

## A WORD FROM THE PRESIDENT



### **Our New Medium-Term Management Plan: Grand Design 2020 *Aiming for profitable growth into the 2020s***

We have launched a new medium-term management plan in 2018 as Grand Design 2020 (GD2020). That plan is the successor to our Grand Design 100 (GD100) medium-term management plan, which we concluded in 2017. Here is an outline of the issues that we will be tackling in GD2020 and of our strategy for addressing those issues and for fortifying our business foundation.

**Masataka Yamaishi**

*President and Representative Member of the Board*

## GD100 Results

GD100 spanned the period from 2006 to 2017 and comprised four three-year phases. We designated a theme for each phase and tackled strategic growth measures in the spirit of the phase themes. The results of GD100 centered on progress in globalizing operations, advances in environmental technologies, and the expansion of our business portfolio.

Our progress in globalizing our operations has included expanding our global networks of platforms for manufacturing, for marketing, and for research and development. It has included, too, expanding our original equipment business outside Japan. Globalization has also included raising the visibility of the Yokohama brand worldwide. Our increased visibility has benefited from the partnership agreement that we concluded in 2015 with the

English Premier League's Chelsea Football Club.

As for advances in environmental technologies, the percentage of our products that feature environmentally friendly technologies reached 100% in 2017. And we began offering our low-rolling-resistance tires globally in the original equipment market and aftermarket.

We strengthened our business portfolio under GD100 in several ways. That included acquiring Alliance Tire Group, a manufacturer of tires for agricultural and forestry machinery, in 2016. It also included acquiring Aichi Tire Industry Co., Ltd., a manufacturer of tires for industrial equipment, in 2017. Those moves have helped increase the percentage of commercial tires in our total sales.

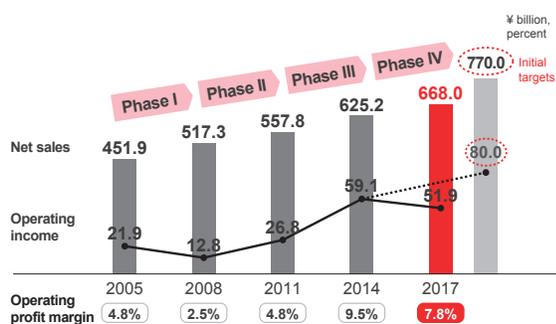
## Fiscal Performance Under GD100

We achieved solid growth overall under GD100. Net sales increased 48%, to ¥668.0 billion, and operating income reached ¥51.9 billion. We present both of those figures here as calculated under Japanese accounting standards to accommodate historical comparisons. And the total for net sales was a record high. The overseas weighting has increased, meanwhile, in each principal indicator.

Our fiscal performance fell short of our GD100 targets of ¥770 billion for net sales and ¥80 billion for operating income. Growth in earnings was sluggish in Phase IV on

account of escalating price competition and a surge in capital spending and corporate acquisitions. And our interest-bearing debt increased. We will strive with GD2020 to achieve improvement in those indicators. Our efforts will include working to improve our product mix by concentrating on high-value-added products, to secure sound returns on the capital spending and the corporate acquisitions that we undertook in Phase IV of GD100, and to strengthen our financial position.

Results by GD100 Phase



Note:  
Yokohama shifted in 2011 to calendar-year fiscal accounting, from April-to-March fiscal accounting.

Progress under GD100: Results for FY 2005 and FY 2017

	2005	2017	
Net sales	¥451.9 billion	¥668.0 billion	+48%
Operating income	¥21.9 billion	¥51.9 billion	+¥30 billion
Operating profit margin	4.8%	7.8%	+3.0 points

Overseas Weightings in FY 2005 and FY 2017

	2005	2017	
Net sales	23%	56%	+33 points
Production capacity*	21%	60%	+39 points
Original equipment sales*	0.3%	50%	+50 points

\* tires

## Fortifying Our Business Foundation under GD2020 to Support New Strides in the 2020s

In preparing GD2020, we assumed average annual growth of 1.9% unit vehicle production worldwide from 2016 to 2024 and average annual growth of 3.2% in tire demand. Competition will escalate in our industry, meanwhile, as tire makers in emerging economies increase production. And the market share of the industry leaders will decline in terms of value.

GD2020 presents a framework for addressing the challenges and opportunities that we face. It calls for fortifying our business foundation by redefining Yokohama strengths and by deploying a growth strategy based on original approaches. We are counting on that framework to support new strides for our company in the decade of the 2020s.



## Expanding Our Presence in the Growing Market for Premium-Grade Tires

Our growth strategy in consumer tires provides for expanding our presence in tires for premium-grade cars. We contend in the consumer tire sector with the profound change that is transforming the automobile industry. That change includes the rapid progress under way in electrification, in autonomous technologies, and in the sharing economy. Those trends are highlighting the role of cars as a means of transport, rather than as physical possessions. They are thereby spurring the commoditization of the automobile.

Premium-grade cars, on the other hand, account for a growing share of vehicle production. Their share of unit production increased from 9% in 2004 to 12% in 2016\*1. Survey findings suggest that unit sales of premium-grade cars in the United States will increase some 40% by 2030, compared with 2015\*2. Our emphasis in consumer tires on high-end products is thus a matter of focusing on a growth sector. We are addressing that emphasis in four ways.

One, we are working to position our company as a “go to” tire maker for high-end quality and technology.

\*Sources: 1. Marklines Co., Ltd., and Yokohama Rubber  
2. Roland Berger Ltd.

Two, we are working to build leadership in performance in winter tires, which present exceedingly demanding performance criteria for safety. We aim to assert that leadership in studless snow tires for Japan, studded snow tires for Northern Europe and Russia, and in winter tires for other European nations.

Three, we are working to offer a comprehensive array of tires for diverse hobbyist needs. Autonomous driving and car sharing might well shift the orientation of the automobile market to usage and mobility, from ownership and physical possessions, but the market will always include a hard core of aficionados who want to own and operate their own cars. And we want to include tires for those aficionados in our product portfolio. That means supplying tires for racing, for rallying, for off-road driving, and for classic car enjoyment.

And four, we are stepping up our customer communication to help customers get more out of their motoring lifestyles. That includes working through social networking services to foster a sense of community among motorists.

Consumer Tires	
<p><b>Premium car tires</b> Become a “go to” tire maker for high-end quality and technology</p>	<p><b>Hobby tires</b> Build a product line that serves the diverse needs of car enthusiasts</p>
<p><b>Winter tires</b> Assert performance leadership in winter tires in Japan, Europe, and Russia</p>	<p><b>Consumer communication</b> Help consumers get more out of motoring lifestyles</p>

## Fostering Off-Highway Tires as a Driver of Growth in Commercial Tires

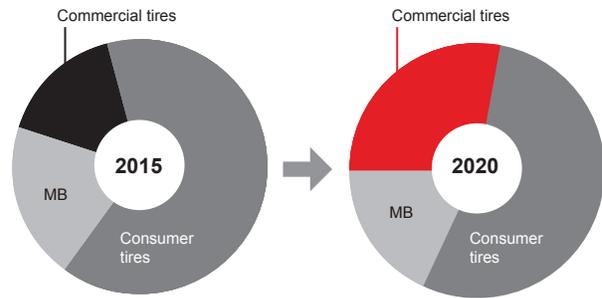
We are positioning off-highway tires as a driver of growth in commercial tires. That has included acquiring Alliance Tire Group, which manufactures tires for agricultural and forestry machinery, and Aichi Tire Industry, which manufactures tires for industrial machinery. Those acquisitions and our established business in tires for construction machinery give us a solid platform for broad-ranging growth in off-highway tires.

Alliance Tire Group's Indian plants provide a compelling edge in cost competitiveness, and we will make the most of that edge in working to expand sales. We will also continue working to build on our position in special-application tires where we assert special strengths. These and other efforts promise to help increase the weighting of commercial tires in our sales portfolio and to help position commercial tires as a pillar of growth in our second century.

In truck and bus tires, we will use our new production platform in North America to fuel growth. Our state-of-the-art plant in Mississippi strengthens our position in regard to high-quality products and flexible supply capabilities. It has greatly upgraded our capacity for serving the huge North American market.

We are bolstering our product line in truck and bus tires by promoting ultrawide base single tires that employ our patented SpiraLoop® technology. Replacing dual tires with a single tire reduces vehicle weight and improves fuel economy by reducing tire weight. It accommodates larger cargoes, meanwhile, by permitting more space-efficient vehicle configurations.

Sales by Business Sector



State-of-the-art systems at our new Mississippi plant for truck and bus tires support superior production efficiency and product quality



Our ultrawide base single tire

## Allocating Resources on a Priority Basis in MB Operations to Business Fields of Strength

Strategy in our MB (Multiple Business) operations calls for allocating resources to sectors where we assert a competitive edge. It centers on expanding business in automotive components and asserting strong leadership in marine products.

Automotive components are a sector that promises lasting growth in demand. Our business in that sector spans a growing global presence in supplying hoses for power steering systems, for transmission oil coolers, and for air-conditioning systems and in supplying windshield sealants. We continue to expand that presence through the manufacturing and marketing platforms that we have built around the world. And we continue developing next-generation technologies to ensure lasting growth for our automotive components business in a fast-evolving industry.

In marine products, we marshal highly regarded technology in marine hoses for off-loading oil and in pneumatic fenders for buffering contact between vessels. We will make

the most of our production platforms in Japan, Indonesia, and Italy to help assert strong leadership in this product sector. And we will translate original technologies into products for supporting ever-safer logistics in distributing oil.



## Supporting Business Strategies in Each Sector with Distinctive Technological Strengths and a Global R&D Network

Our technology strategy provides for leveraging Yokohama strengths in controlling physical properties and a global network of R&D and evaluation platforms. Managing physical properties involves addressing interactions in a multidimensional context. We accompany our materials technology with advanced capabilities in evaluation and in design. In tires, that combination positions us to fulfill customer expectations for such criteria as long life, snow and ice performance, low rolling resistance, wet-surface performance, and high-speed handling.

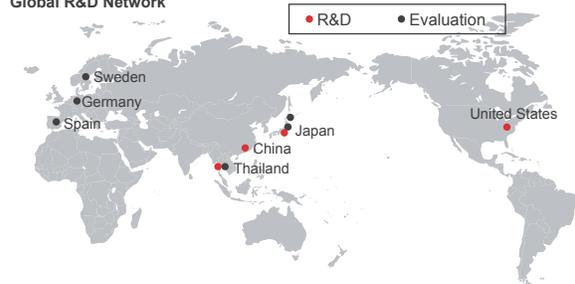
We have made important additions to our global development capabilities over the past two years. In 2018, we installed a new indoor ice testing facility at our Tire Test Center of Hokkaido, in Asahikawa. The new facility allows for testing performance on ice under controlled conditions, and it has greatly augmented our product development capabilities in winter tires. We augmented our North American R&D capabilities in 2016 with the establishment of a new R&D center in North Carolina.

Distinctive strengths in controlling physical properties and a growing global network of R&D and evaluation platforms thus support a continuing flow of products that feature superior performance and superior quality. Those strengths underlie our GD2020 business strategy in MB products and in golf equipment, as well as in tires.

Participating in motor sports is a valuable opportunity for honing our competitive edge in the vanguard of tire technology. We have been the exclusive tire supplier for Japan's Super Formula Championship racing series since 2016, and we

will supply tires in two sets of specifications for each Super Formula Championship race in 2018. On the global stage, we were the exclusive tire supplier for World Touring Car Championship racing from 2006 to 2017, and we will remain the exclusive tire supplier for the series in 2018 under its new name, World Touring Car Cup. Our commitment to motor sports is a lasting commitment. And we look forward to honing our technological edge further through competition on racetracks worldwide.

Global R&D Network



We supply all the teams in the Super Formula series with tires in two sets of specifications.

## Making the Most of the Chelsea Connection

Branding is a strategic emphasis that we will address worldwide under GD2020. A highlight of our global branding is a partnership agreement concluded in 2015 with the Chelsea Football Club, of the English Premier League. The agreement spans five years and provides for displaying "YOKOHAMA TYRES" on the chests of the team's jerseys. That has earned high visibility for our brand name through the extensive media coverage of the Chelsea Football Club, and it has raised our profile greatly in Europe, in Southeast Asia, and in other regions.

The chest placement that we have secured on uniforms in a major European sports league is rare among tire manufacturers, and we will make the most of that asset in our branding strategy. That will include fostering a dynamic identity for our company through effective promotion on Facebook and other social networking services.



Chelsea FC jerseys emblazoned with "YOKOHAMA TYRES"

## Fortifying Our Business Foundation

Measures for fortifying our business foundation under GD2020 will address the issues of corporate social responsibility, human resources, corporate governance, risk management, and financial strategy.

### **Corporate social responsibility**

We have selected issues to address in connection with corporate social responsibility in reference to six categories of stakeholders: the global environment, our host communities, our customers, our shareholders and other investors, our business partners, and our employees. Tackling each of those issues will occasion measures for caring for the future through our operations.

GD100 called for increasing the percentage of environmentally friendly products in our product portfolio to 100%. And we achieved that goal, on schedule, in 2017. Another GD100 goal was to plant 500,000 trees by 2017 at and around Yokohama operations worldwide, and we achieved that goal, too, on schedule. We continue working, meanwhile, to help build lifesaving sylvan barriers on the coast in the earthquake-prone community of Otsuchi-cho, Iwate Prefecture.

### **Human resources**

In human resources management, we are working to revitalize our organization by training and mobilizing human resources effectively. That will include adopting a work-at-home option and other measures for supporting employees in caring for young children and elderly parents.

### **Corporate governance**

We will upgrade our corporate governance globally by positioning our regional management companies as holding companies and by exercising strengthened governance at our subsidiaries through those companies. That will include appointing internal auditors at the regional management companies to monitor the subsidiaries. It will also include setting up whistleblower hotlines worldwide to help detect problems early and to prevent small problems from escalating.

Other measures for upgrading corporate governance consist of changes in director compensation and in the composition of the Board of directors. We have adopted a stock-compensation plan as of 2018 for members of the Board, not including the nonexecutive members. That plan, subject to

restrictions on selling shares, is a measure for instilling a shareholder perspective on share-price movement and for strengthening the motivation to maximize Yokohama's corporate value and share valuation. In addition, we changed the composition of the Board of directors. The change consists of increasing the proportion of nonexecutive directors on the Board.

### **Risk management**

We work to minimize overall risk by managing systematically the different categories of risk that we encounter. We conduct risk management through several councils and committees, including the CSR Council, the Risk Management Committee, the Central Safety and Health Committee, and the Corporate Compliance Committee.

### **Financial strategy**

In finance, we are counting on our growth strategy to raise profitability. And we aim to generate a three-year cash flow of ¥200 billion. In addition, we will work to increase our financial efficiency by conducting cash management on a consolidated basis. These measures will help reduce interest-bearing debt and otherwise fortify our financial position. And they will help enable us to provide sound return to shareholders. We aim to maintain a dividend payout ratio of 30% while conducting investment within the scope of depreciation.

Our financial targets for 2020 on an IFRS basis are to achieve annual sales revenue of ¥700 billion; annual operating profit of ¥70 billion and, thus, an operating profit margin of 10%; a debt/equity ratio of 0.6; and a return on equity, in reference to profit and equity attributable to owners of parent, of 10%.

Financial Targets

Sales revenue	¥700 billion
Operating profit and operating profit margin	¥70 billion, 10%
Debt/equity ratio	0.6
Return on equity	10%
Operating cash flow	Three-year total of ¥200 billion
Investment	Within scope of depreciation (not including strategic investment)

## On the Launch of GD2020

We launched GD2020 as we entered our company's second century. The business environment will continue to change, and our new medium-term management plan will shape our initiatives for coping with that change. GD2020 will focus our company on achieving lasting, profitable growth by redefining our strengths and deploying a clear business strategy. That

includes nurturing a distinctive identity that our corporate name and product brands will evoke immediately for people everywhere. All of us at Yokohama are tackling that challenge hand in hand. Together, we will earn the confidence of customers worldwide as a valuable member of the global community.