MEDIUM-TERM MANAGEMENT PLAN: GRAND DESIGN 2020

We launched the medium-term management plan Grand Design 2020 (GD2020) in 2018. That plan covers the three years to 2020. Here is an outline of its principal emphases.

GD2020 Positioning

Vehicle production is poised to continue growing worldwide, and we expect demand for tires to grow even faster. In preparing GD2020, we have assumed annual growth rates of 1.9% in unit vehicle production and 3.2% in tire demand. Competition will escalate in our industry, however, 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.

Consumer Tires

Expand our presence further in premium tires.

Our emphasis in consumer tires on premium-grade products is a matter of focusing on a growth sector. We are addressing that emphasis in four ways.

» **Premium car tires**
Become a "go to" tire maker for high-end quality and technology.

» **Winter tires**
Assert performance leadership in winter tires in Japan, Europe, and Russia.

» **Hobby tires**
Build a product line that serves the diverse needs of car enthusiasts, including racing and classic car enjoyment.

» **Consumer communication**
Help consumers get more out of motoring lifestyles.

Commercial Tires

Position commercial tires as a pillar of growth in our second century and off-highway tires as a growth driver.

In commercial tires, GD2020 provides for positioning off-highway tires as a growth driver and for using our newly expanded North American production resources for truck and bus tires to fuel growth. We are counting on these and other efforts to help increase the weighting of commercial tires in our sales portfolio and to position commercial tires as a pillar of growth in our second century.

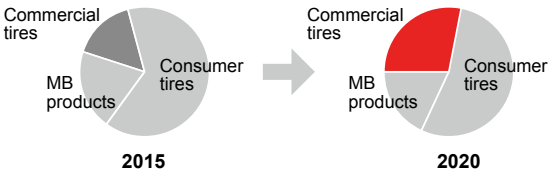
Off-highway tires

» Build on the business scope afforded by the Yokohama subsidiaries Alliance Tire Group, which manufactures tires for agricultural and forestry machinery, and Aichi Tire Industry, which manufactures tires for industrial machinery, and by our established business in tires for construction machinery.
» Capitalize on the compelling edge in cost competitiveness provided by Alliance Tire Group's Indian plants.
» Foster business in special-purpose tires where we assert distinctive strengths.

Truck and bus tires

» Make the most of our state-of-the-art plant in Mississippi to strengthen our position in regard to high-quality products and flexible supply capabilities. That plant has greatly upgraded our capacity for serving the huge North American market.
» Promote ultra-wide base tires that employ our patented SpiraLoop® technology.

Sales by Business Sector



Our new Mississippi plant for truck and bus tires.

Our ultra-wide base single tire

MB Operations

Allocate resources on a priority basis to business fields of strength.

GD2020 strategy in MB operations centers on expanding our components business in the growing automotive industry and asserting strong leadership in marine products.

Automotive components

» Continue to expand our global presence in automotive hoses, automotive sealants and adhesives, and other automotive components through the manufacturing and marketing platforms that we have built around the world.

» Develop next-generation technologies to ensure lasting growth for our automotive components business in a fast-evolving industry.

Marine products

» Expand business in the highly regarded marine hoses and pneumatic marine fenders produced at Yokohama plants in Japan, Indonesia, and Italy.

» Translate original technologies into products for supporting ever-safer logistics in distributing oil.

Technology

Special capabilities in controlling physical properties and a global network of R&D and evaluation platforms are crucial strengths for us in technology. GD2020 provides for leveraging those strengths in support of creating products of superior performance and quality. Motor sport remains an important venue for honing our competitive edge in the vanguard of tire technology.

Global R&D Network

We supply all the teams in the Super Formula series.

Branding

Our global branding has benefited hugely from a partnership concluded with the English Premier League's Chelsea Football Club (Chelsea FC) in July 2015. We will extend the partnership with a new contract in July 2020 and are counting on the partnership to yield a growing contribution to raising our brand profile. Meanwhile we continue to foster a dynamic identity for our company through effective promotion on Facebook and other social networking services.

Fortifying Our Business Foundation

Corporate social responsibility

We have selected issues to address in 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 those issues occasions measures for caring for the future through our operations.

Human resources

In human resources management, we are working to revitalize our organization by training and mobilizing human resources effectively. That includes adopting a work-at-home option and other measures for supporting employees in caring for young children and elderly parents. It also includes supporting work opportunities and, thus, expanded participation in society for disabled individuals.

Corporate governance

We are upgrading our corporate governance globally by positioning our regional management companies as holding companies. That includes appointing internal auditors at the regional management companies to monitor the subsidiaries. It also includes setting up whistleblower hotlines worldwide to help detect problems early and to prevent small problems from escalating. Other measures for upgrading corporate governance include changes in director compensation and in the composition of the Board of Directors.

Risk management

Measures for minimizing overall risk center on working to manage systematically the different categories of risk that we encounter. We conduct risk management through several councils and committees, including our CSR Council.

Finance

Our financial targets include generating a three-year operating cash flow of ¥200 billion, and we are working to increase our financial efficiency by conducting cash management on a consolidated basis. Those 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 payout ratio of 30%. Investment will take place within the scope of depreciation.

Financial Targets (2020)

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

IR Website

You will find a description of GD2020 in the Investor Relations section of our corporate website.

A WORD FROM THE PRESIDENT

Fortifying Our Business Foundation by Redefining Yokohama Strengths and by Deploying a Growth Strategy Based on Original Approaches

Masataka Yamaishi
President, Chairman of the Board

I will summarize here, as I did last year, our principal achievements under Grand Design 2020 (GD2020) in the past fiscal term and the issues that we will tackle in the years ahead. We inaugurated GD2020 in 2018 as a medium-term management plan. That plan spans the three years to 2020. It provides 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.

Record sales and earnings

The Japanese economy largely stagnated in the latter part of 2019 as the consumption tax hike and typhoons slowed consumption following the surge in demand prior to the tax hike and production activity remained sluggish. In the global economy, the United States remained on a recovery track, but Europe and China continued to slow down.

Sales revenue at Yokohama edged up slightly over the previous year, to ¥650.5 billion, but business profit declined 15.4%, to ¥50.1 billion. We posted a gain on the sale of fixed assets in the first quarter. In the third quarter, we recorded a gain in connection with a corporate tax–rate reduction in India. That reduction diminished a tax liability that we had assumed in connection with an organizational restructuring at our subsidiary Alliance Tire Group. Operating profit increased 9.5%, to ¥58.6 billion, and profit attributable to owners of parent increased 17.8%, to ¥42.0 billion. The totals for sales revenue and profit attributable to owners of parent were the highest ever at Yokohama.

Consumer tires: strengthening our position in premium tires

Expanding our presence in premium tires is a core emphasis in consumer-tire strategy under GD2020. That emphasis unfolds in four main ways:

• one, working to position our company as a “go to” tire maker for high-end quality and technology;
• two, working to build leadership in performance in winter tires and to assert that leadership in studless snow tires for Japan, in studded snow tires for Northern European nations and Russia, and in winter tires for other European nations;
• three, working to build a product line that serves the diverse needs of car enthusiasts, including racing, rallying, off-road driving, and classic car enjoyment; and
• four, stepping up our customer communication to help customers get more out of their motoring lifestyles.

We marked progress in all four approaches in 2019 and continue working in all four in 2020 to raise our profile further in premium consumer tires.

Our progress in implementing GD2020 in 2019 included important gains in asserting distinctive strengths in high-end quality and technology. We were especially successful in winning fitments for large-diameter tires on premium-grade vehicle models. Porsche began installing our ADVAN Sport V105 tires, for example, on its Cayenne, and Toyota began equipping its C-HR GR SPORT with our ADVAN FLEVA V701 tires.

In winter tires, we launched two new studless snow tires in North America in 2019: the iceGUARD iG53, for passenger cars, and the iceGUARD G075, for sport-utility vehicles. The market reception was excellent for each of the new products.

We also marked progress in 2019 in catering to car enthusiasts, our third stratagem in premium tires. Our ADVAN tires for high-performance cars and our GEOLANDAR tires for sport-utility vehicles anchor our presence in tires for motoring hobbyists, and we continued in 2019 to bolster both product lines with new products and with new sizes for established products.

In November 2019, we appeared as an exhibitor for the first time in 11 years at the SEMA Show. That event, held annually in Las Vegas, is the world’s premier trade show for automotive accessories. Our GEOLANDAR X-AT tire for sport-utility vehicles and pickup trucks received the Best New Tire and Related Product accolade in the SEMA Show’s New Products Award series. Yokohama products also captured the two runner-up awards in the same category: our GEOLANDAR X-CV highway terrain tire, for high-performance crossover sport-utility vehicles, and our ADVAN APEX V601, an ultrahigh performance summer tire.

The GEOLANDAR X-MT tire, for sport-utility vehicles and pickup trucks, received an award in the prestigious Red Dot international competition for product design. And our GEOLANDAR X-AT and GEOLANDAR X-CV tires received Good Design Awards for 2019 from the Chicago Athenaeum international museum of architecture and design.

The ADVAN Sport V105, which appears as factory equipment on the Porsche Cayenne and on other premium-grade vehicle models

The iceGUARD iG53, a studless snow tire launched in the North American market in 2019

Our continuing outreach to car enthusiasts included exhibiting at the Tokyo Auto Salon in January 2020. That event is a leading platform for showcasing custom cars and related products.

The Yokohama booth at the Tokyo Auto Salon in January 2020

A vehicle model fitted with ADVAN APEX V601 tires on display at the 2019 SEMA Show

Work on our fourth stratagem in premium tires, stepping up customer communication, comprises outreach to communities in diverse motoring genres. That meant fortifying our interface in 2019 with customers in their motoring lifestyles by participating in related events, cultivating dialog through social networking services, and disseminating information through websites.

A plant tour for members of the ADVAN club, a fan community for users of Yokohama's namesake high-performance tires

Commercial tires: pursuing growth aggressively in off-highway tires

We are nurturing business expansion in off-highway tires as a driver of growth in commercial tires. Two acquisitions have bolstered our presence greatly in off-highway tires: the 2016 acquisition of Alliance Tire Group, a manufacturer of tires for agricultural and forestry machinery, and the 2017 acquisition of Aichi Tire Industry Co., Ltd., a manufacturer of tires for industrial equipment. We are building on those acquisitions and on our operations in tires for construction and mining equipment to build momentum in this product category.

Alliance Tire Group, now our ATG segment, has posted especially impressive growth since its acquisition. Buttressing that growth are our two ATG plants in India. Those operations assert superior cost competitiveness across a diverse product portfolio. Expansion completed in late 2019 at the Dahej Plant, in Gujarat, has increased the production capacity there 60%.

Truck and bus tires remain an important pillar of our presence in commercial tires. We continued in 2019 to reinforce our North American platform for business in those tires. Our truck and bus tire production subsidiary Yokohama Tire Manufacturing Mississippi, LLC., secured IATF 16949 certification in March 2019. IATF 16949, a technical specification for quality management systems, is a widely used international standard in the automotive industry.

We are bolstering our product line in truck and bus tires by promoting ultra-wide 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.

In 2019, we bolstered our North American offerings in ultra-wide base single tires with the 114R tire. We anticipate robust growth for tires in this category, and expansion completed in 2020 at our Mie Plant has doubled production capacity there for those tires.

Agricultural and mining vehicles fitted with ATG off-highway tires

Yokohama's 114R ultra-wide base tire for truck trailers, launched in the North American market

Motor sports: a laboratory for advancing the envelope of tire performance

Participating in motor sports is a valuable opportunity for developing and refining tire technologies. We continued in 2019 to supply tires to competitors in prominent racing events worldwide, and motor sports will remain an important emphasis at Yokohama in the years ahead.

In Japan, we were again in 2019 the exclusive tire supplier for the Super Formula Championship racing series, and we also supplied tires to teams in the Super GT racing series. We supplied tires, too, for the Kondo Racing team's debut in the Nürburgring 24-hour endurance race. Kondo Racing placed ninth in the overall standings, the best finish of any Japan-based competitor.

In North America, we have long been the exclusive tire supplier to the Porsche-sponsored GT3 Cup Challenge Canada and GT3 Cup Challenge USA racing series. Our partnership with Porsche in North American racing will broaden in 2020, when we will become the exclusive tire supplier to the Porsche Sprint Trophy series.

An impressive ninth-place finish overall for Yokohama-equipped Kondo Racing in the team's debut in the Nürburgring 24-hour endurance race

MB strategy: sharpened focus on sectoral strengths

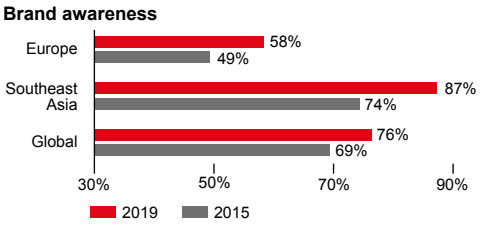
The strategic focus in our MB (Multiple Business) operations is on automotive components, where the market offers promise for continuing growth, and on marine products, where we assert a compelling competitive edge. Our market profile in marine products rose further in 2019, when we began delivering the world's largest pneumatic fenders.

Branding strategy: a partnership for raising our brand profile globally

We continue working to raise our brand profile worldwide with an eye to expanding our market share. Highlighting our branding efforts is the partnership that we concluded with the English Premier League's Chelsea Football Club (Chelsea FC) in 2015. That partnership provides for "Yokohama Tyres" to appear on our partner's uniforms, on lighted display panels at Chelsea FC's Stamford Bridge stadium, and on the wall behind the interview table at the stadium.

The Yokohama–Chelsea FC partnership has generated immense exposure for our brand. Awareness of the "Yokohama Tyres" brand was up 9% in Europe in 2019, compared with 2015, up 13% in Southeast Asia, and up 7% worldwide. Our initial contract with Chelsea FC expires in June 2020, and we will extend the partnership with a new contract in July. We are counting on the partnership to yield a growing contribution to raising our brand profile and increasing sales.

Tire promotion based on the Yokohama partnership with Chelsea FC



Reinforcement of our corporate foundation (1): heightened attention to environmental stewardship, social contribution, and corporate governance

Ensuring sustainability through environmental stewardship, social contribution, and corporate governance is more important than ever amid the wrenching change that is transforming the world. The United Kingdom–based nonprofit organization CDP Global (formerly Carbon Disclosure Project) named Yokohama in January 2020 to its Climate Change A List 2019. CDP's Climate Change A List, which comprises 182 companies for 2019, recognizes corporate commitment to combating global warming. The organization recognized us for our groupwide commitment to reducing output of greenhouse gases.

Our work in reducing greenhouse gas emissions includes generating electricity with solar and wind power, as at a photovoltaic installation at Yokohama Tire Philippines, Inc. We also help reduce greenhouse gas emissions and otherwise promote sustainability by expanding our offerings in products for minimizing environmental impact. A prominent example is our growing line of tires designed to reduce fuel consumption. In another environmental initiative, we adopted a policy in 2018 for ensuring sustainability in procuring natural rubber, and we have since begun monitoring labor practices and business linkages at rubber plantations.

Corporate governance at Yokohama has become more rigorous through increased diversity in our Board of Directors. The independent directors, who now number five, infuse the board with specialized expertise in such fields as accounting and mergers and acquisitions. Also on our Board is the non-Japanese chief executive officer of our Alliance Tire Group subsidiary.

Our commitment to fulfilling our corporate social responsibility has earned us a place on investment indexes focused on such commitment. Yokohama remained a component of the FTSE4Good Index Series, for example, for the 15th consecutive year in 2019.

Reinforcement of our corporate foundation (2): organizational vitalization though human resources diversity and a sound work-life balance

Picking up the pace in developing improved approaches to work is an overriding priority in human resources management at Yokohama. We have worked to vitalize our organization by tapping the capabilities of diverse human resources and by promoting a sound balance between work life and personal life. As for diversity, women have accounted for about 30% of our parent-company hiring for career positions annually over the past three years and now account for about 20% of our parent-company career employment. Our parent-company offices and plants, meanwhile, employed 146 individuals at 2019 year-end who had been rehired after reaching the retirement age of 65 and 175 individuals who have disabilities.

A diversity-promotion task force that we established in 2019 has conducted seminars for mainly management-level participants. Those seminars have highlighted how managers need to help subordinates fulfill their professional potential while maintaining a sound work-life balance and how managers need to accommodate lesbian, gay, bisexual, and transsexual subordinates. In connection with cultivating human resources, we dispatch senior-management candidates to earn master of business administration degrees at Japanese universities.

Stepped-up efforts to promote a sound work-life balance have included accommodating work at home, allocating paid vacation time on an hourly basis, and adjusting workplace hours as necessary to care for young children and elderly parents. Those efforts have yielded gratifying results. In 2019, 100% of the eligible female employees at the parent company and 62% of the eligible male employees took time off from work for childcare.

Reinforcement of our corporate foundation (3): improvement in our financial position

Our financial strategy provides for reinforcing our corporate foundation by generating solid cash flow through increased profitability in each sector and by using our groupwide liquidity optimally through upgraded cash management. In 2019, we passed a notable milestone in fulfilling our financial strategy. Our interest-bearing debt declined ¥20.5 billion, and our debt/equity ratio declined 0.12 points, to 0.57. We thus attained the GD2020 target of 0.6 for the debt/equity ratio a year ahead of schedule.

Preparing for renewed growth in the 2020s

The CASE combination of connected, automated, shared, and electrified driving is transforming the business environment in the automotive sector. Meanwhile, the global spread of the novel coronavirus is causing a sharp downturn in economic activity. As president, I will do my part to mobilize our groupwide resources in tackling and overcoming the challenges that we face.

A WORD FROM THE CHIEF FINANCIAL OFFICER

Supporting Sustainable Growth for the Yokohama Group with Prudent Investment in Step with Sound Financial Management

Gota Matsuo
Member of the Board and Managing Officer

■ The crucial importance of securing a solid financial position

A corporate chief financial officer is responsible for overseeing a broad range of activity in response to her or his company's circumstances. I devote special attention, however, to maintaining the integrity of our financial position. That means building and maintaining a solid foundation to ensure reliable funding for investment in growth, to manage the funding within sound limits, and to minimize exposure to diverse categories of risk. I therefore focus on maintaining a healthy balance sheet and securing maximal cash flow from our different lines of business.

Overseeing finance at Yokohama requires a global perspective, since the company operates in more than 120 nations. In that spirit, we have built a framework for optimizing our cash management among our operations worldwide.

■ Attainment of our 0.6 target for the debt/equity ratio

Our medium-term management plan, Grand Design 2020 (GD2020), calls for lowering our debt/equity to 0.6 by 2020 year-end, and we attained that target a year early. The debt/equity ratio at 2019 year-end was at the same level as before we acquired the Alliance Tire Group in 2016. That was the same year in which I became the head of the Corporate Finance and Accounting Department.

The Alliance Tire Group was a large acquisition for Yokohama, and financing for the acquisition increased our debt/equity ratio greatly. Restoring that ratio to its pre-acquisition level was a huge challenge, and our success in achieving that restoration sooner than targeted is hugely gratifying.

■ Groundwork in place for new growth stratagems

GD2020 calls for Yokohama to take new strides in the 2020s, and we had put in place the financial groundwork by 2019 for supporting new growth stratagems. The novel coronavirus pandemic has wrought devastating effect on the business environment in 2020, but a sound financial foundation will enable us to weather this crisis and pursue sustainable growth.

We are reinforcing our financial foundation by supplementing our liquidity with short-term funding and by curtailing cash expenditures. Our global cash management framework, which was in place by 2019, will allow for optimizing cash management in response to different geographical circumstances.

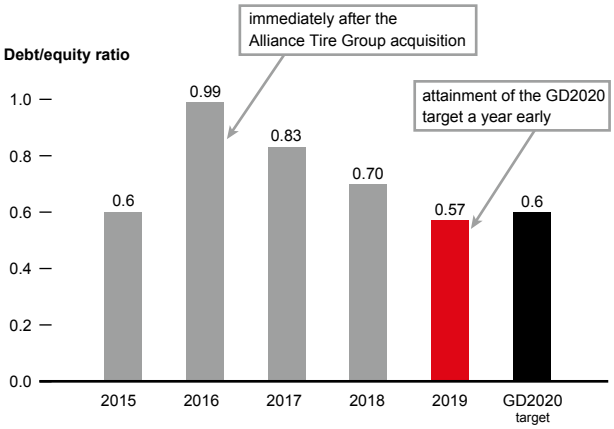


*Figure for 2015 is on basis of Japanese GAAP