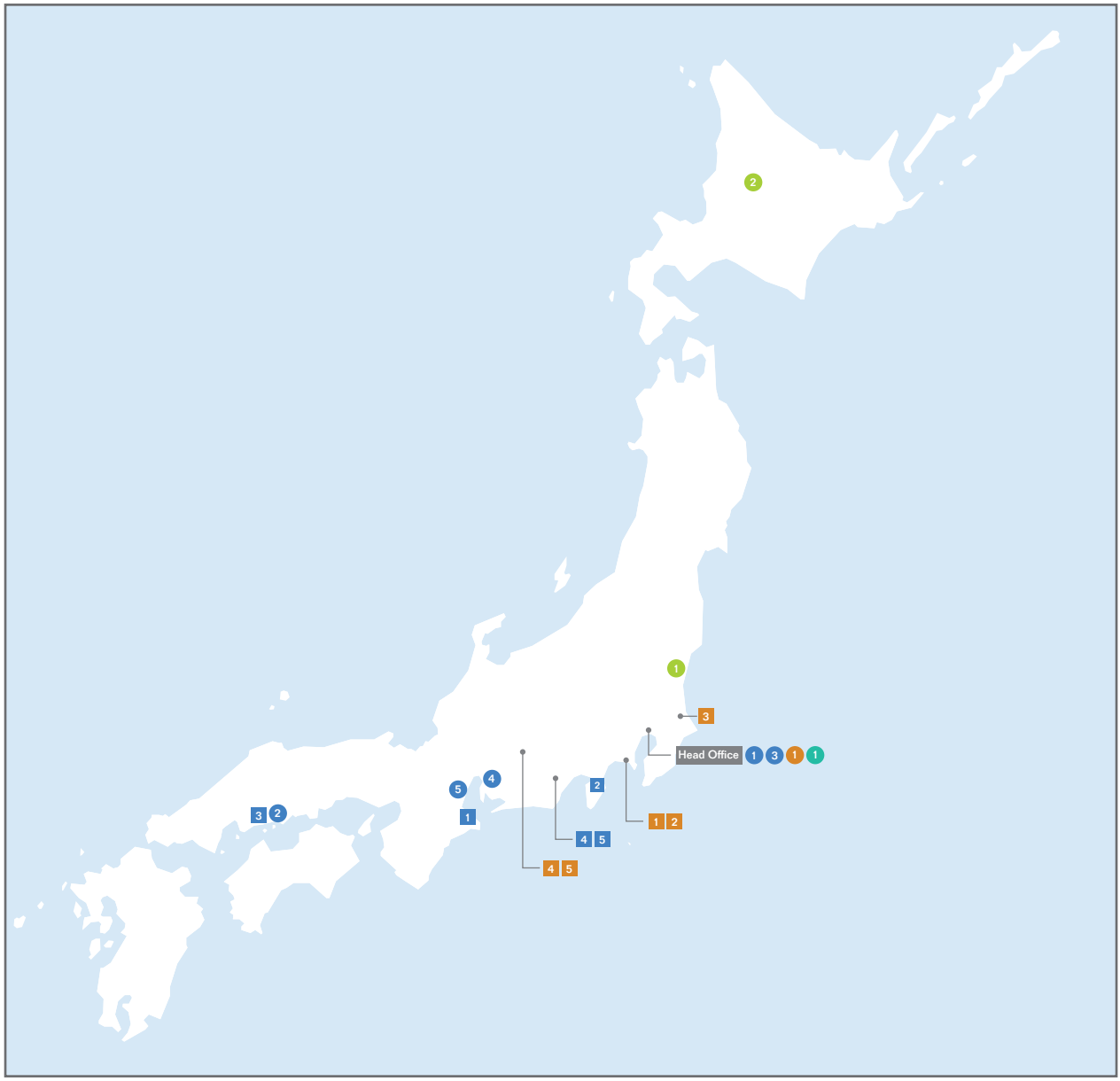
Asia

3 Yokohama Industrial Products Sales-Shanghai Co., Ltd. (China)
4 Yokohama Industrial Products Asia-Pacific Pte. Ltd. (Singapore)

Other

1 Yokohama Rubber (China) Co., Ltd. (China/Management company)
2 Yokohama Rubber Singapore Pte. Ltd. (Singapore/Business coordination)
3 Singapore Branch (Singapore/Business coordination)
4 Y.T. Rubber Co., Ltd. (Thailand/Natural rubber processing)

PRINCIPAL OPERATIONS IN JAPAN



Tires Segment

Plants

1 Mie Plant
2 Mishima Plant
3 Onomichi Plant
4 Shinshiro Plant
5 Shinshiro-Minami Plant

Sales Subsidiaries and Affiliates

1 Yokohama Tire Japan Co., Ltd.
2 Yokohama Tire Retread Co., Ltd.
3 YFC Co., Ltd.
4 Aichi Tire Industry Co., Ltd.
5 Kameyama Bead Co., Ltd.

Proving Grounds

1 D-PARC
2 Tire Test Center of Hokkaido

MB (Multiple Business) Segment

Plants

1 Hiratsuka Factory
2 Hamatite Plant
3 Ibaraki Plant
4 Nagano Plant (Takamori)
5 Nagano Plant (Toyooka)

Sales Subsidiaries

1 Yokohama Industrial Products Japan Co., Ltd.

Other

1 PRGR Co., Ltd.

FINANCIAL SECTION

Yokohama acquired Alliance Tire Group B.V., which manufactures and markets tires for agricultural, industrial, construction, and forestry machinery, on July 1, 2016. It has included the operations of Alliance Tire Group in its consolidated results as the ATG segment as of July 1, 2016.

Business Environment

The global business environment in fiscal 2016 ("2016," January 1–December 31) was a mix of divergent trends. Economic recovery continued in the United States as consumer spending grew and as expectations of the incoming administration's economic policy engendered a rise in equity prices. In China, a reduction in taxes on small cars and other measures stemmed the economic slowdown. Economic conditions improved gradually in Europe despite concerns about the ramifications of the United Kingdom's exit from the European Union.

Japan posted a modest economic recovery overall on the year. The appreciation of the yen and resultant weakness in exports weighed on the economy in the first half of 2016. Japan's economy regained vitality in the second half, however, on the strength of stimulus measures and of the weakening of the yen and the upturn in equity prices that followed the US presidential election.

In the Japanese tire industry, tire purchasing by automakers declined, partly because of an increase in taxes on minicars, but tire purchasing in the replacement market was basically unchanged. Yokohama Rubber and its subsidiaries ("Yokohama") responded to the challenging business environment with measures for promoting sales, for raising operational efficiency, and for lowering costs.

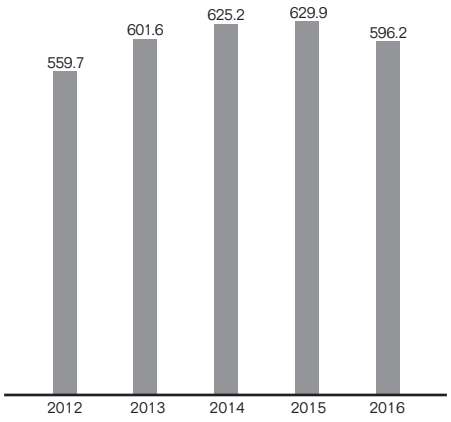
Sales, Expenses, and Earnings

Yokohama's net sales declined 5.3% in 2016, to ¥596.2 billion. That downturn reflected adverse conditions in overseas tire markets, including the appreciation of the yen and declining prices, and slumping demand in the principal markets for the MB (Multiple Business) segment. ATG sales were consistent with management's expectations in unit volume and in value.

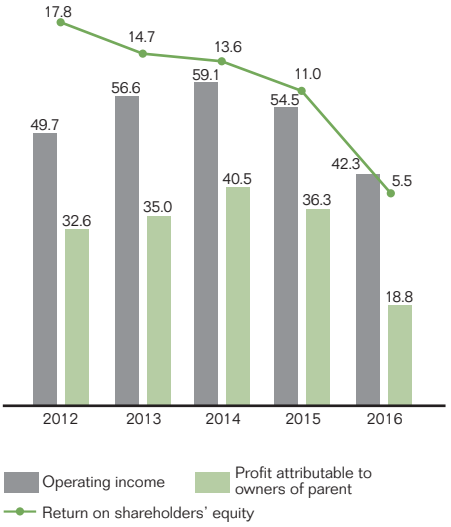
Gross profit declined 5.5%, to ¥212.4 billion. Selling, general and administrative expenses were basically unchanged, at ¥170.1 billion, despite the first-time inclusion of Alliance Tire Group's selling expenses and the inclusion of goodwill amortization expense and acquisition expenses in connection with the acquisition of that company. Operating income declined 22.4%, to ¥42.3 billion, and operating return on sales was 7.1%, compared with 8.7% in the previous year.

Net other expenses (other income and extraordinary gains less other expenses and extraordinary losses) totaled ¥10.3 billion, compared with ¥281 million in

Net Sales
Billions of Yen



Operating Income, Profit Attributable to Owners of Parent, and Return on Shareholders' Equity
Billions of Yen, Percent



the previous year. That increase reflects an extraordinary gain in the previous year on contribution of securities to employees' retirement benefit trust and an extraordinary loss recorded in 2016 on the impairment of assets, principally at overseas operations.

Profit attributable to owners of parent declined 48.3%, to ¥18.8 billion. The average yen/US dollar exchange rate was ¥109, compared with ¥121 in 2015; the average yen/euro exchange rate was ¥120, compared with ¥134 in 2015; and the average yen/ruble exchange rate was ¥1.6, compared with ¥2.0 in 2015.

Performance by Business Segment

Sales in Yokohama's Tires segment declined 10.0%, to ¥450.6 billion, and operating income declined 15.6%, to ¥36.3 billion. The Company's business in Japan's original equipment market declined in sales value on account of a decline in unit vehicle production and slumping prices. Operating income in Yokohama's Japanese original equipment business rose, however, on account of declining prices for raw materials.

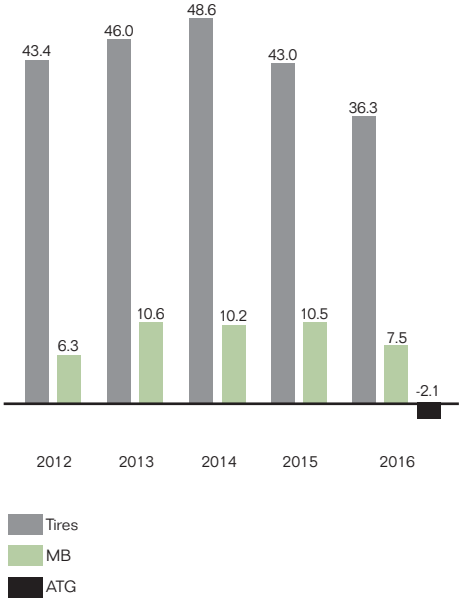
Yokohama's tire business in the Japanese replacement market declined in unit volume, but the successful promotion of high-value-added products improved the composition of the company's sales portfolio and produced an increase in operating income. Notable among the high-value-added products were high-performance tires marketed under Yokohama's global flagship brand, ADVAN; tires for sport-utility vehicles marketed under the GEOLANDAR brand; and studless snow tires marketed under the iceGUARD brand.

Yokohama's tire business outside Japan declined in sales and operating income on account of the appreciation of the yen and escalating price competition, though unit volume increased. Unit volume was flat in North America but increased in Europe, partly as the result of Yokohama's progress in cultivating new sales channels, and also increased in the Chinese original equipment market.

In the MB segment, sales declined 7.9%, to ¥112.1 billion, and operating income declined 28.9%, to ¥7.5 billion. That segment consists primarily of business in high-pressure hoses; Hamatite-brand sealants and adhesives and electronic equipment coatings, conveyor belts, antiseismic products, marine hoses and pneumatic marine fenders, and aircraft fixtures and components. Sales in high-pressure hoses declined, reflecting a decline in the Japanese production of construction equipment. Sales also declined in industrial materials amid a downturn in Japanese steel production and slumping prices for natural resources. Operating income increased in Hamatite-brand sealants and adhesives and electronic equipment coatings, driven by North American sales gains in automotive sealants, but sales declined overall on account of slumping Japanese demand. Sales declined in aircraft fixtures and components as weakness in the commercial sector more than offset sales gains in the government sector.

Sales in the ATG segment totaled ¥25.5 billion. Business in that segment was consistent with management's projections, as noted, in regard to unit volume and sales value. It reflected vigorous measures for promoting sales amid slumping demand and escalating price competition associated with a decline in grain prices. Yokohama has recorded an operating loss of ¥ 2.1 billion for the ATG segment in fiscal 2016. That reflects the inclusion of acquisition-related expenses under selling, general and administrative expenses and the amortization of goodwill.

Operating Income by Business Segment
Billions of Yen



Note 1:
The MB (Multiple Business) segment, established in 2015, comprises the operations formerly categorized as "Industrial Products" and the aircraft fixtures and components business formerly included in "Other Products." In the graphs, Yokohama has restated the values for 2014 to reflect that change retroactively and has abided by the former segment breakdown for the years 2012 and 2013.

Financial Condition

Total assets increased ¥192.3 billion, to ¥903.0 billion at fiscal year-end. Current assets increased ¥25.9 billion, to ¥350.4 billion, principally on account of increases in cash and deposits and in inventories. Total fixed assets increased ¥166.4 billion, to ¥552.6 billion, principally on account of increases in goodwill and in other investments and other assets.

Total liabilities increased ¥181.9 billion, to ¥547.9 billion at fiscal year-end, principally on account of the issuance of bonds and an increase in long-term loans payable. Interest-bearing debt increased ¥145.5 billion, to ¥336.4 billion. The ratio of interest-bearing debt to total net assets was 0.96 at year-end, compared with 0.56 at the previous year-end.

Total net assets increased ¥10.4 billion, to ¥355.0 billion at fiscal year-end. That increase consisted primarily of profit attributable to owners of parent.

Cash Flow

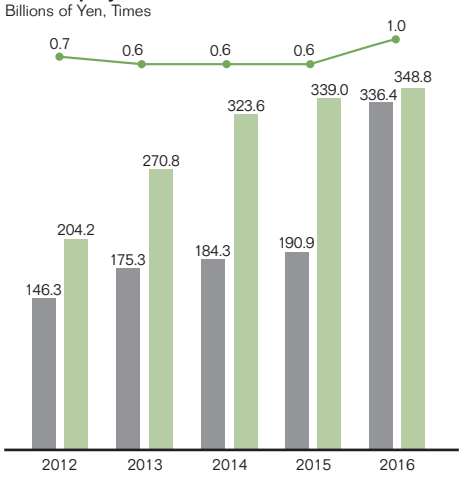
Net cash provided by operations in 2016 totaled ¥75.4 billion, which included ¥32.0 billion in income before income taxes and non-controlling interests and was Yokohama's highest-ever total for operating cash flow. Net cash used in investing activities totaled ¥166.5 billion, which consisted chiefly of ¥132.3 billion in expenditures for the acquisition of Alliance Tire Group.

Free cash flow totaled negative ¥91.1 billion. Net cash provided by financing activities totaled ¥100.2 billion, reflecting an increase of ¥175.3 billion in long-term loans payable. Cash and cash equivalents at year-end increased ¥13.7 billion from the previous year-end, to ¥54.8 billion.

Capital Expenditures

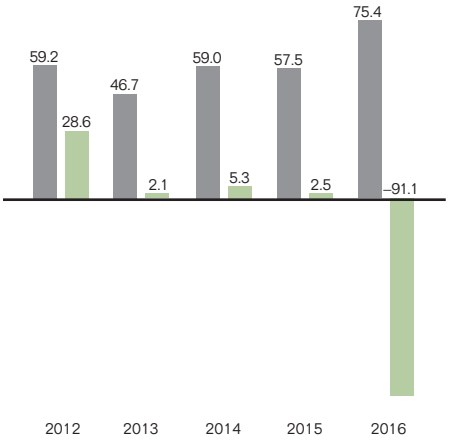
Capital expenditures in 2016 totaled ¥35.9 billion, including ¥25.2 billion in the Tires segment, ¥5.2 billion in the MB segment, and ¥2.3 billion in the ATG segment. Depreciation and amortization totaled ¥33.2 billion. The capital expenditures in the Tires segment included investment in fortifying production equipment at Japanese tire plants to manufacture new products, to accommodate Yokohama's heightened emphasis on larger wheel sizes and on high-performance tires, to raise productivity, and to improve product quality. They also included investment in expanding tire production capacity at overseas plants. The investment in the MB segment centered on expanding production capacity and improving quality in high-pressure hoses. In the ATG

Interest-Bearing Debt, Net Assets*, and Debt/Equity Ratio**
Billions of Yen, Times



Interest-bearing debt
Net assets
Debt/equity ratio
* Less non-controlling interests
** Interest-bearing debt divided by net assets less non-controlling interests

Net Cash Provided by Operating Activities and Free Cash Flow*
Billions of Yen



Net cash provided by operating activities
Free cash flow
* Free cash flow = net cash provided by operating activities less net cash used in investing activities

segment, investment centered on expanding production capacity.

R&D Expenditures

Yokohama conducts R&D on basic technologies at its Research and Development Integrated Center, in Hiratsuka, Kanagawa Prefecture. It conducts R&D linked directly to specific products through R&D units in its Tires, MB, ATG, and other operations. Expenditures on R&D in 2016 totaled ¥14.5 billion.

Dividends

Yokohama paid an annual dividend of ¥52 per share. That comprised interim and year-end dividends of ¥26 each, compared with an interim dividend of ¥13 and a year-end dividend of ¥26 for the previous year. The dividends reflect a one-for-two share merger conducted as of July 1, 2015.

Outlook for 2017

Management's projections for 2017 call for a 10.7% increase in net sales, to ¥660.0 billion; a 12.2% increase in operating income, to ¥47.5 billion; and a 59.7% increase in profit attributable to owners of parent, to ¥30.0 billion. Underlying those projections are the expectation of continued economic recovery in Japan, supported by stimulus measures implemented by the government; concerns about the effects of the protectionist stance voiced by the new US administration and of the United Kingdom's exit from the European Union; and concerns about possible adverse movements in raw material prices and in currency exchange rates. In preparing these projections, management has assumed average exchange rates of ¥110 to the US dollar, ¥118 to the euro, and ¥1.9 to the ruble.

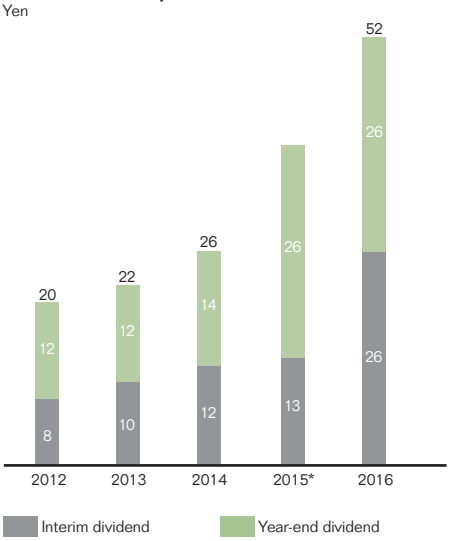
Yokohama will adopt the International Financial Reporting Standards (IFRS) in regard to its full-year fiscal results for 2017. Recalculating the 2017 projections under those standards results in projections of ¥635.0 billion for sales revenue, ¥51.0 billion for operating profit, and ¥34.0 billion for profit attributable to owners of parent.

Projected Dividends in 2017

Management plans to pay an aggregate annual dividend of ¥52 per share for 2017, the same amount as for 2016. That would again comprise an interim dividend of ¥26 per share and a year-end dividend of ¥26.

Capital Expenditures and Depreciation
Billions of Yen

Cash Dividends per Share
Yen



*A one-for-two share merger conducted on July 1, 2015, halved the number of Yokohama shares outstanding, and the year-end dividend reflects that merger. The aggregate annual dividend accords with the projection announced by Yokohama in February 2015, adjusted for the share merger.

RISK

Below is a partial listing of risks that could adversely affect the Company's business performance, financial position, or share price. All references to possible future events and to other subjects are from the standpoint of the fiscal year ended December 31, 2016.

Economic Conditions

Vehicle tires account for most of the Company's worldwide revenues. Demand for those tires reflects economic conditions in nations and regions where the Company sells its products. Therefore, economic trends and developments that diminish demand in the Company's main markets—including Japan, North America, Europe, and Asian nations besides Japan—could adversely affect the Company's business performance and financial position.

Exchange Rates

The Company conducts most of its business transactions and investments in yen, but it conducts some transactions and investments in dollars and in other currencies. The Company continues to expand its operations globally. That expansion will increase the Company's exposure to fluctuations in currency exchange rates. The Company hedges its exposure to currency exchange rates with forward exchange contracts and with other instruments, but hedging cannot fully offset the effect of fluctuations in currency exchange rates on the Company's business performance and financial position.

Seasonal Factors

Historically, the Company's sales and earnings performance has tended to be strongest in the winter months. That is mainly because sales of winter category tires are an important contributor to the Company's sales and earnings. A later-than-usual onset of winter or lighter-than-usual snowfall could diminish demand for winter category tires and thereby adversely affect the Company's business performance and financial position.

Raw Material Prices

Yokohama's principal raw materials are natural rubber and petrochemical products, including synthetic rubber and carbon black. Sharp increases in prices for natural rubber or for crude oil could raise the Company's manufacturing costs. Yokohama employs diverse measures to insulate its business from such increases, but increases in raw material prices that exceed the scope of those measures could adversely affect the Company's business performance and financial position.

Access to Funding

Instability in any of the world's principal financial markets could affect the Company's access to funding adversely. In addition, the lowering of the Company's credit rating by leading credit-rating agencies could adversely affect the Company's access to debt financing and could increase the Company's cost of funds. That could adversely affect the Company's financial performance and financial position.

Interest Rates

As of December 31, 2016, the Company's interest-bearing debt was equivalent to 37.3% of its total assets. An increase in interest rates could adversely affect the Company's financial performance and financial position. In addition, some of the Company's borrowings are subject to financial limitation clauses.

Securities

The Company owns marketable securities, mainly Japanese equities. A decline in the value of those securities could adversely affect the Company's financial performance and financial position.

Corporate Acquisitions and Capital and Business Alliances

The Company sometimes undertakes corporate acquisitions and enters into capital and business alliances to strengthen its competitive position and fortify its foundation for growth. On July 1, 2016, the Company acquired Alliance Tire Group, which engages in commercial tire business worldwide. If Alliance Tire Group underperforms the Company's expectations at the time of the acquisition, that could occasion impairment loss on goodwill and on other assets and affect the Company's business performance and financial position adversely. Such underperformance could result from internal factors or from unforeseen changes in the business environment or in competitive conditions.

Investment

In response to growing demand for automobile tires, the Company is investing in expanding its tire production capacity, especially in Asia. Changes in the regulatory environment, in economic conditions, in industrial circumstances, or in political and social stability in the host nations for the Company's investment could adversely affect the Company's business performance and financial position.

Retirement Benefit Obligations

The Company calculates retirement benefit obligations and retirement benefit expenses according to predetermined criteria, including the discount rate and the anticipated return on pension assets. If the actual discount rate or the actual return on the Company's pension assets differ substantially from the expected levels, that could adversely affect the Company's financial performance and financial position. Such divergence from the expected levels could occur as a result of a decline in market interest rates, a decline in the valuation of the pension assets, a decline in return on the pension assets, or changes in the severance payment system or pension system.

Natural Disasters

Earthquakes and other natural disasters could damage the Company's plants and other facilities and could limit the Company's access to essential raw materials and services. That could adversely affect the Company's business performance and financial position.

Intellectual Property

The Company strives to protect its accumulated technological expertise from unauthorized use by third parties and its intellectual property rights from infringement, but it could, in some circumstances, be unable to prevent such unauthorized use or infringement. Conversely, third parties could claim that the Company's products or technologies infringe on their intellectual property rights. Unauthorized use of the Company's technological expertise, infringement of its intellectual property, or court rulings that its products or technologies infringe on third-party intellectual property rights could adversely affect the Company's business performance and financial position.

Product Quality

Management at the Company is committed to ensuring high and consistent product quality and maintains a framework and procedures for fulfilling that commitment, but product defects could occur despite the Company's best efforts in prevention. The occurrence of defects serious enough to occasion large product recalls could adversely affect the Company's business performance and financial position.

Laws, Regulations, and Litigation

The Company is subject to laws and regulations in the nations where it conducts business that pertain to such activities as investment, trade, currency exchange, competition, and environmental protection. New or amended laws or regulations that result in constraining the Company's operating latitude or in raising the Company's costs could adversely affect the Company's business performance and financial position. In addition, the Company could become the subject of litigation or of investigations by legal authorities in the nations where it operates. Serious litigation or the initiation of an investigation of the Company by legal authorities could adversely affect the Company's business performance and financial position.

ELEVEN-YEAR SUMMARY

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the years ended December 31, 2012–2016, the nine months ended December 31, 2011, and the years ended March 31, 2007–2011

	2016	2015	2014	2013
Net sales	**¥ 596,193**	¥ 629,856	¥ 625,246	¥ 601,630
Operating income	**42,317**	54,536	59,067	56,647
Profit before income taxes	**32,008**	54,255	62,594	55,819
Profit attributable to owners of parent	**18,787**	36,308	40,503	35,008
Depreciation	**33,203**	31,359	27,439	23,982
Capital expenditures	**35,928**	50,997	55,325	33,505
R&D expenditures	**14,483**	14,221	13,438	12,633
Interest-bearing debt	**336,383**	190,915	184,336	175,251
Total net assets	**355,044**	344,689	330,782	279,021
Total assets	**902,990**	710,717	734,512	653,584
Per share (yen):				
Profit attributable to owners of parent: Basic	**¥ 117.17**	¥ 266.07	¥ 125.34	¥ 108.32
Net assets	**2,175.06**	2,114.11	1,001.29	837.84
Cash dividends	**52.00**	—*	26.00	22.00
Key financial ratios:				
Operating return on sales (%)	**7.1**	8.7	9.4	9.4
Return on shareholders' equity (%)	**5.5**	11	13.6	14.7
Capital turnover (times)	**0.74**	0.87	0.9	1.0
Interest-bearing debt to shareholders' equity (times)	**1.0**	0.6	0.6	0.6
Interest coverage (times)	**16.0**	20.0	18.4	20.6
Number of employees	**24,610**	22,187	21,441	19,770

* A one-for-two share merger conducted on July 1, 2015, halved the number of Yokohama shares outstanding, and the year-end dividend reflects that merger. The aggregate annual dividend accords with the projection announced by Yokohama in February 2015, adjusted for the share merger.

Millions of Yen

2012	2011/12	2011/3	2010	2009	2008	2007
¥ 559,700	¥ 465,134	¥ 519,742	¥ 466,358	¥ 517,263	¥ 551,431	¥ 497,396
49,696	26,291	29,491	21,455	12,808	33,119	21,070
51,768	16,604	21,880	18,969	(3,166)	20,478	26,038
32,611	11,619	13,924	11,487	(5,654)	21,060	16,363
25,007	19,871	25,885	28,184	28,684	27,238	22,166
28,070	22,433	24,944	17,471	43,341	27,292	40,638
12,825	9,307	12,748	13,280	15,277	15,289	14,649
146,285	161,998	146,773	154,675	179,379	165,614	167,474
211,350	168,286	170,872	163,382	144,159	181,538	186,528
543,829	501,786	478,916	466,973	473,376	526,192	536,322
¥ 97.87	¥ 34.68	¥ 41.55	¥ 34.27	¥ (16.87)	¥ 62.81	¥ 48.79
631.64	484.04	489.27	475.26	417.45	525.96	542.10
20.00	7.00	10.00	10.00	10.00	13.00	12.00
8.9	5.7	5.7	4.6	2.5	6.0	4.2
17.8	7.1	8.6	7.7	(3.6)	11.8	9.3
1.1	0.9	1.1	1.0	1.0	1.0	1.0
0.7	1.0	0.9	1.0	1.3	0.9	0.9
20.7	14.3	13.4	8.0	4.3	9.0	7.0
19,412	19,272	18,465	17,566	16,772	16,099	15,423

CONSOLIDATED BALANCE SHEET

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
As of December 31, 2016 and 2015

	Millions of Yen		Thousands of US Dollars (Note 1)
Assets	**2016** (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Current Assets (Note 3):			
Cash and deposits	**¥ 60,348**	¥ 42,270	**$ 518,050**
Trade receivables:			
Notes and accounts (Note 3)	**155,790**	155,171	**1,337,366**
Electronically recorded monetary claims—operating	**8,447**	7,264	**72,513**
Inventories	**104,841**	99,892	**900,003**
Deferred income taxes	**9,323**	8,842	**80,031**
Other current assets	**13,527**	11,869	**116,122**
Allowance for doubtful receivables	**(1,854)**	(763)	**(15,919)**
Total current assets	**350,421**	324,545	**3,008,167**
Property, Plant and Equipment, at Cost (Note 3):			
Land	**46,663**	39,244	**400,571**
Buildings and structures	**201,771**	184,904	**1,732,084**
Machinery and equipment	**559,526**	530,054	**4,803,210**
Leased assets	**4,533**	3,130	**38,915**
Construction in progress	**25,433**	23,336	**218,330**
	837,925	780,669	**7,193,110**
Less accumulated depreciation	**(539,018)**	(519,007)	**(4,627,158)**
Total property, plant and equipment, net	**298,908**	261,662	**2,565,952**
Investments and Other Assets (Note 3):			
Investment securities (Note 3)	**92,616**	97,956	**795,056**
Deferred income taxes	**3,023**	2,858	**25,948**
Goodwill	**88,564**	—	**760,272**
Other investments and other assets (Note 3)	**69,990**	24,208	**600,828**
Allowance for doubtful receivables	**(532)**	(512)	**(4,567)**
Total investments and other assets	**253,661**	124,510	**2,177,536**
Total assets	**¥ 902,990**	¥ 710,717	**$ 7,751,655**

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of Yen 2016 (12.31.16)	Millions of Yen 2015 (12.31.15)	Thousands of US Dollars (Note 1) 2016 (12.31.16)
Current Liabilities:			
Bank loans (Note 3)	**¥ 41,553**	¥ 67,092	**$ 356,713**
Current maturities of long-term debt	**20,326**	15,814	**174,484**
Commercial paper	**—**	13,000	**—**
Trade notes and accounts payable (Note 3)	**65,252**	65,542	**560,155**
Electronically recorded obligations—operating	**7,488**	7,267	**64,280**
Accrued income taxes	**4,990**	2,537	**42,837**
Accrued expenses	**38,255**	36,814	**328,394**
Allowance for sales returns	**996**	678	**8,554**
Other current liabilities (Note 3)	**22,547**	16,047	**193,556**
Total current liabilities	**201,408**	224,792	**1,728,974**
Long-Term Liabilities:			
Long-term debt (Note 3)	**274,504**	95,011	**2,356,463**
Deferred income taxes	**44,405**	20,189	**381,188**
Net defined benefit liability	**14,002**	12,823	**120,195**
Other long-term liabilities	**13,627**	13,213	**116,981**
Total long-term liabilities	**346,538**	141,236	**2,974,827**
Total liabilities	**547,946**	366,028	**4,703,801**
Net Assets			
Shareholders' Equity:			
Common stock:			
Authorized: 400,000,000 shares as of December 31, 2016 and 2015			
Issued: 169,549,081 shares as of December 31, 2016 and 2015	**38,909**	38,909	**334,013**
Capital surplus	**31,055**	31,222	**266,591**
Retained earnings	**240,479**	232,164	**2,064,373**
Treasury stock, at cost: 9,208,651 shares as of December 31, 2016, and 9,207,255 shares as of December 31, 2015	**(12,114)**	(12,111)	**(103,988)**
Total shareholders' equity	**298,330**	290,184	**2,560,989**
Accumulated Other Comprehensive Income:			
Unrealized gains on securities	**40,094**	39,473	**344,180**
Deferred gains or losses on hedges	**1,083**	(156)	**9,299**
Foreign currency translation adjustments	**15,024**	14,984	**128,970**
Remeasurements of defined benefit plans	**(5,779)**	(5,505)	**(49,612)**
Total accumulated other comprehensive income	**50,421**	48,796	**432,837**
Non-controlling Interests	**6,294**	5,709	**54,028**
Total net assets	**355,045**	344,689	**3,047,855**
Total liabilities and net assets	**¥ 902,990**	¥ 710,717	**$ 7,751,655**

CONSOLIDATED STATEMENT OF INCOME

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2015

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016 (01.01.16–12.31.16)	2015 (01.01.15–12.31.15)	**2016** (01.01.16–12.31.16)
Net sales	**¥ 596,194**	¥ 629,856	**$ 5,117,981**
Cost of sales (Note 4)	**383,776**	405,150	**3,294,501**
Gross profit	**212,417**	224,706	**1,823,480**
Selling, general and administrative expenses (Note 4)	**170,100**	170,170	**1,460,210**
Operating income	**42,317**	54,536	**363,271**
Other income (expenses)			
Interest and dividend income	**2,341**	2,766	**20,094**
Interest expense	**(2,786)**	(2,858)	**(23,920)**
Exchange loss	**(1,774)**	(3,781)	**(15,232)**
Gain on contribution of securities to retirement benefit trust	**—**	7,926	**—**
Loss on sale and disposal of fixed assets (Note 4)	**(679)**	(1,060)	**(5,830)**
Impairment loss (Note 4)	**(6,445)**	(1,946)	**(55,323)**
Other, net	**(965)**	(1,328)	**(8,287)**
	(10,309)	(281)	**(88,498)**
Profit before income taxes	**32,008**	54,255	**274,772**
Income taxes:			
Current	**14,825**	12,135	**127,268**
Deferred	**(2,303)**	5,604	**(19,768)**
	12,523	17,739	**107,500**
Profit	**19,486**	36,516	**167,272**
Profit attributable to non-controlling interests	**(698)**	(208)	**(5,992)**
Profit attributable to owners of parent	**¥ 18,788**	¥ 36,308	**$ 161,280**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2015

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016 (01.01.16–12.31.16)	2015 (01.01.15–12.31.15)	**2016** (01.01.16–12.31.16)
Profit	**¥ 19,486**	¥ 36,516	**$ 167,272**
Other comprehensive income (loss)			
Unrealized gains or losses on securities	**624**	(3,080)	**5,359**
Deferred gains or losses on hedges	**1,239**	(156)	**10,639**
Foreign currency translation adjustments	**34**	(5,329)	**290**
Remeasurements of defined benefit plans	**(270)**	(701)	**(2,320)**
Total other comprehensive income (loss) (Note 5)	**¥ 1,627**	¥ (9,266)	**$ 13,968**
Comprehensive income	**¥ 21,113**	¥ 27,250	**$ 181,240**
Comprehensive income attributable to owners of parent	**¥ 20,413**	¥ 27,494	**$ 175,232**
Comprehensive income (loss) attributable to non-controlling interests	**700**	(244)	**6,007**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2015

	Millions of Yen							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Total Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Net Assets
Balance at January 1, 2015	¥ 38,909	¥ 31,954	¥ 206,462	¥ (11,378)	¥ 265,948	¥ 57,609	¥ 7,225	¥ 330,782
Cumulative effects of changes in accounting policies	—	—	338	—	338	—	—	338
Restated balance	38,909	31,954	206,801	(11,378)	266,286	57,609	7,225	331,120
Profit attributable to owners of parent	—	—	36,308	—	36,308	—	—	36,308
Cash dividends paid	—	—	(8,693)	—	(8,693)	—	—	(8,693)
Change of scope of consolidation	—	—	47	—	47	—	—	47
Purchase of treasury shares	—	—	—	(3,033)	(3,033)	—	—	(3,033)
Disposal of treasury shares	—	0	—	0	1	—	—	1
Retirement of treasury shares	—	(1)	(2,299)	2,300	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	(731)	—	—	(731)	—	—	(731)
Accumulated other comprehensive income (loss)								
Net unrealized gains or losses on securities	—	—	—	—	—	(3,086)	—	(3,086)
Deferred gains or losses on hedges	—	—	—	—	—	(156)	—	(156)
Foreign currency translation adjustments	—	—	—	—	—	(4,871)	—	(4,871)
Remeasurements of defined benefit plans	—	—	—	—	—	(701)	—	(701)
Net changes of items other than shareholders' equity	—	—	—	—	—	—	(1,516)	(1,516)
Balance at January 1, 2016	38,909	31,222	232,164	(12,111)	290,184	48,796	5,709	344,689
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—
Restated balance	38,909	31,222	232,164	(12,111)	290,184	48,796	5,709	344,689
Profit attributable to owners of parent	—	—	18,788	—	18,788	—	—	18,788
Cash dividends paid	—	—	(8,338)	—	(8,338)	—	—	(8,338)
Change of scope of consolidation	—	—	(2,135)	—	(2,135)	—	—	(2,135)
Purchase of treasury shares	—	—	—	(3)	(3)	—	—	(3)
Disposal of treasury shares	—	0	—	0	0	—	—	0
Retirement of treasury shares	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	(167)	—	—	(167)	—	—	(167)
Accumulated other comprehensive income (loss)								
Net unrealized gains or losses on securities	—	—	—	—	—	621	—	621
Deferred gains or losses on hedges	—	—	—	—	—	1,239	—	1,239
Foreign currency translation adjustments	—	—	—	—	—	39	—	39
Remeasurements of defined benefit plans	—	—	—	—	—	(274)	—	(274)
Net changes of items other than shareholders' equity	—	—	—	—	—	—	585	585
Balance at December 31, 2016	¥ 38,909	¥ 31,055	¥ 240,479	¥ (12,114)	¥ 298,330	¥ 50,421	¥ 6,294	¥ 355,045

	Thousands of US Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Total Accumulated Other Comprehen-sive Income (Loss)	Non-controlling Interests	Total Net Assets
Balance at January 1, 2016	$ 334,013	$ 268,023	$ 1,992,993	$ (103,966)	$ 2,491,063	$ 418,885	$ 49,009	$ 2,958,957
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—
Restated balance	334,013	268,023	1,992,993	(103,966)	2,491,063	418,885	49,009	2,958,957
Profit attributable to owners of parent	—	—	161,280	—	161,280	—	—	161,280
Cash dividends paid	—	—	(71,575)	—	(71,575)	—	—	(71,575)
Change of scope of consolidation	—	—	(18,325)	—	(18,325)	—	—	(18,325)
Purchase of treasury shares	—	—	—	(24)	(24)	—	—	(24)
Disposal of treasury shares	—	—	—	2	2	—	—	2
Retirement of treasury shares	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	(1,433)	—	—	(1,433)	—	—	(1,433)
Accumulated other comprehensive income (loss)								
Net unrealized gains or losses on securities	—	—	—	—	—	5,328	—	5,328
Deferred gains or losses on hedges	—	—	—	—	—	10,639	—	10,639
Foreign currency translation adjustments	—	—	—	—	—	338	—	338
Remeasurements of defined benefit plans	—	—	—	—	—	(2,352)	—	(2,352)
Net changes of items other than shareholders' equity	—	—	—	—	—	—	5,019	5,019
Balance at December 31, 2016	$ 334,013	$ 266,591	$ 2,064,373	$ (103,988)	$ 2,560,989	$ 432,837	$ 54,028	$ 3,047,855

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
For the years ended December 31, 2016 and 2015

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016 (01.01.16–12.31.16)	2015 (01.01.15–12.31.15)	**2016** (01.01.16–12.31.16)
Operating Activities:			
Profit before income taxes	**¥ 32,008**	¥ 54,255	**$ 274,772**
Depreciation and amortization	**33,203**	31,359	**285,032**
Amortization of goodwill	**2,163**	—	**18,568**
Loss (gain) on sales of non-current assets	**679**	1,060	**5,830**
Gain on securities contribution to employees' retirement benefits trust	**—**	(7,926)	**—**
Impairment loss	**6,445**	1,946	**55,323**
Increase (decrease) in net defined benefit liability	**701**	76	**6,015**
Other, net	**2,279**	1,089	**19,564**
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	**4,386**	4,713	**37,653**
Inventories	**6,401**	7,176	**54,945**
Notes and accounts payable	**(2,489)**	(15,577)	**(21,369)**
Other, net	**2,660**	(224)	**22,839**
Interest and dividends received	**2,275**	2,738	**19,529**
Interest paid	**(2,700)**	(2,961)	**(23,176)**
Income taxes paid	**(12,638)**	(20,178)	**(108,491)**
Net cash provided by operating activities	**75,373**	57,544	**647,035**
Investing Activities:			
Purchases of property, plant and equipment	**(30,695)**	(48,481)	**(263,500)**
Purchases of marketable securities and investment securities	**(22)**	(3,393)	**(188)**
Proceeds from sales of property, plant and equipment	**576**	898	**4,945**
Purchases of shares of subsidiaries resulting in change in scope of consolidation (Note 7)	**(132,312)**	—	**(1,135,825)**
Payments of loans receivable	**(152)**	(584)	**(1,306)**
Other, net	**(3,888)**	(3,518)	**(33,375)**
Net cash used in investing activities	**(166,493)**	(55,078)	**(1,429,251)**
Financing Activities:			
Increase (decrease) in short-term bank loans	**(31,637)**	(18,144)	**(271,582)**
Increase (decrease) in commercial paper	**(13,000)**	(9,000)	**(111,598)**
Proceeds from long-term debt	**175,318**	48,062	**1,505,001**
Decrease in long-term debt	**(39,468)**	(24,846)	**(338,812)**
Proceeds from issuance of bonds	**18,000**	12,000	**154,520**
Payment of cash dividends	**(8,339)**	(8,690)	**(71,586)**
Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation	**—**	(1,715)	**—**
Other, net	**(650)**	(4,062)	**(5,581)**
Net cash used in financing activities	**100,224**	(6,395)	**860,363**
Effect of exchange rate changes on cash and cash equivalents	**2,178**	(759)	**18,696**
Increase (decrease) in cash and cash equivalents	**11,281**	(4,687)	**96,843**
Cash and cash equivalents at beginning of year	**41,084**	44,454	**352,684**
Effect of changes in consolidation scope on cash and cash equivalents	**2,419**	1,318	**20,770**
Cash and cash equivalents at end of year (Note 7)	**¥ 54,785**	¥ 41,084	**$ 470,297**

See accompanying Notes to Consolidated Financial Statements.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company"), and its domestic consolidated subsidiaries were prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of the International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. The Company's subsidiaries in the United States of America (the "USA") prepared their financial statements in accordance with accounting principles generally accepted in the USA.

In preparing these statements, certain reclassifications and rearrangements were made to the consolidated financial statements prepared domestically to present these statements in a form that is more familiar to readers outside Japan. In addition, the accompanying notes include additional information that is not required under accounting principles and practices generally accepted in Japan.

The US dollar amounts included herein are solely for the convenience of the reader and have been translated from the Japanese yen amounts at the rate of ¥116.49 = US$1.00, the approximate exchange rate prevailing on December 31, 2016.

1. Consolidated accounting

(1) Number of consolidated subsidiaries: 135

Changes during the fiscal year ended December 31, 2016, in the number of consolidated subsidiaries were as follows.

Increase: 16 companies newly consolidated on account of establishment or increased importance

Principal company

Alliance Tire Group B.V.

Decrease: 3 companies removed on account of liquidation

Principal company

Yokohama Tire Tateyama Co., Ltd.

The Company consolidated the Alliance Tire Group on July 1, 2016, when it purchased all the outstanding shares of that company. The addition of the Alliance Tire Group will have a material effect on the Company's consolidated financial statements for next fiscal year (January 1–December 31, 2017). That effect will consist chiefly of increases in net sales and other items on the consolidated statement of income.

(2) Number of unconsolidated subsidiaries: 13

Principal company

Yokohama Motorsports International Co., Ltd.

The Company's 13 unconsolidated subsidiaries are not consolidated because each is insignificant in regard to the sum of total assets, net sales, profit attributable to owners of parent, and retained earnings.

2. Equity-method accounting

(1) Number of unconsolidated subsidiaries and affiliated companies accounted for by the equity method

None.

Yokohama Continental Tire Co., Ltd., formerly accounted for by the equity method, was dissolved during the fiscal year ended December 31, 2016.

(2) The Company has not accounted for Yokohama Motorsports International Co., Ltd., and 13 other unconsolidated subsidiaries or for Jatoma Building Co., Ltd., and 41 other affiliates by the equity method because those subsidiaries and affiliates are insignificant individually and in the aggregate in regard to profit attributable to owners of parent and retained earnings.

3. Matters related to the fiscal year of the consolidated subsidiaries

The account settlement date of the consolidated subsidiaries is the same as the consolidated account settlement date.

4. Summary of significant accounting policies

(1) Valuation standards and methods for significant assets

(i) Marketable securities and investment securities

Securities classified as available for sale and whose fair value is readily determinable are carried at fair value, with unrealized gains or losses included as a component of net assets, net of applicable taxes. Costs are determined by the moving-average method. Securities whose fair value is not readily determinable are carried at cost. Costs are determined by the moving-average method.

(ii) Derivative instruments

Derivative instruments whose fair value is readily determinable are carried at fair value.

(iii) Inventories

Inventories of the Company and its domestic subsidiaries are stated at cost, determined by the moving-average method, and inventories of certain foreign subsidiaries are valued at the lower of cost based on the first-in first-out method or market.

The book value of inventories of the Company and its domestic consolidated subsidiaries reflects a write-down due to declines in profitability.

(2) Depreciation and amortization

(i) Tangible fixed assets

Depreciation of tangible fixed assets is computed principally by the straight-line method based on the estimated useful lives of the respective assets. The useful lives are estimated principally as follows.

Buildings and structures: 5–50 years

Machinery and equipment: 2–10 years

(ii) Intangible fixed assets

Amortization of intangible fixed assets is computed principally by the straight-line method based on the estimated useful lives of the respective assets. The Companies employ estimated useful lives of 5 years for software for use by the Companies and 13 years for customer-related assets.

(iii) Leased assets

Depreciation of leased assets covered by finance lease agreements that do not provide for the transfer of ownership is computed by the straight-line method based on the assumption that the useful lives of the assets are equal to the lease periods and that the assets have no residual value at the conclusion of the lease agreements.

(3) Allowances

(i) Allowance for doubtful receivables

The allowance for doubtful receivables is provided as an estimated amount of probable bad debts plus an amount based on past credit loss experience.

(ii) Allowance for directors' bonuses

To prepare for the payment of bonuses to directors, an allowance is provided for in the amount that is expected to be paid at the end of the fiscal year.

(iii) Allowance for sales returns

An allowance for sales returns is provided for losses incurred on the return of snow tires sold during the fiscal year but expected to be returned subsequent to the balance sheet date. The allowance is based on an estimate using the average rate of such returns in prior years.

(4) Retirement benefits

(i) Attribution method of retirement benefit estimates

The benefit formula is mainly applied to attribute the expected benefit to the current period in the calculation of the projected benefit obligation.

(ii) Method of amortization of actuarial differences and prior service costs

Prior service costs are amortized by the straight-line method over certain periods (mainly 10 years), which are within the average remaining service period of employees at the time of recognition. Actuarial gains and losses are amortized starting in the year following the year in which the gain or loss is recognized by the straight-line method over certain periods (mainly 10 years), which are within the average remaining service period of employees at the time of recognition.

Unrecognized prior service cost and unrecognized actuarial gains and losses are included in remeasurements of defined benefit plans under accumulated other comprehensive income in net assets after the tax-effect adjustment.

(iii) Adoption of simplified method for small companies

Certain consolidated subsidiaries adopt a simplified method of using the amounts payable for voluntary retirement of employees associated with retirement benefits at the end of the fiscal year as retirement benefit obligations to calculate net defined benefit liability and retirement benefit expenses.

(iv) Retirement benefit plans in US subsidiaries

Retirement benefit costs to employees are estimated in accordance with the Statement of Financial Accounting Standards and allocated by employees' service period.

(5) Foreign currency translation

Foreign currency receivables and payables are translated at the year-end spot rates. The resulting exchange gains and losses are charged or credited to income.

The assets and liabilities of the consolidated subsidiaries outside Japan are translated at the corresponding fiscal year-end rates, and the income and expense accounts of those companies are translated at the corresponding average rates for the fiscal year.

Differences arising from such translation are recorded in foreign currency translation adjustments and non-controlling interests in net assets.

(6) Significant hedge accounting methods

(i) Hedge accounting methods

Hedge accounting is primarily in accordance with the deferred hedge method. The Companies employ exceptional

accounting treatment for interest rate swaps because those instruments fulfill the conditions for that treatment.

(ii) Hedging instruments and hedged items

(Hedging instruments)	(Hedged items)
Forward exchange contracts	Forecasted transactions denominated in foreign currencies, and accounts receivable denominated in foreign currencies
Interest rate swap transactions	Long-term borrowings denominated in yen, and long-term borrowings denominated in foreign currencies
Currency options	Forecasted transactions denominated in foreign currencies
Commodity futures contracts	Raw materials

(iii) Hedging policy

The Company's basic policy is to hedge against the risk posed by fluctuations in exchange rates, in interest rates, and in commodity prices in accordance with internal guidelines.

(vi) Hedge effectiveness assessment

The Companies evaluate hedge effectiveness primarily by comparing the cumulative fluctuations in the market values of the hedged items and the hedging instruments between the start of the hedging period and the date of the evaluation. The Companies do not evaluate hedge effectiveness for interest rate swaps accounted for by exceptional accounting treatment because the hedging instruments correspond to the hedged items in important respects and because the hedging is regarded as fully offsetting market fluctuations from the beginning of the hedging periods and continuously thereafter.

(7) Method and period for amortizing goodwill

The Company amortizes goodwill of significant amounts by the straight-line method over 20 years. However, immaterial amounts of goodwill are charged to income in the year of acquisition.

(8) Cash and cash equivalents reported on the consolidated statement of cash flows

Cash equivalents on the consolidated statement of cash flows consist of cash on hand; cash in banks that can be withdrawn at any time; and short-term investments that mature within three months, that entail minimal risk in regard to price fluctuations, and that are readily convertible to cash.

(9) Other important items of consideration in preparing the consolidated financial statements

Accounting for consumption tax

Consumption tax and local consumption tax on goods and services are not included in the revenue and expense amounts.

2. Changes in disclosure

Change in connection with the adoption of the "Revised Accounting Standard for Business Combinations"

In accordance with the provision set forth in Paragraph 39 of the "Revised Accounting Standard for Consolidated Financial Statements" (Accounting Standards Board of Japan [ASBJ] Statement No. 22, issued on September 13, 2013) and other relevant provisions, the Company has changed the terminology for two items from "Net income" to "Profit (loss) attributable to owners of parent" and from "Minority interests" to "Non-controlling interests" from the fiscal year ended December 31, 2016. To reflect these changes, the Company has reconfigured its presentation of the corresponding items for the previous fiscal year.

3. Supplementary information for consolidated balance sheet

1. Pledged assets and secured liabilities

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Cash and deposits	**¥ 2,535**	¥ —	**$ 21,760**
Notes and accounts	**14,252**	—	**122,344**
Inventories	**14,411**	—	**123,708**
Other current assets	**3,122**	—	**26,801**
Buildings and structures	**3,389**	176	**29,093**
Machinery and equipment	**11,116**	—	**95,426**
Land	**509**	509	**4,372**
Construction in progress	**3,090**	—	**26,530**
Other tangible fixed assets	**1,279**	—	**10,976**
Other intangible fixed assets	**1,487**	—	**12,763**
Investment securities	**1,001**	—	**8,592**
Deferred income taxes (investments and other assets)	**205**	—	**1,759**
Other investments and other assets	**2,275**	—	**19,532**
Total	**¥ 58,671**	¥ 686	**$ 503,656**

The above assets have been pledged as collateral for the following debt:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Short-term loans payable	**¥ 4,732**	¥ 300	**$ 40,618**
Long-term loans payable	**6,814**	—	**58,497**

2. Unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Investment securities (stock)	**¥ 2,046**	¥ 6,859	**$ 17,559**
Investment in capital in other investments and other assets	**2,622**	5,479	**22,507**
(Investment in jointly controlled companies included in above)	**—**	66	**—**

3. Reduction entry amounts

Reduction entry amounts deducted from the acquisition cost of tangible fixed assets were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Gain on insurance adjustment	**¥ 77**	¥ 77	**$ 658**
Subsidies	**34**	17	**290**

4. Financial covenants

The Company's borrowings at December 31, 2016, included borrowings secured under syndicated loan agreements in the amounts of US$720 million and ¥54,240 million (US$465,619 thousand) concluded with the participating banks on June 30, 2016. Those agreements are subject to the following financial covenants:

- The figure for net assets on the Company's consolidated balance sheet at December 31, 2016, and at each subsequent fiscal year-end during the terms of the agreements must total no less than an amount specified in the agreements in reference to the figure for the previous fiscal year-end.
- The figure for operating income on the Company's consolidated statement of income must not be negative for any two consecutive fiscal years during the terms of the agreements.

5. Notes maturing on December 31, 2016 and 2015

Because December 31, 2016 and 2015, which were the account closing dates, were nonbusiness days for financial institutions, notes receivable and payable maturing on those dates were settled on the following business day. However, the Company recognized notes receivable and payable that matured on those dates as being settled. Information on notes receivable and payable treated as settled was as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Notes receivable	**¥ 744**	¥ 921	**$ 6,384**
Notes payable	**425**	607	**3,646**
Other current liabilities (notes payable-facilities)	**160**	221	**1,377**

6. Contingent liabilities

Contingent liabilities at December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Yokohama Industrial Products Italy S.R.L.	**—**	¥ 479	**—**
PT Yokohama Industrial Products Manufacturing Indonesia	**—**	3,652	**—**
Total	**—**	4,132	**—**

4. Supplementary information for consolidated statement of income

1. The figures presented for inventories at year-end include write-downs made to reflect diminished profitability. Valuation losses on inventory assets included in cost of sales were as follows:

Millions of Yen		Thousands of US Dollars
2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
¥ 529	¥ 525	**$ 4,543**

2. The principal components of selling, general and administrative expenses were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Sales commission	**¥ 22,497**	¥ 25,670	**$ 193,127**
Freightage and warehousing expenses	**35,407**	39,311	**303,952**
Advertising and promotion expenses	**18,294**	18,804	**157,043**
Provision of allowance for doubtful accounts	**1,093**	35	**9,379**
Employees' salaries and allowances	**37,800**	37,753	**324,491**
Retirement benefit expenses	**1,995**	1,701	**17,125**
Depreciation	**4,641**	2,978	**39,844**

3. Fiscal year ended December 31, 2015

The amount cited consists mainly of loss on disposal of buildings, machinery, and intangible fixed assets (software).

Fiscal year ended December 31, 2016

The amount cited consists mainly of loss on disposal of buildings and structures and machinery.

4. Research and development expenses

Research and development expenses charged to manufacturing costs and to selling, general and administrative expenses for the years ended December 31, 2016 and 2015, were as follows:

Millions of Yen		Thousands of US Dollars
2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
¥ 14,483	¥ 14,222	**$ 124,330**

5. Impairment loss

The Company groups fixed assets for impairment testing based on organizational units by products and services for the Company and by company units for consolidated subsidiaries.

The Companies recognized impairment loss and wrote down the book value to the recoverable value and accounted for the diminution as impairment loss for the following group of assets:

Year ended December 31, 2015

Description	Classification	Location	Millions of Yen	Thousands of US Dollars
Business assets	Buildings and structures, machinery, equipment and vehicles	Russia	¥ 1,946	$ 16,707

(1) Background to the recognition of impairment loss

Profitability at the Company's Russian consolidated subsidiary LLC Yokohama R.P.Z. deteriorated on account of an economic downturn in Russia triggered by the decline in crude oil prices. The Company has therefore reduced the book value of the business assets affected to the amount deemed recoverable, and it has recorded the resultant impairment loss as an extraordinary loss of ¥1,946 million.

(2) Methods of grouping assets

The Company groups assets by business sector at the parent company and by company among its consolidated subsidiaries.

(3) Method of computing the recoverable amount

The Company has computed the recoverable amount of the corresponding business assets in reference to their value in use by discounting anticipated future cash flows by a discount rate of 11.6%.

Year ended December 31, 2016

Description	Classification	Location	Millions of Yen	Thousands of US Dollars
Business assets	Buildings and structures	China and United States	**¥ 1,679**	**$ 14,415**
	Machinery and vehicles		**4,744**	**40,725**
	Equipment, tools, and fixtures		**21**	**183**

(1) Background to the recognition of impairment loss
The ¥6,444 million (US$55,323 thousand) extraordinary loss recorded as an impairment loss corresponds to the amount of a reduction in the book value of the business assets in question. The Company wrote down the book value of the assets to the amount deemed recoverable. That reduction was in recognition of the reduced profitability of the assets, which resulted from reduced profitability in the Company's Tires segment and Multiple Business segment associated with fluctuations in demand and escalating price competition.

(2) Methods of grouping assets
The Companies group assets by business sector at the parent company and by company among the consolidated subsidiaries.

(3) Method of computing the recoverable amount
The Company has computed the recoverable amount of the corresponding business assets on the basis of estimated net disposal value and estimated value in use. It has estimated net disposal value in reference to market conditions and value in use in reference to anticipated future cash flows discounted at 10.0%–13.0%.

5. Supplementary information for consolidated statement of comprehensive income

1. Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Unrealized gains or losses on securities			
Arising during the year	**¥ (519)**	¥ 122	**$ (4,457)**
Amount of recycling	**95**	(7,926)	**812**
Before tax-effect adjustment	**(425)**	(7,804)	**(3,645)**
Amount of tax effect	**(1,049)**	(4,723)	**(9,004)**
Unrealized gains or losses on securities	**624**	(3,080)	**5,359**
Deferred gains or losses on hedges			
Arising during the year	**(10,256)**	(229)	**(88,041)**
Amount of recycling	**69**	—	**594**
Adjustment for acquisition cost of assets	**11,760**	—	**100,951**
Before tax-effect adjustment	**1,573**	(229)	**13,504**
Amount of tax effect	**334**	(73)	**2,865**
Deferred gains or losses on hedges	**1,239**	(156)	**10,639**
Foreign currency translation adjustments			
Arising during the year	**34**	(5,329)	**290**
Remeasurements of defined benefit plans			
Arising during the year	**(1,259)**	(1,144)	**(10,809)**
Amount of recycling	**861**	353	**7,388**
Before tax-effect adjustment	**(398)**	(791)	**(3,421)**
Amount of tax effect	**(128)**	(90)	**(1,100)**
Remeasurements of defined benefit plans	**(270)**	(701)	**(2,320)**
Total other comprehensive income (loss)	**1,627**	(9,266)	**13,968**

6. Supplementary information for consolidated statement of changes in net assets

Year ended December 31, 2016

1. Number and type of shares issued and outstanding and number and type of treasury stock

	Number of Shares at Beginning of Year (Thousands)	Increase During Year (Thousands)	Decrease During Year (Thousands)	Number of Shares at End of Year (Thousands)
Shares issued and outstanding				
Common stock	169,549	—	—	169,549
Treasury stock				
Common stock*	9,207	2	0	9,209

*The increase in treasury stock occurred as a result of the repurchase of fractional share units at the request of shareholders, and the decrease occurred as the result of the sale of shares, also at the request of shareholders, to fulfill share units.

2. Dividends

(1) Dividend payments

Resolution	Type of Share	Total Dividend Payment (Millions of Yen)	Dividend per Share (Yen)	Date of Record	Effective Date
General Meeting of Shareholders convened on March 30, 2016	Common stock	4,169 (US$35,788 thousand)	26 (US$0.2)	December 31, 2015	March 31, 2016
Board of Directors meeting convened on August 10, 2016	Common stock	4,169 (US$35,787 thousand)	26 (US$0.2)	June 30, 2016	August 31, 2016

(2) Dividends applicable to shareholders of record in the year ended December 31, 2016, and payable in the following fiscal year

Resolution	Type of Share	Source of Dividends	Total Dividend Payment (Millions of Yen)	Dividend per Share (Yen)	Date of Record	Effective Date
General Meeting of Shareholders convened on March 30, 2017	Common stock	Retained earnings	4,169 (US$35,787 thousand)	26 (US$0.2)	December 31, 2016	March 31, 2017

Year ended December 31, 2015

1. Number and type of shares issued and outstanding and number and type of treasury stock

	Number of Shares at Beginning of Year (Thousands)	Increase During Year (Thousands)	Decrease During Year (Thousands)	Number of Shares at End of Year (Thousands)
Shares issued and outstanding				
Common stock*	342,598	—	173,049	169,549
Treasury stock				
Common stock**	19,457	2,453	12,703	9,207

*The decrease in the number of shares issued and outstanding resulted from the retirement of 3,500 thousand shares of treasury stock on March 31, 2015, and from a one-for-two share consolidation conducted on July 1, 2015, which reduced the number of shares by 169,549 thousand.

**The increase in treasury stock occurred as a result of the repurchase of 2,431 thousand shares on the basis of a resolution by the Board of Directors; the repurchase of 20 thousand shares in fractional share units at the request of shareholders; and the repurchase, also at the request of shareholders, of 1,000 shares in fractional share units in connection with the one-for-two stock consolidation conducted on July 1, 2015. The decrease in treasury stock occurred as a result of the retirement of 3,500 thousand shares of treasury stock on March 31, 2015; a reduction of 9,202 thousand shares occasioned by the one-for-two share consolidation on July 1, 2015; and the sale of less than 1 thousand shares at the request of shareholders to obtain whole share units.

2. Dividends

(1) Dividend payments

Resolution	Type of Share	Total Dividend Payment (Millions of Yen)	Dividend per Share (Yen)	Date of Record	Effective Date
General Meeting of Shareholders convened on March 27, 2015	Common stock	4,524	14	December 31, 2014	March 30, 2015
Board of Directors meeting convened on August 10, 2015	Common stock	4,169	13	June 30, 2015	August 31, 2015

Note:

Because the interim dividend was applicable to shareholders of record as of June 30, 2015, it was payable to the number of shares issued and outstanding before the one-for-two share consolidation conducted on July 1, 2015.

(2) Dividends applicable to shareholders of record in the year ended December 31, 2015, and payable in the following fiscal year

Resolution	Type of Share	Source of Dividends	Total Dividend Payment (Millions of Yen)	Dividend per Share (Yen)	Date of Record	Effective Date
General Meeting of Shareholders convened on March 30, 2016	Common stock	Retained earnings	4,169	26	December 31, 2015	March 31, 2016

7. Supplementary information for consolidated statement of cash flows

1. A reconciliation of cash and deposits presented in the consolidated balance sheet as of December 31, 2016 and 2015, and of cash and cash equivalents reported in the consolidated statement of cash flows for the years ended December 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Cash and deposits	**¥ 60,348**	¥ 42,270	**$ 518,050**
Time deposits with maturities of more than three months	**(5,563)**	(1,186)	**(47,753)**
Cash and cash equivalents	**¥ 54,785**	¥ 41,084	**$ 470,297**

2. Basic outline of assets and liabilities of newly acquired subsidiary

Below is a summary of the assets and liabilities of the Alliance Tire Group and its subsidiaries at the time of their consolidation, the acquisition price for the shares, and the net expenditure entailed in purchasing all the outstanding shares of the Alliance Tire Group.

	Millions of Yen	Thousands of US Dollars
Current assets	**¥ 25,534**	**$ 219,195**
Fixed assets	**81,265**	**697,615**
Goodwill	**80,246**	**688,864**
Current liabilities	**(35,837)**	**(307,640)**
Long-term liabilities	**(29,056)**	**(249,432)**
Foreign currency translation adjustments	**11,842**	**101,658**
Acquisition price for the shares	**133,994**	**1,150,259**
Cash and cash equivalents	**(1,681)**	**(14,433)**
Net expenditure for acquisition	**¥ 132,312**	**$ 1,135,825**

8. Leases

1. Finance leases

Finance lease agreements that do not provide for the transfer of ownership

(1) Leased assets

Tangible fixed assets

The leased tangible fixed assets consist principally of molds and warehouse equipment, including tools and fixtures, in the tire business.

(2) Depreciation method

The depreciation method is as described in "1. Basis of presenting consolidated financial statements, 4. Summary of significant accounting policies."

2. Operating leases

Future lease payment obligations under noncancelable operating leases at December 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Within one year	**¥ 1,591**	¥ 1,512	**$ 13,655**
Over one year	**12,098**	13,159	**103,858**
Total	**¥ 13,689**	¥ 14,671	**$ 117,513**

9. Financial instruments

1. Outline of financial instruments

(1) Policies for financial instruments

The Companies raise funds through bank loans and the issuance of corporate bonds, mainly in accordance with their capital investment plans for manufacturing and selling tires, and raise short-term working capital through commercial paper.

Derivative transactions are carried out to reduce risks, as mentioned below, and not for speculative trading.

(2) Information and risks related to financial instruments

Notes and accounts receivable, which are operating receivables, are subject to customer credit risk. In addition, operating receivables denominated in foreign currencies arise in connection with the Companies' global business. Those receivables are subject to currency exchange rate fluctuation risk, and the Companies hedge part of that risk with forward exchange contracts.

Investment securities consist primarily of the shares of companies with which the Companies have business relationships and are subject to market price fluctuation risk.

Derivative transactions consist of forward exchange contracts for hedging exchange rate fluctuation risk in connection with trade receivables and payables denominated in foreign currencies and in connection with forecasted transactions, interest rate swaps for hedging interest fluctuation risk in connection with bank loans, cross-currency interest rate swaps for hedging exchange rate fluctuation risk and interest rate fluctuation risk in connection with loan receivables and payables denominated in foreign currencies, and commodity futures contracts for hedging price fluctuation risk in connection with the purchasing of raw materials. The Companies' hedging instruments and hedged items, hedging policy, and method of evaluating hedging effectiveness are as described in note "(6) Significant hedge accounting methods" in "4. Summary of significant accounting policies."

(3) Risk management of financial instruments

(i) Credit risk management (Customer credit default)

Under credit management standards, the Companies manage due dates and balances of trade receivables for customers to assess and reduce collection risks.

Derivative transactions are only carried out with highly rated financial institutions to reduce credit risks.

The amounts of the largest credit risks as of December 31, 2016 and 2015, are indicated in the balance sheet as part of the allowance for doubtful receivables.

(ii) Market risk management (Fluctuation risk of foreign currency exchange rates and interest rates and others)

The Company and some of its consolidated subsidiaries use forward exchange contracts to hedge exchange rate fluctuation risk as assessed by currency and by month in connection with some of their trade receivables and liabilities denominated in foreign currencies and interest rate swaps to hedge interest fluctuation risk in connection with bank loans.

The Company uses cross-currency interest rate swaps to hedge exchange rate fluctuation risk and interest rate fluctuation risk in connection with loan receivables and payables denominated in foreign currencies.

Some of the Company's consolidated subsidiaries use commodity futures contracts to hedge price fluctuation risk in connection with the purchasing of raw materials.

In regard to holdings of securities issued by companies with which the Companies have business relationships, the Companies regularly assess the fair market value of the securities and the financial condition of the issuers. They also review the holdings in light of the status of their business relationships with the issuers.

The Company conducts derivative transactions in accordance with internal guidelines that specify trading authority and limits, and the officers responsible for derivative transactions receive regular reports about the transactions conducted. Consolidated subsidiaries also manage their derivative transactions in accordance with the Company's guidelines.

(iii) Liquidity risk in fund-raising management (Risk of being unable to make payment at due date)

Based on reports from each department, the corporate finance and accounting department prepares a cash flow plan and revises it as appropriate to reduce liquidity risk.

(4) Supplementary information about the fair value of financial instruments

The fair value of financial instruments is the market price or, for instruments that do not have a market price, a value calculated by appropriate means. The calculation of fair values incorporates variables, and the values are therefore subject to change, depending on diverse factors. The contract amounts for derivative transactions cited in "11. Derivative instruments" do not indicate the market risk related to derivative transactions.

2. Fair value of financial instruments

The book value and fair value of financial instruments and the differences between them as of December 31, 2016 and 2015, were as follows.

However, financial instruments whose fair value is extremely difficult to ascertain are not included in the table below (see Note 2 to the table).

	Millions of Yen					
	2016 (12.31.16)			2015 (12.31.15)		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
(1) Cash and deposits	**¥ 60,348**	**¥ 60,348**	**¥ —**	¥ 42,270	¥ 42,270	¥ —
(2) Trade receivables: Notes and accounts	**155,790**	**155,790**	**—**	155,171	155,171	—
(3) Electronically recorded monetary claims—operating	**8,447**	**8,447**	**—**	7,264	7,264	—
(4) Investment securities	**89,917**	**89,917**	**—**	90,419	90,419	—
Total assets	**314,502**	**314,502**	**—**	295,124	295,124	—
(1) Trade notes and accounts payable	**65,252**	**65,252**	**—**	65,542	65,542	—
(2) Electronically recorded obligations—operating	**7,488**	**7,488**	**—**	7,267	7,267	—
(3) Short-term loans payable	**41,553**	**41,553**	**—**	67,092	67,092	—
(4) Accrued expenses	**38,255**	**38,255**	**—**	36,814	36,814	—
(5) Commercial paper	**—**	**—**	**—**	13,000	13,000	—
(6) Bonds	**50,000**	**49,107**	**(893)**	32,000	31,318	(682)
(7) Long-term loans payable	**244,830**	**233,100**	**(11,730)**	78,825	78,739	(86)
Total liabilities	**447,379**	**434,756**	**(12,623)**	300,540	299,773	(768)
Derivative transactions*	**2,646**	**2,646**	**—**	(279)	(279)	—

	Thousands of US Dollars		
	2016 (12.31.16)		
	Book Value	Fair Value	Difference
(1) Cash and deposits	**$ 518,050**	**$ 518,050**	**$ —**
(2) Trade receivables: Notes and accounts	**1,337,366**	**1,337,366**	**—**
(3) Electronically recorded monetary claims—operating	**72,513**	**72,513**	**—**
(4) Investment securities	**771,889**	**771,889**	**—**
Total assets	**2,699,819**	**2,699,819**	**—**
(1) Trade notes and accounts payable	**560,155**	**560,155**	**—**
(2) Electronically recorded obligations—operating	**64,280**	**64,280**	**—**
(3) Short-term loans payable	**356,713**	**356,713**	**—**
(4) Accrued expenses	**328,394**	**328,394**	**—**
(5) Commercial paper	**—**	**—**	**—**
(6) Bonds	**429,221**	**421,559**	**(7,662)**
(7) Long-term loans payable	**2,101,725**	**2,001,026**	**(100,699)**
Total liabilities	**3,840,489**	**3,732,127**	**(108,361)**
Derivative transactions*	**22,711**	**22,711**	**—**

*The net amount of the assets and liabilities arising from derivatives is shown. If the net amount is a liability, it is presented in parentheses.

Note 1. Method of determining the fair value of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits, (2) trade receivables: notes and accounts and (3) electronically recorded monetary claims—operating
The fair value of these assets is approximately equivalent to their book values because of short-term settlement, so the book values are indicated.

(4) Investment securities
The fair value of securities is based on the market price on stock exchanges.
See note "10. Securities" regarding the differences between the amounts booked on the consolidated balance sheet and the acquisition costs.

Liabilities

(1) Trade notes and accounts payable, (2) electronically recorded obligations-operating, (3) short-term loans payable, (4)

accrued expenses, and (5) commercial paper

The fair value of these liabilities is approximately equivalent to their book values because of short-term settlement, so the book values are indicated.

(6) Bonds

The fair value of bonds is calculated based on the present value of the sum of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and credit risk.

(7) Long-term loans payable

The fair value of long-term loans payable is calculated based on the present value of the sum of principal and interest discounted by an interest rate determined taking into account the remaining period of each loan and credit risk.

Derivative instruments

Please see note "11. Derivative instruments."

Note 2. Financial instruments whose fair value is extremely difficult to ascertain were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
	Book Value	Book Value	Book Value
Unlisted stock and others	**¥ 2,699**	¥ 7,537	**$ 23,167**

Note:

These financial instruments are not included in "(4) Investment securities." It is extremely difficult to ascertain the fair values because they do not have market prices.

Note 3. The amount of monetary claims and securities with maturities to be redeemed after the consolidated closing date was as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
	Within One Year	Within One Year	Within One Year
Cash and deposits	**¥ 60,125**	¥ 42,034	**$ 516,141**
Trade receivables: Notes and accounts	**155,790**	155,171	**1,337,366**
Electronically recorded monetary claims—operating	**8,447**	7,264	**72,513**
Total	**¥ 224,362**	¥ 204,469	**$ 1,926,020**

Note 4. The amount of bonds, long-term loans payable, and other liabilities with interest to be repaid after the consolidated closing date was as follows:

	Millions of Yen					
	2016 (12.31.16)					
	Within One Year	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years	Over Five Years
Bonds	**¥ —**	**¥ —**	**¥ 9,000**	**¥ 10,000**	**¥ 10,000**	**¥ 21,000**
Long-term loans payable	**20,324**	**21,002**	**53,198**	**34,213**	**34,718**	**81,373**
Other liabilities with interest	**41,553**	**—**	**—**	**—**	**—**	**—**
Total	**¥ 61,878**	**¥ 21,002**	**¥ 62,198**	**¥ 44,213**	**¥ 44,718**	**¥ 102,373**

	Millions of Yen					
	2015 (12.31.15)					
	Within One Year	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years	Over Five Years
Bonds	¥ —	¥ —	¥ —	¥ —	¥ 10,000	¥ 22,000
Long-term loans payable	15,814	7,287	10,849	27,586	9,711	7,578
Other liabilities with interest	80,092	—	—	—	—	—
Total	¥ 95,906	¥ 7,287	¥ 10,849	¥ 27,586	¥ 19,711	¥ 29,578

	Thousands of US Dollars					
	2016 (12.31.16)					
	Within One Year	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years	Over Five Years
Bonds	**$ —**	**$ —**	**$ 77,260**	**$ 85,844**	**$ 85,844**	**$ 180,273**
Long-term loans payable	**174,474**	**180,294**	**456,677**	**293,699**	**298,038**	**698,543**
Other liabilities with interest	**356,713**	**—**	**—**	**—**	**—**	**—**
Total	**$ 531,187**	**$ 180,294**	**$ 533,937**	**$ 379,543**	**$ 383,882**	**$ 878,816**

10. Securities

Cost, carrying amount, and unrealized gains and losses pertaining to available-for-sale securities at December 31, 2016 and 2015, were as follows:

	Millions of Yen							
	2016 (12.31.16)				2015 (12.31.15)			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities with carrying amount exceeding their acquisition cost								
Stock	**¥ 31,594**	**¥ 89,255**	**¥ 57,661**	**—**	¥ 31,911	¥ 89,972	¥ 58,061	—

	Thousands of US Dollars			
	2016 (12.31.16)			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities with carrying amount exceeding their acquisition cost				
Stock	**$ 271,216**	**$ 766,207**	**$ 494,990**	**—**

	Millions of Yen							
	2016 (12.31.16)				2015 (12.31.15)			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities with carrying amount not exceeding their acquisition cost								
Stock	**¥ 742**	**¥ 662**	**—**	**¥ (80)**	¥ 505	¥ 447	—	¥ (58)

	Thousands of US Dollars			
	2016 (12.31.16)			
	Cost	Carrying Amount	Unrealized Gains	Unrealized Losses
Securities with carrying amount not exceeding their acquisition cost				
Stock	**$ 6,370**	**$ 5,683**	**—**	**$ (687)**

Note:
Unlisted equity securities amounting to ¥653 million (US$5,607 thousand) in 2016 and ¥678 million in 2015 are excluded from the above table because there is no market price and it is very difficult to identify fair values.

Sales of securities classified as available-for-sale securities and the aggregate gains or losses for the years ended December 31, 2016 and 2015, are immaterial.

Fiscal 2016

	Millions of Yen		
	Proceeds from Sales	Total Gain	Total Loss
Stock	**¥ 252**	**¥ 250**	**¥ 18**

Fiscal 2015
Not applicable.

Impairment loss on securities
Fiscal year ended December 31, 2015: None
Fiscal year ended December 31, 2016: ¥96 million (recorded in connection with "other securities")

11. Derivative instruments

1. Fair value information of derivative instruments, for which deferral hedge accounting has not been applied, at December 31, 2016 and 2015, was as follows:

(1) Currency derivatives

	Millions of Yen								Thousands of US Dollars		
	2016 (12.31.16)				2015 (12.31.15)				**2016** (12.31.16)		
	Contract Amount	Over One Year	Fair Value	Unrealized Gains (Losses)	Contract Amount	Over One Year	Fair Value	Unrealized Gains (Losses)	Contract Amount	Fair Value	Unrealized Gains (Losses)
Forward exchange contracts:											
RUB	**¥ 1,203**	**—**	**¥ (316)**	**¥ (316)**	¥ 1,408	—	¥ 174	¥ 174	**$ 10,325**	**$ (2,712)**	**$ (2,712)**
EUR	**1,447**	**—**	**(88)**	**(88)**	1,454	—	29	29	**12,419**	**(759)**	**(759)**
USD	**2,978**	**—**	**(55)**	**(55)**	2,568	—	37	37	**25,563**	**(470)**	**(470)**
AUD	**715**	**—**	**(47)**	**(47)**	678	—	(10)	(10)	**6,140**	**(405)**	**(405)**
GBP	**376**	**—**	**(23)**	**(23)**	364	—	15	15	**3,226**	**(198)**	**(198)**
CND	**222**	**—**	**(16)**	**(16)**	422	—	17	17	**1,907**	**(133)**	**(133)**
Option contracts:											
USD put	**327**	**—**	**(2)**	**(2)**	—	—	—	—	**2,808**	**(20)**	**(20)**
USD call	**327**	**—**	**(2)**	**(2)**	—	—	—	—	**2,808**	**(20)**	**(20)**
Currency swap contracts:											
JPY receipt											
USD payment	**83,873**	**75,486**	**2,513**	**2,513**	—	—	—	—	**720,000**	**21,571**	**21,571**
Currency interest rate swap contracts:											
JPY receipt											
INR payment	**2,367**	**1,752**	**(202)**	**(202)**	2,603	2,505	(310)	(310)	**20,321**	**(1,733)**	**(1,733)**
	¥ 93,835	**¥ 77,238**	**¥ 1,761**	**¥ 1,761**	¥ 9,496	¥ 2,505	¥ (49)	¥ (49)	**$ 805,517**	**$ 15,121**	**$ 15,121**

Note:
Market values at the end of the fiscal year are calculated using prices quoted by financial institutions.

(2) Interest rate derivatives
Not applicable.

2. Fair value information of derivative instruments, for which deferral hedge accounting has been applied, at December 31, 2016 and 2015, was as follows:

(1) Currency derivatives

	Millions of Yen					
	2016 (12.31.16)			2015 (12.31.15)		
	Contract Amount	Over One Year	Fair Value	Contract Amount	Over One Year	Fair Value
Forward exchange contracts with allocation method:						
Deferred hedging treatment for hedging of forecasted transactions	**¥ 8,107**	**¥ 5,852**	**¥ (304)**	¥ 10,288	¥ 8,107	¥ (229)
Fair-value hedging	**10,113**	**—**	**674**	—	—	—
Cash flow hedging	**1,445**	**—**	**(7)**	—	—	—
Cash flow hedging	**5,477**	**—**	**89**	—	—	—
Cash flow hedging	**603**	**—**	**(4)**	—	—	—
Cash flow hedging	**603**	**—**	**(4)**	—	—	—

	Thousands of US Dollars		
	2016 (12.31.16)		
	Contract Amount	Over One Year	Fair Value
Forward exchange contracts with allocation method:			
Deferred hedging treatment for hedging of forecasted transactions	**$ 69,596**	**$ 50,238**	**$ (2,612)**
Fair-value hedging	**86,812**	**—**	**5,783**
Cash flow hedging	**12,405**	**—**	**(63)**
Cash flow hedging	**47,016**	**—**	**768**
Cash flow hedging	**5,180**	**—**	**(38)**
Cash flow hedging	**5,180**	**—**	**(38)**

Notes:

1. Market values at the end of the fiscal year are calculated using prices quoted by financial institutions.
2. Fair-value hedging and cash flow hedging consist of transactions undertaken by overseas consolidated subsidiaries that have adopted the International Financial Reporting Standards.

(2) Interest rate derivatives

Fiscal 2015

Not applicable.

Fiscal 2016

	Millions of Yen		
	2016 (12.31.16)		
	Contract Amount	Over One Year	Fair Value
Exceptional accounting treatment for interest rate swaps	**¥ 83,873**	**¥ 75,486**	**Note**
Exceptional accounting treatment for interest rate swaps	**¥ 13,223**	**¥ 13,223**	**Note**

	Thousands of US Dollars		
	2016 (12.31.16)		
	Contract Amount	Over One Year	Fair Value
Exceptional accounting treatment for interest rate swaps	**$ 720,000**	**$ 648,000**	**Note**
Exceptional accounting treatment for interest rate swaps	**$ 113,512**	**$ 113,512**	**Note**

Note:

The fair values of these interest rate swap contracts is included in the fair value of long-term debt.

(3) Commodity derivatives
Fiscal 2015
Not applicable.

Fiscal 2016

	Millions of Yen		
	2016 (12.31.16)		
	Contract Amount	Over One Year	Fair Value
Commodity futures			
Cash flow hedging	**¥ 1,627**	**¥ —**	**¥ 773**

	Thousands of US Dollars		
	2016 (12.31.16)		
	Contract Amount	Over One Year	Fair Value
Commodity futures			
Cash flow hedging	**$ 13,970**	**$ —**	**$ 6,637**

Notes:
1. Market values at the end of the fiscal year are calculated by using the commodity future prices.
2. Fair-value hedging and cash flow hedging consist of transactions undertaken by overseas consolidated subsidiaries that have adopted the International Financial Reporting Standards.

12. Pension and severance plans

The Company and certain of its domestic consolidated subsidiaries have defined contribution pension plans and lump-sum severance plans. Other domestic consolidated subsidiaries have lump-sum severance plans as defined benefit plans, and certain overseas consolidated subsidiaries have defined benefit plans. The Company also has a retirement benefit trust.

Lump-sum severance plans of certain consolidated subsidiaries are accounted for by the simplified method. Information on the severance plans of the consolidated subsidiaries calculated using the simplified method is also included in the following notes due to its immateriality.

1. Defined benefit plans
(1) The changes in defined benefit obligation for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Balance at beginning of year	**¥ 56,708**	¥ 60,851	**$ 486,802**
Cumulative effects of changes in accounting policies	**—**	(615)	**—**
Restated balance	**¥ 56,708**	¥ 60,236	**$ 486,802**
Current service cost	**2,693**	2,757	**23,114**
Interest cost	**1,086**	1,110	**9,321**
Actuarial gain and loss	**1,619**	(3,528)	**13,896**
Benefits paid	**(4,051)**	(4,081)	**(34,776)**
Effect of business combination	**244**	—	**2,098**
Others	**(570)**	214	**(4,892)**
Balance at end of year	**¥ 57,728**	¥ 56,708	**$ 495,564**

(2) The changes in plan assets for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Balance at beginning of year	**¥ 43,885**	¥ 36,167	**$ 376,725**
Expected return on plan assets	**963**	990	**$8,268**
Actuarial gain and loss	**(253)**	(1,685)	**(2,175)**
Contributions from employer	**356**	9,549	**3,060**
Benefits paid	**(757)**	(1,126)	**(6,499)**
Effect of business combination	**190**	—	**1,635**
Others	**(580)**	(10)	**(4,975)**
Balance at end of year	**¥ 43,805**	¥ 43,885	**$ 376,040**

(3) A reconciliation between the net defined benefit liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of December 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Funded defined benefit obligation	**¥ 44,208**	¥ 44,058	**$ 379,504**
Plan assets	**(43,805)**	(43,885)	**(376,040)**
	404	174	**3,464**
Unfunded defined benefit obligation	**13,520**	12,649	**116,060**
Net defined benefit liability	**¥ 13,923**	¥ 12,823	**$ 119,524**

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Liability for retirement benefits	**¥ 14,002**	¥ 12,823	**$ 120,195**
Assets for retirement benefits	**(78)**	—	**(671)**
Net defined benefit liability	**¥ 13,923**	¥ 12,823	**$ 119,524**

(4) The components of net periodic benefit costs for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Service cost	**¥ 2,693**	¥ 2,757	**$ 23,114**
Interest cost	**1,086**	1,110	**9,321**
Expected return on plan assets	**(963)**	(990)	**(8,268)**
Recognized actuarial gain and loss	**794**	181	**6,815**
Amortization of prior service cost	**67**	172	**573**
Others	**(1)**	(1)	**(11)**
Net periodic benefit costs	**¥ 3,675**	¥ 3,229	**$ 31,545**

(5) Remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Prior service cost	**¥ 305**	¥ 75	**$ 2,619**
Actuarial gain and loss	**(704)**	(866)	**(6,040)**
Total	**¥ (398)**	¥ (791)	**$ (3,421)**

(6) Remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Unrecognized prior service cost	**¥ (78)**	¥ (383)	**$ (669)**
Unrecognized actuarial gain and loss	**(7,436)**	(6,723)	**(63,834)**
Total	**¥ (7,514)**	¥ (7,106)	**$ (64,503)**

(7) Plan assets as of December 31, 2016 and 2015, were as follows:

(i) Components of plan assets

	2016 (12.31.16)	2015 (12.31.15)
Debt investments	**36%**	35%
Equity investments	**55**	57
Cash and cash equivalents	**7**	6
Others	**2**	1
Total	**100%**	100%

Of the above total, 57% and 58% of plan assets were held in retirement benefit trusts as of December 31, 2016 and 2015, respectively.

(ii) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the allocation of pension assets expected currently and in the future and the long-term rates of return expected currently and in the future from the various components of the plan assets.

(8) Assumptions used as of December 31, 2016 and 2015, were set forth as follows:

	2016 (12.31.16)	2015 (12.31.15)
Discount rate	**Mainly 0.3%–6.8%**	Mainly 0.5%–5.0%
Expected rate of return on plan assets	**Mainly 0.5%–6.8%**	Mainly 0.0%–5.0%

2. Defined contribution plan

The required contributions for the defined contribution plan paid by the Company and its subsidiaries were ¥911 million (US$7,821 thousand) and ¥625 million for the years ended December 31, 2016 and 2015, respectively.

13. Deferred income taxes

Significant components of deferred income tax assets and liabilities at December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Deferred tax assets:			
Deferred income taxes	**¥ 11,747**	¥ 11,670	**$ 100,840**
Unrealized profits	**3,870**	4,338	**33,219**
Accrued expenses	**1,446**	1,559	**12,412**
Deferred tax credit	**3,319**	—	**28,491**
Loss on valuation of inventories	**1,693**	760	**14,534**
Impairment loss	**2,352**	389	**20,189**
Other	**8,671**	9,732	**74,432**
Gross deferred tax assets	**33,097**	28,449	**284,118**
Less valuation allowance	**(3,125)**	(1,740)	**(26,827)**
Total deferred tax assets	**29,972**	26,709	**257,291**
Deferred tax liabilities:			
Intangible assets recognized as a result of business combination	**(23,076)**	—	**(198,090)**
Unrealized gains on securities	**(17,420)**	(18,469)	**(149,541)**
Liabilities for pension and severance payments	**(4,993)**	(5,257)	**(42,862)**
Gain on receipt of stock set by pension plan	**(1,581)**	(1,664)	**(13,571)**
Reserve for advanced depreciation of non-current assets	**(1,179)**	(1,268)	**(10,123)**
Non-current assets	**(11,660)**	(7,208)	**(100,093)**
Other	**(2,224)**	(1,519)	**(19,088)**
Total deferred tax liabilities	**(62,132)**	(35,385)	**(533,368)**
Net deferred tax assets (liabilities)	**¥ (32,160)**	¥ (8,676)	**$ (276,077)**

Note:

Net deferred tax assets (liabilities) at December 31, 2016 and 2015, were included in the following consolidated balance sheet line items:

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	**2016** (12.31.16)
Current assets: Deferred income taxes	**¥ 9,323**	¥ 8,842	**$ 80,031**
Investments and other assets: Deferred income taxes	**3,023**	2,858	**25,948**
Current liabilities: Other current liabilities	**(101)**	(188)	**(866)**
Long-term liabilities: Deferred income taxes	**(44,405)**	(20,189)	**(381,188)**

A reconciliation of the statutory income tax rates to the effective income tax rates for the years ended December 31, 2016 and 2015, was as follows:

	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)
Statutory income tax rates	**32.7 %**	35.3 %
Inhabitant tax on per capita basis	**0.4**	0.2
Permanently nondeductible expenses	**1.2**	0.7
Permanently nontaxable income	**(0.8)**	(0.9)
Tax deduction for research and development	**(2.1)**	(2.1)
Valuation allowance	**2.6**	2.1
Reversal of tax effect due to change in corporate income tax rate	**1.2**	0.7
Difference in effective tax rate for overseas subsidiaries	**(4.6)**	(3.8)
Advance pricing agreement for transfer pricing taxation	**1.8**	—
Acquisition-related expenses	**1.9**	—
Amortization of goodwill	**2.2**	—
Other	**2.6**	0.5
Effective income tax rates	**39.1 %**	32.7 %

Revisions of deferred tax assets and deferred tax liabilities occasioned by change in effective corporate tax rate
The Japanese parliament enacted the "Act on Partial Amendment of the Income Tax Act, Etc." and the "Act on Partial Amendment of the Local Taxation Act, Etc." on March 29, 2016, and the "Act for Partial Amendment of the Consumption Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" and the "Act for Partial Amendment of the Local Tax Act and Local Allocation Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" on November 18, 2016. Those legislative acts had the effect of lowering the corporate tax rate.

The Company's effective statutory corporate tax rate for the fiscal year ended December 31, 2015, was 31.9%. For the fiscal year ended December 31, 2016, the Company has employed an effective statutory corporate tax rate of 30.5% in computing its deferred tax assets and deferred tax liabilities expected to be eliminated in the fiscal years from January 1, 2017, to December 31, 2018, and 30.3% for the portion expected to be eliminated in subsequent years. The changes in the effective corporate tax rate have had the effect of reducing the Company's net deferred tax liabilities (deferred tax liabilities less deferred tax assets) by ¥541 million (US$4,651 thousand) and of increasing the Company's deferred income taxes by ¥378 million (US$3,246 thousand) and the Company's unrealized gains on securities by ¥919 million (US$7,897 thousand) for the year ended December 31, 2016.

14. Business combinations

Business combination through acquisition

1. Summary of the combination

(1) Name and business of the company acquired

Name Alliance Tire Group B.V. (ATG)

Business Manufacturing and marketing tires for agricultural, industrial, construction, and forestry machinery

(2) Reason for the combination

The Company is in Phase IV (2015–2017) of its Grand Design 100 medium-term management plan. That plan has positioned the expansion of business in commercial tires as a pillar of the Company's tire business strategy, and the Company is therefore devoting high priority in resource allocation to developing and promoting ultralarge radial tires for mining and construction equipment.

ATG has built a highly specialized business in manufacturing and marketing radial and bias tires for agricultural, industrial, construction, and forestry machinery. Its marketing spans more than 120 nations and is especially strong in North America and Europe.

The acquisition of ATG has fortified the Company's product lineup in commercial tires and lent momentum to the Company's globalization. The Company previously lacked a presence in manufacturing or marketing tires for agricultural or forestry machinery. Demand for tires for agricultural machinery, especially, is poised to increase as the usage of agricultural equipment expands in connection with the need to feed the world's growing population.

(3) Date of the combination
July 1, 2016

(4) Legal form of the combination
Acquisition of equity shares

(5) Post-combination name of the acquired company
Same as before the combination

(6) Percentage of voting rights acquired
100%

(7) Basis for determining acquiring company
The Company acquired Alliance Tire Group B.V. shares for a cash consideration.

2. Period of consolidation of the acquired company during the fiscal year ended December 31, 2016
July 1–December 31, 2016

3. Acquisition price and type of consideration paid

Consideration paid for acquisition: Cash	¥133,993 million (US$1,150,259 thousand)
Acquisition price	¥133,993 million (US$1,150,259 thousand)

4. Principal acquisition-related expenses

Advisory fees, etc.:	¥1,872 million (US$16,073 thousand)

5. Goodwill
(1) Amount of goodwill incurred through the acquisition
¥80,245 million (US$688,864 thousand)

(2) Reason for the occurrence of goodwill
Principally excess earnings power expected in the future due to business development

(3) Amortization method and period
Straight-line amortization over 20 years

6. Details of the assets acquired and the liabilities assumed at the date of the business combination

	Millions of Yen	Thousands of US Dollars
Current assets	**¥ 25,534**	**$ 219,195**
Noncurrent assets	**81,265**	**697,615**
Total assets	**¥ 106,799**	**$ 916,809**
Current liabilities	**35,837**	**307,640**
Noncurrent liabilities	**29,056**	**249,432**
Total liabilities	**¥ 64,893**	**$ 557,072**

7. The major categories and amounts of intangible assets other than goodwill recognized using purchase price allocation and the corresponding amortization periods

Customer-related assets:	¥25,809 million (US$221,552 thousand), amortized over 13 years
Technology-related assets:	¥2,367 million (US$20,319 thousand), amortized over 10 years
Trademark right:	¥13,102 million (US$112,475 thousand), not amortized
Total:	¥41,278 million (US$354,346 thousand), amortized over 13 years

8. The estimated impact on the consolidated statement of income for the year ended December 31, 2016 on the assumption that the acquisition was completed at the beginning of the fiscal year, and calculation methods

Net sales:	¥28,758 million (US$246,875 thousand)
Operating income:	¥963 million (US$8,267 thousand)
Ordinary income (loss):	¥(1,145) million (US$ (9,825) thousand)
Profit (loss) before income taxes:	¥(1,144) million (US$ (9,819) thousand)
Profit (loss) attributable to owners of parent:	¥(1,694) million (US$ (14,539) thousand)

(Calculation methods)
The estimated impact is the difference between net sales and profit or loss assuming that the acquisition was completed at the beginning of the calculated based on fiscal year and net sales and profit or loss recorded on the Company's consolidated statement of income. This note has not been audited.

15. Segment information

1. Outline of reportable segments

The Company's reportable segments are the organizational units for which the Company is able to obtain individual financial information in order for the Board of Directors to regularly review performance to determine the distribution of management resources and evaluate business results.

The Company classifies organizational units by products and services. Each organizational unit plans domestic or overseas general strategies for its products and services and operates its business.

Therefore, the Company is organized by business segments, and its reportable segments are "Tires", Multiple Business ("MB"), and Alliance Tire Group ("ATG").

Changes in reportable segments

The Company has established the ATG segment to accommodate the operations of the Alliance Tire Group, which it acquired and consolidated on July 1, 2016. The decision to account for the Alliance Tire Group as a separate segment was in the interest of maintaining transparency in reporting the Companies' performance in fulfilling the strategic emphases of the Company's medium-term management plan. As of the fiscal year ended December 31, 2016, the Company has three reportable business segments: Tires, MB, and ATG.

2. Methods of calculating the amount of sales, income (loss), assets, and other items by reportable segments

The accounting methods for reportable segments are mostly the same as those described in "Summary of Significant Accounting Policies."

Segment income corresponds to operating income, and intersegment income and transfers are based on prevailing market prices.

3. Information on sales, income (loss), assets, and other items by reportable segments

Information on sales, income (loss), assets, and other items by reportable segments for the years ended December 31, 2016 and 2015, was as follows:

	Millions of Yen							
	Tires	MB	ATG	Reportable Segment Total	Others	Total	Adjustments	Consolidated Amount
				2016 (1.1–12.31.16)				
Sales to third parties	**¥ 450,562**	**¥ 112,130**	**¥ 25,473**	**¥ 588,166**	**¥ 8,028**	**¥ 596,194**	**¥ —**	**¥ 596,194**
Intergroup sales and transfers	**1,707**	**80**	**5**	**1,792**	**14,154**	**15,946**	**(15,946)**	**—**
Total sales	**452,269**	**112,210**	**25,478**	**589,957**	**22,182**	**612,140**	**(15,946)**	**596,194**
Segment income	**¥ 36,330**	**¥ 7,491**	**¥ (2,109)**	**¥ 41,712**	**¥ 700**	**¥ 42,411**	**¥ (94)**	**¥ 42,317**
Segment assets	**¥ 539,041**	**¥ 103,027**	**¥ 208,155**	**¥ 850,222**	**¥ 50,086**	**¥ 900,308**	**¥ 2,682**	**¥ 902,990**
Other items								
Depreciation and amortization	**¥ 26,589**	**¥ 3,490**	**¥ 2,512**	**¥ 32,591**	**¥ 355**	**¥ 32,945**	**¥ 258**	**¥ 33,203**
Amortization of goodwill	**¥ 42**	**—**	**¥ 2,121**	**¥ 2,163**	**—**	**¥ 2,163**	**—**	**¥ 2,163**
Impairment loss	**¥ 4,065**	**¥ 2,380**	**—**	**¥ 6,445**	**—**	**¥ 6,445**	**—**	**¥ 6,445**
Increase of tangible and intangible fixed assets	**¥ 25,627**	**¥ 5,214**	**¥ 2,324**	**¥ 33,165**	**¥ 278**	**¥ 33,443**	**¥ 2,485**	**¥ 35,928**
				2015 (1.1–12.31.15)				
Sales to third parties	¥ 500,624	¥ 121,707	—	¥ 622,330	¥ 7,526	¥ 629,856	¥ —	¥ 629,856
Intergroup sales and transfers	1,865	96	—	1,961	15,120	17,081	(17,081)	—
Total sales	502,488	121,803	—	624,291	22,646	646,937	(17,081)	629,856
Segment income	¥ 43,037	¥ 10,534	—	¥ 53,571	¥ 977	¥ 54,549	¥ (13)	¥ 54,536
Segment assets	¥ 564,386	¥ 100,410	—	¥ 664,796	¥ 47,473	¥ 712,269	¥ (1,553)	¥ 710,717
Other items								
Depreciation and amortization	¥ 27,648	¥ 2,995	—	¥ 30,643	¥ 361	¥ 31,004	¥ 355	¥ 31,359
Amortization of goodwill	—	—	—	—	—	—	—	—
Impairment loss	¥ 1,946	—	—	¥ 1,946	—	¥ 1,946	—	¥ 1,946
Investment in equity method affiliates	¥ 66	—	—	¥ 66	—	¥ 66	—	¥ 66
Increase of tangible and intangible fixed assets	¥ 45,784	¥ 4,247	—	¥ 50,032	¥ 381	¥ 50,412	¥ 585	¥ 50,997

	Thousands of US Dollars							
	Tires	MB	ATG	Reportable Segment Total	Others	Total	Adjustments	Consolidated Amount
				2016 (1.1–12.31.16)				
Sales to third parties	$ 3,867,818	$ 962,572	$ 218,675	$ 5,049,065	$ 68,916	$ 5,117,981	$ —	$ 5,117,981
Intergroup sales and transfers	14,650	687	43	15,380	121,507	136,887	(136,887)	—
Total sales	3,882,468	963,259	218,718	5,064,445	190,424	5,254,869	(136,887)	5,117,981
Segment income	$ 311,872	$ 64,306	$ (18,108)	$ 358,070	$ 6,005	$ 364,075	$ (804)	$ 363,271
Segment assets	$ 4,627,357	$ 884,426	$ 1,786,889	$ 7,298,672	$ 429,958	$ 7,728,629	$ 23,026	$ 7,751,655
Other items								
Depreciation and amortization	$ 228,249	$ 29,960	$ 21,562	$ 279,771	$ 3,046	$ 282,817	$ 2,216	$ 285,032
Amortization of goodwill	$ 364	—	$ 18,204	$ 18,568	—	$ 18,568	—	$ 18,568
Impairment loss	—	—	—	—	—	—	—	—
Increase of tangible and intangible fixed assets	$ 219,997	$ 44,755	$ 19,950	$ 284,702	$ 2,388	$ 287,090	$ 21,330	$ 308,420

Notes:

1. The "Other items" category incorporates operations not included in reportable segments, including sports products.
2. Adjustments are as follows:

(1) Segment income adjustments are the elimination of intersegment transactions.

(2) Segment asset adjustments for the year ended December 31, 2016 consists of the elimination of intersegment transactions of ¥40,611 million (US$348,619 thousand) and "corporate assets" of ¥43,293 million (US$371,645 thousand). "Corporate assets" primarily consist of accumulated working capital and investments in securities.

(3) The adjustment to increase tangible and intangible fixed assets for the year ended December 31, 2016 consists of the elimination of intersegment transactions of ¥416 million (US$3,568 thousand) and increases in tangible and intangible assets not allocated to reportable segments of ¥2,900 million (US$24,898 thousand).

3. Segment income was adjusted, with operating income presented in the consolidated statements of income.

16. Related information for the years ended December 31, 2016 and 2015

1. Product and service information

Information has been omitted, as the classification is the same as that for reportable segments.

2. Information about geographic areas

(1) Sales

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	2016 (1.1–12.31.16)
Japan	¥ 285,679	¥ 297,116	$ 2,452,388
United States of America	138,799	154,647	1,191,513
Others	171,716	178,093	1,474,080
Total	¥ 596,194	¥ 629,856	$ 5,117,981

Note:

Sales are based on the location of clients and classified by country.

(2) Property, plant and equipment

	Millions of Yen		Thousands of US Dollars
	2016 (12.31.16)	2015 (12.31.15)	2016 (12.31.16)
Japan	¥ 115,452	¥ 109,922	$ 991,093
United States of America	50,563	53,606	434,055
Philippines	29,976	32,429	257,329
India	26,999	4,806	231,771
China	25,172	32,124	216,086
Thailand	20,442	22,889	175,482
Others	30,303	5,885	260,136
Total	¥ 298,908	¥ 261,662	$ 2,565,952

3. External customer information
Disclosure of information on external customers is not required, as there were no sales to a single external customer amounting to 10% or more of the Company's net sales for the years ended December 31, 2016 and 2015.

4. Impairment losses on fixed assets by reportable segment for the years ended December 31, 2016 and 2015
There were no applicable items for the years ended December 31, 2016 and 2015.

5. Amortization of goodwill and the amortization balance by reportable segment for the years ended December 31, 2016 and 2015
The Company omitted this information because of its immateriality for the year ended December 31, 2015.

Fiscal 2016

Millions of Yen						
Tires	MB	ATG	Reportable Segment Total	Others	Adjustments	Consolidated Amount
—	—	¥ 88,564	¥ 88,564	—	—	¥ 88,564

Thousands of US Dollars						
Tires	MB	ATG	Reportable Segment Total	Others	Adjustments	Consolidated Amount
—	—	$ 760,272	$ 760,272	—	—	$ 760,272

Note:
The amortization of goodwill is as described in Segment Information.

6. Gains on negative goodwill by reportable segment for the years ended December 31, 2016 and 2015
The Company omitted this information because of its immateriality for the years ended December 31, 2016 and 2015.

17. Related party transactions

Significant transactions and balances with related parties as of and for the years ended December 31, 2016 and 2015, were as follows:

Year ended December 31, 2016

			Capital					Amounts			Amounts	
Type	Name of Related Company	Address	Millions of Yen	Principal Business	Ratio of Voting Rights Owned	Business Relationship	Transactions	Millions of Yen	Thousands of US Dollars	Accounts and Closing Balances	Millions of Yen	Thousands of US Dollars
Principal share-holder	**Zeon Corpora-tion**	**Chiyoda-ku, Tokyo**	**¥ 24,211**	**Manufac-turing**	**Directly (10.1%)**	**Purchases of products Interlocking directorate**	**Purchases of raw materials**	**¥ 9,721**	**$ 83,450**	**Trade accounts payable**	**¥ 6,534**	**$ 56,086**

Year ended December 31, 2015

			Capital					Amounts			Amounts	
Type	Name of Related Company	Address	Millions of Yen	Principal Business	Ratio of Voting Rights Owned	Business Relationship	Transactions	Millions of Yen	Thousands of US Dollars	Accounts and Closing Balances	Millions of Yen	Thousands of US Dollars
Principal share-holder	Zeon Corpora-tion	Chiyoda-ku, Tokyo	¥ 24,211	Manufac-turing	Directly (10.1%)	Purchases of products Interlocking directorate	Purchases of raw materials	¥ 12,055	$ 99,947	Trade accounts payable	¥ 6,990	$ 57,957

Terms of transactions and decision-making policy of the terms
(1) The purchase prices of raw materials were determined based on quotations from suppliers and market prices.
(2) The amount of the transactions stated above does not include consumption taxes, while the balance at year-end includes consumption taxes.

Significant transactions and balances with important subsidiaries
No applicable items

Notes pertaining to the parent company and to important subsidiaries and affiliates
(1) Parent company
No applicable items
(2) Important subsidiaries and affiliates
No applicable items

18. Per share amounts

For the years ended December 31, 2016 and 2015

	Yen		US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Net assets per share	**¥ 2,175.06**	¥ 2,114.11	**$ 18.67**
Earnings per share	**¥ 117.17**	¥ 226.07	**$ 1.01**

Notes:

1. The Company carried out a one-for-two share merger effective July 1, 2015. It has calculated the figures for earnings per share as if the share merger had been conducted on January 1, 2015.
2. The Company has not presented diluted earnings per share because it has no potentially dilutive shares outstanding.
3. The Company has calculated net earnings per share on the basis of the following conditions:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Profit attributable to owners of parent	**¥ 18,788**	¥ 36,308	**$ 161,280**
Amount unallocable to common stock	**—**	—	**—**
Profit attributable to owners of parent and allocable to common stock	**¥ 18,788**	¥ 36,308	**$ 161,280**
Average number of shares of common stock issued and outstanding during the fiscal year (thousands of shares)	**160,341**	160,602	**160,341**

4. The Company has calculated net assets per share on the basis of the following conditions:

	Millions of Yen		Thousands of US Dollars
	2016 (1.1–12.31.16)	2015 (1.1–12.31.15)	**2016** (1.1–12.31.16)
Total net assets	**¥ 355,045**	¥ 344,689	**$ 3,047,855**
Deduction from total net assets	**¥ 6,294**	¥ 5,709	**$ 54,028**
(portion of the above that corresponds to non-controlling interests)	**¥ 6,294**	¥ 5,709	**$ 54,028**
Net assets at fiscal year-end related to common shares	**¥ 348,751**	¥ 338,980	**$ 2,993,827**
Number of shares of common stock at fiscal year-end employed in calculating net assets per share (thousands of shares)	**160,340**	160,342	**160,340**

19. Subsequent event

No applicable items

20. Supplementary consolidated information

Bonds

Issuer	Name of Issue	Issuance Date	Balance at Beginning of Year (Millions of Yen)	Balance at End of Year (Millions of Yen)	Interest Rate (Percent)	Collateral	Maturity Date
The Company	Ninth unsecured corporate bond	October 31, 2013	10,000	10,000	0.509	Unsecured	October 30, 2020
The Company	Tenth unsecured corporate bond	October 31, 2014	10,000	10,000	0.355	Unsecured	October 29, 2021
The Company	Eleventh unsecured corporate bond	October 30, 2015	12,000	12,000	0.381	Unsecured	October 28, 2022
The Company	Twelfth unsecured corporate bond	December 9, 2016	—	9,000	0.001	Unsecured	December 9, 2019
The Company	Thirteenth unsecured corporate bond	December 9, 2016	—	9,000	0.250	Unsecured	December 8, 2023
Total	—	—	32,000	50,000	—	—	—

Note:
Bonds that mature within five years of December 31, 2016, were as follows:

Millions of Yen				
Within One Year	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years
—	—	9,000	10,000	10,000

Loans and lease obligations

	Balance at Beginning of Year (Millions of Yen)	Balance at End of Year (Millions of Yen)	Average Interest Rate (Percent)	Dates Due
Short-term loans	67,092	41,553	1.7	—
Long-term loans due within one year	15,814	20,326	0.8	—
Lease obligations due within one year	540	619	—	—
Long-term loans, net of portion due within one year	63,011	224,504	0.6	April 28, 2018–November 25, 2026
Lease obligations, net of portion due within one year	900	1,131	—	January 1, 2018–December 31, 2022
Commercial paper and other interest-bearing debt due within one year	13,000	—	—	—
Total	160,356	288,133	—	—

Notes:
1. The Company uses lease rates and balances as of the year-end in computing the average interest rate.
2. No figures are provided for the average interest rate applicable to lease obligations because the amounts presented on the consolidated balance sheet for lease obligations include the interest-equivalent portions of the lease payments.
3. Long-term loans and lease obligations due within five years of December 31, 2016, excluding the current portion were as follows:

	Millions of Yen			
	Over One Year, Within Two Years	Over Two Years, Within Three Years	Over Three Years, Within Four Years	Over Four Years, Within Five Years
Long-term loans	21,002	53,198	34,213	34,718
Lease obligations	518	339	179	51

Asset retirement obligations
The Company has not disclosed detailed information on its asset retirement obligations at January 1, 2016, and at December 31, 2016, because those liabilities totaled less than 1% of the sum of the Company's liabilities and net assets at January 1, 2016, and at December 31, 2016.

Other
Cumulative results (total and per share) by quarter and quarterly results (per share) for the year ended December 31, 2016

Cumulative results

	Millions of Yen			
	Three Months Ended March 31, 2016	Six Months Ended June 30, 2016	Nine Months Ended September 30, 2016	Fiscal 2016
Net sales	129,345	268,118	410,219	596,194
Profit before income taxes	5,607	12,088	13,818	32,008
Profit attributable to owners of parent	3,621	8,236	8,498	18,788
Earnings per share (Yen)	22.58	51.37	53.00	117.17

Quarterly results	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings per share (Yen)	22.58	28.78	1.63	64.17

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Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
The Yokohama Rubber Co., Ltd.

We have audited the accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the consolidated financial position of The Yokohama Rubber Co., Ltd. and its consolidated subsidiaries as at December 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1

Ernst & Young ShinNihon LLC

March 30, 2017
Tokyo, Japan

INVESTOR INFORMATION

As of December 31, 2016

Company Name:
The Yokohama Rubber Co., Ltd.

Head Office:
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan

Established:
October 13, 1917

Paid-in Capital:
¥38,909 million

Fiscal Year-End:
December 31 (changed in 2011 from March 31)

General Meeting of Shareholders:
March (changed in 2012 from June)

Transfer Agent:
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

Stock Exchange Listings:
Tokyo, Nagoya

Contact Point for Investors:
PR/IR section, Corporate Communications Dept.
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan
Phone: 81-(0)3-5400-4531 Facsimile: 81-(0)3-5400-4570

Investor Relations Website:
http://www.y-yokohama.com/cp/global/ir/

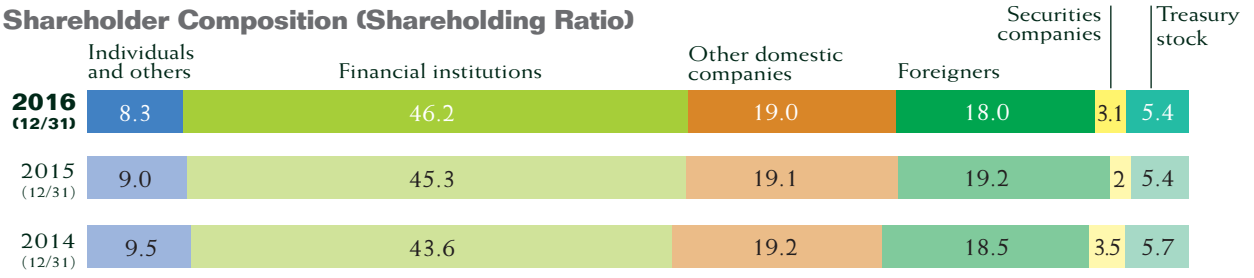
STOCK INFORMATION

As of December 31, 2016

Authorized number of shares:	400,000,000*
Number of shares issued and outstanding:	169,549,081*
Number of shareholders:	13,127-down 1,879 from December 31, 2015

*The change took effect on July 1, 2015, the date when the company's one-for-two share merger took effect. Yokohama has halved its number of authorized shares in accordance with the share merger and the resultant halving of the number of shares issued and outstanding.

Shareholder Composition (Shareholding Ratio)



Major Shareholders

Name	Number of shares (hundreds)	Percentage of total shares (%)
ZEON CORPORATION	162,765	9.5
The Master Trust Bank of Japan, Ltd. (trust account)	120,194	7.0
ASAHI MUTUAL LIFE INSURANCE COMPANY	109,055	6.4
Japan Trustee Services Bank, Ltd. (trust account)	98,994	5.8
Mizuho Bank, Ltd.	61,301	3.6

Note: Treasury stock of 92,087 hundred shares has been excluded in preparing the list of major shareholders.

Common Stock Price Trends

	2016	2015	2014	2013	2012
Stock Price (Yen):					
High	¥ 2,233	¥ 2,640	¥ 1,185	¥ 1,312	¥ 624
Low	1,170	1,837	829	604	421
Fiscal Year-End	2,096	1,871	1,105	1,033	620
Shares of Common Stock Issued and Outstanding	169,549,081	169,549,081	342,598,162	342,598,162	342,598,162

Note: A one-for-two share merger conducted on July 1, 2015, halved the number of Yokohama shares outstanding.