

Message from the President

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Aiming for Sustainable Growth under the New Management Structure

I was appointed president in 2017, when Yokohama Rubber celebrated its 100th anniversary.

We have continued to grow based on our Corporate Philosophy of “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.”

However, to put it a bit harshly, a bit of dust has accumulated over the past 100 years.

I am thinking specifically of the technology and production departments that are the foundation of Yokohama Rubber’s business.

We still hold to the mindset that so long as we make good products we will succeed, without considering the cost. With the automotive industry facing a once-in-a-century major transformation, this complacency on the technological and production fronts has caused our competitiveness to wane, and we are now being threatened by makers from emerging countries such as China and India.

I believe that my mission is to sweep away this dust to create an organization that can survive for another 100 years. As such, I have been implementing reforms over the past seven years.

We have made progress in transforming our business structure, particularly in the planning, sales, and marketing departments.

However, there is still room for improvement in the technology and production departments. I believe that if we can change the mindset of all departments across the board, from planning to development, production, logistics, and sales, we will be able to survive.

When I became president, sales revenue was about ¥600 billion.

We are now close to achieving sales revenue of ¥1 trillion through business acquisitions and other measures. However, due

to the rapid expansion of overseas sales and significant changes in the organization, certain aspects of our business have become sluggish.

To address these management issues, we decided to appoint a new management team. As CEO and Chairman of the Board, I will handle major decisions regarding overall management and our business in North America. Shinji Seimiya was appointed President & COO, responsible for technology and production, quality assurance, and business in Japan, China and elsewhere in Asia. Nitin Mantri was appointed Senior Managing Officer & Co-COO, responsible for our prized OHT (off-highway tire) business and operations in other overseas regions.

We will each carry out our roles responsibly, supporting the rapid expansion of Yokohama Rubber.

Societal Issues Facing Yokohama Rubber Group and Our Purpose

There is a growing sense of crisis around the world about environmental, economic, and social sustainability issues, such as climate change, biodiversity, and human rights. As such, it is important that we create shared value with stakeholders. With the formulation of the new YX2026 management plan launched in fiscal 2024, the Yokohama Rubber Group reviewed its materiality in light of changes in the business environment and societal issues, and identified new materiality that takes into account the impact that our business activities have on society and the environment, as well as how society and the environment affect our business activities. In line with this materiality, we will implement initiatives aimed at achieving our vision.

In recent years, the production capacity of Chinese tire makers has gained momentum. For example, one-third of the world's consumer tires are now being produced in China, and nearly half of this output is exported. The commercial TBR (truck and bus tire) business in China is gaining even further, with Chinese makers accounting for nearly half of the world's production volume, half of which is exported.

Nevertheless, the position of Japanese tire makers remains firm.

The four major tire makers (Bridgestone, Sumitomo Rubber, Yokohama Rubber, and TOYO TIRES) together hold a 25% share of the ¥20 trillion global tire market. Japanese tire makers are still in a strong market position, even as the market share of Japanese companies in many automotive-related industries is declining. Further, although our overseas network is expanding, keeping production in Japan creates employment, and exports bring in foreign currency. Having served as Chairman of the Japan Automobile Tyre Manufacturers Association (JATMA), I can affirm that all four of Japan's major tire makers, as well as the Ministry of Economy, Trade and Industry, hold a similar view. Therefore, I believe that our purpose as a technology-oriented Japanese company remains firm.

A particular strength for the Yokohama Rubber Group is the OHT business. The OHT market is currently worth about ¥4 trillion, and we anticipate an annual growth rate of about 6%, compared to just 2% for the consumer tire market. We estimate that agricultural and forestry machinery will account for about 40% of global OHT demand.

The Yokohama Rubber Group has the top share in these areas, overtaking Michelin. We also have the second-largest share in industrial and port-use machinery tires, which accounts for 25% of the OHT market.

While maintaining these market positions, to address societal issues, we will fulfill our responsibilities as a maker by applying our Corporate 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."

Review of the YX2023 Plan

The YX2023 management plan covered the three years from 2021 to 2023 as the "Culmination of the past 100 years." We came close to achieving 100% of the aims of this plan.

During each fiscal year, we were able to significantly exceed our initial sales revenue and business profit targets. In fiscal 2023, although sales revenue did not reach ¥1 trillion, we posted sales revenue of ¥985.3 billion, greatly surpassing our initial target of ¥700 billion. Business profit was ¥99.1 billion, surpassing the initial target of ¥70 billion. The D/E ratio fell short of target due to the acquisition of Trelleborg Wheel Systems Holding AB (TWS), while ROE was also below target at 9.9%. However, operating cash flow expanded to ¥267.2 billion (cumulative total for three years), surpassing the target of

¥250 billion.

We achieved our grand strategy of restructuring the Tire Business. In 2020, the year when the YX2023 plan was formulated, our consumer tire to commercial tire sales ratio was 3:2, while the global market ratio was an even 1:1. The acquisition of TWS in fiscal 2023 dramatically increased both production capacity and revenue for commercial tires. In addition, we were able to offer a top-class product lineup in the OHT category, achieving a 1:1 consumer tire to commercial tire sales ratio, the same ratio as the general market. In addition, the composition of our commercial tire business is now more heavily weighted toward the more highly profitable OHT, with an OHT to TBR ratio of 2:1, the reverse of the global market's 2:1 ratio favoring TBR.

Structural reforms of our MB Business were completed with the sale of the Hamatite business in November 2021, and the integration of the aerospace products division into the industrial products division in March 2022. We now have a solid foundation for growth under the new management plan.

Cross-shareholdings have also been steadily unraveled since I became president in 2017. We have reduced our position from 122 issues with a total balance sheet value of ¥96 billion to 86 issues worth ¥77 billion as of the end of 2023. We also sold idle assets, businesses, and subsidiaries, generating a total of more than ¥100 billion over the past seven years. These funds have been allocated to strategic investments for further growth that will enhance our corporate value.

Overview of the New YX2026 Plan and Longer Term Vision

I do not think that we were able to fully transform Yokohama Rubber under the YX2023 plan. Accordingly, we launched the YX2026 plan in fiscal 2024 with the intent of continuing the “exploitation” and “exploration” strategies implemented during YX2023, and completing the transformation of the Yokohama Rubber Group, leaving no negative legacies for the next generation.

The YX2026 plan aims to establish a foundation to address two major concerns: 1) How to respond to China's aggressive rise in the passenger car tire market, which is one of our priority areas, and 2) How to move away from competitive Red Ocean areas, and develop business in more open Blue Ocean markets.

Our fundamental policy for increasing corporate value is to pursue a growth strategy. Rather than the gradual gains we have made to date, we are aiming for “Hockey Stick Growth” that we think matches our stakeholders' expectations.

First, we aim to achieve sales revenue of ¥1,000 billion with business profit ¥100 billion, levels that show that we are a leading Japanese company. We expect to achieve that level this fiscal year, and have set targets for fiscal 2026 of ¥1,150 billion in sales revenue, with business profit of ¥130 billion.

By the end of the YX2026 plan, in the passenger car tire business, we expect that our high value-added products ADVAN, GEOLANDAR, and winter tires, (which we collectively refer to as “AGW”), will account for half of the total production volume, and generate a high profit margin. Regarding Yokohama brand standard tires, which account for the remaining 50% of our passenger car tires, we will increase revenue and earnings by reducing costs, generating profits, and firmly competing against China. As part of these efforts, we are building a new factory for passenger car tire production in Mexico to increase our local production capacity to meet local consumption in the North American market. This factory is scheduled to start production in the first quarter of 2027 with a capacity of five million tires per year, with the potential for future expansion.

In the commercial tire business, since Chinese makers are emerging in the TBR business, we will increase sales and profits by concentrating resources on business areas where Yokohama Rubber has competitive advantages. Growth of sales in its commercial tire business is gradual but steady, and we hope to expand in such areas. In the OHT business, the acquisition of TWS has provided us with production bases in the major OHT markets of Europe and the US, which will generate synergies going forward.

Sustainability Initiatives and Corporate Growth

Companies must grow with a focus on increasing revenue and earnings, but we also view sustainability initiatives as a strategy to strengthen our business. Through a variety of activities from an ESG (environment, society, and governance) perspective, we aim to achieve sustainable growth in corporate value. Sustainability initiatives, as corporate activities, should contribute to corporate growth. Instead of making excessive investments now that will place a burden on future management, we need to ensure that our environment-related investments conform to normal investment recovery standards, and are compatible with our efforts to generate earnings.

For reducing greenhouse gas emissions, which includes efforts by our sales subsidiary Yokohama-TWS (Y-TWS), we plan to reduce greenhouse gas emissions by 30% by 2026 versus 2019 levels, and 40% by 2030, while also lowering costs. We will continue this effort after 2030, aiming to achieve carbon net zero by 2050.

To further the use of sustainable raw materials, we have set a usage target of 28% by 2026 and 30% by 2030, without increasing costs. Utilizing our technical capabilities, we believe it is possible to expand sustainable raw material use to 40% by 2030 without any additional burden.

In addition, we plan to conduct an employee engagement survey starting in fiscal 2024. As we begin to clarify the mechanisms and methods that make our company profitable, we want to create an organization where employees understand these processes, work toward achieving targets, and share in the rewards. Further, as KPIs for human resource development, by fiscal 2026 we aim for 15% of department heads to have participated in MBA programs or received other types of management education, and 10% of administrative and technical staff to have participated in DX leadership training.

We are committed to pursuing these initiatives to achieve our goals of sustainable growth and increasing corporate value.

Initiatives for Strengthening Corporate Governance

With the aim of strengthening the supervisory function of the Board of Directors and further enhancing corporate governance, in 2023, we transitioned our governance structure from a company with an Audit & Supervisory Board to a company with an Audit and Supervisory Committee. We believe governance effectiveness will be ensured by the composition of our Board of Directors, which has eight internal directors and seven external directors. Two internal and three external directors serve on the Personnel and Remuneration Committee for Corporate Officers and Directors. Our challenge for the future is to change our consciousness while respecting our history. When a Yokohama Head Office employee assumes the position of president of an overseas subsidiary or sales company, he or she is likely to make decisions based on a Japanese way of thinking. To change this mindset and achieve better execution of our global strategy, we need to appoint management personnel who understand the local market and staff. We also are considering increasing the number of non-Japanese directors, which currently is only one - Mr. Nitin Mantri.

To Our Stakeholders

Soon after Yokohama Rubber was founded, it boasted the top tire sales in Japan. We have since fallen behind the wave of motorization, and are now in third position.

Although sales are not everything, in the tire industry, where economies of scale are important, we believe that raising our market position even one rank will benefit our shareholders, employees, and all stakeholders.

We have established our Corporate Philosophy and Management Policies based on our Founding Spirit, which begins with the words "Production business is a social service." We have conducted our activities in accordance with this spirit for over 100 years, and will not change for the next 100 years. We must continue to march forward. Under our new management structure, we will first show our stakeholders how much we can do and how we can achieve results over the three years of the YX2026 plan. We look forward to your continued support as we continue to grow as a sustainable and trusted company that can survive for the next 100 years.



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On Becoming President

I assumed the position of President & COO in March 2024. Since I first joined the Company, I have been involved in tire design and development. From that perspective, my primary focus for Yokohama Rubber is the distinctive quality and performance of our products.

The automotive industry is currently undergoing a major transformation, and it is essential that we respond to the various technological demands involved, such as environmental performance and electrification. Looking at the tire industry overall, customer needs are diversifying in a global market, competition from China and India is intensifying, and supply chains are increasingly complex. To stay ahead of the competition, we must maintain a sense of urgency, without being bound by the conventional thinking of Japanese manufacturing.

In such an environment, looking at the Company overall, I felt that to further enhance the corporate structure reformed under the leadership of Chairman Yamaishi, we needed to strengthen the production and technology department. As a manufacturing company, technology and production must take center stage, with sales, logistics, and other departments providing support. I am taking decisive action for reform so that we can continue to stay ahead of the competition in the future.

The Technological Superiority Cultivated by Yokohama Rubber

Yokohama Rubber's strength is its advanced rubber blending and mixing technology, used in high value-added products such as ADVAN ultra-high performance tires, GEOLANDAR tires for SUVs and pickup trucks, and winter tires.

In 2022, to further advance the HAICoLab AI Utilization Concept, we developed and implemented a proprietary rubber compound design system that incorporates AI compound generation technology. This system provides us with new insights, such as compound formulas that human engineers are unlikely to consider.

We are working to further refine the system, while utilizing it to accelerate development of high-performance products.

We are also highly skilled at fine-tuning products to meet the demands of automakers. In addition to Japanese car makers, Yokohama tires are fitted on new premium cars from prominent firms such as Porsche, Mercedes-AMG, and BMW-M. Further, synergies derived from acquisitions have enhanced our competitiveness in the global market. Yokohama Rubber acquired Alliance Tire Group B.V. (ATG) in 2016, Aichi Tire Industry Co., Ltd. in 2017, and Trelleborg Wheel Systems Holding AB (TWS) in 2023.

Yokohama Rubber and TWS are focused on quality and performance, while ATG's strengths are productivity and cost competitiveness. Combining these areas of expertise and learning from each other has generated synergies in terms of productivity and quality, making Yokohama Rubber Group stronger overall.

Achieving “Low Cost, Speedy Development of Quality Products”

The new Yokohama Transformation 2026 (YX2026) management plan was designed to strengthen the foundation of the Yokohama Rubber Group overall. The watchword for this plan is “Low cost, speedy development of quality products.” Quality is the most important factor for expanding sales of high value-added products. Our focus is on the things that matter, such as ensuring that our tires are chosen for next-generation new premium vehicles, so we pursue development without compromising performance. Yokohama Rubber leads the industry in the number of tire sizes with grade “a” traction ratings for wet surface performance in the Japanese replacement tire market. We will continue to focus on maintaining this position, and with the full-fledged shift to electric vehicles now underway around the world, ensuring full compliance with environmental guidelines and other regulations.

At the same time, the market environment is rapidly changing, so speed has become increasingly important. Yokohama Rubber needs a sense of urgency that is second to none. For example, as a manufacturing company, we inevitably tend to focus on making products that will receive a perfect score.

At one time, Japanese makers paid little heed to the inexpensive products made by companies in China and other emerging markets, taking the time to repeatedly make prototypes for every component, and creating products that scored 100% in terms of quality. However, as emerging market makers have gained experience, rapidly honed their technological capabilities and expanded their market share around the world, we have no choice but to compete with them. We need to increase our cost competitiveness in certain areas, and launch new products with an emphasis on speed.

Through the YX2026 plan, we aim to achieve low cost and high efficiency. As the centerpiece of our “Hockey Stick Growth” plan for consumer tires, we have adopted a “1-year plant” strategy to establish within a year new factories or production lines that are more than just makeshift facilities. Further, to achieve the aim of “Low cost, speedy development of quality products,” we will accelerate tire development by utilizing AI and simulation technology, strengthen the development of tires for next-generation premium vehicles, and substantially reduce manufacturing costs by applying ATG's low-cost production model. As head of the Company, I will take the lead in implementing these reforms.

To Our Stakeholders

As a company, our responsibility to stakeholders is to achieve growth, with the aim of increasing sales and profits regardless of the market environment. For this reason as well, we must strengthen Yokohama Rubber's foundations. It is essential for us to create products that customers will use, and to help realize a sustainable world. This is our mission and purpose. We absolutely do not want to compete on cost with makers in China and other emerging markets. Our aim is to reduce costs and strengthen the foundations of profitability while maintaining the distinctive quality of Yokohama Rubber, and never forget our commitment to developing and producing the sort of high value-added products that so many stakeholders appreciate.

The key to realizing this ambition is the distinctive qualities of Yokohama Rubber. It is essential that people think of YOKOHAMA as a trusted brand that differs from the competition. We will continue to strive to increase our corporate value, without forgetting the perspective of stakeholders. Thank you for your continued support.

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**Member of the Board and Senior Managing
Officer & Co-COO
Nitin Mantri**

My Journey to Co-COO

Building profitable businesses comes naturally to me but, over the years, I have come to realize that fulfillment for me comes not just from financial success, but from making a positive difference in the lives of others. I have held many fulfilling jobs during my career, but one period that helped define my leadership purpose was when I was leading Yokohama India (YIN). This was a perennially underperforming business, but in a short span of three years, we more than doubled our market share and improved profits by over five times. The impact this success had on the confidence and morale of the team was palpable. I was also amazed by the impact on the larger community where we created hundreds of jobs and literally changed lives by moving families into middle class. This is when my leadership purpose started to become clear: “build successful businesses that make a positive difference in the lives of others.”

Growing up, I could not have even dreamt that I would end up where I am now. I strongly believe that this was possible thanks to the support of great mentors and champions who took a risk and put me into challenging roles that helped me grow. I am always on lookout for opportunities where I can do the same for others and help them succeed. Therefore, my management style is based on delegation and empowerment. I like to divide a business into manageable chunks and assign leaders who are empowered to take decisions and are fully responsible for the results. In my view, this allows leaders to grow and reach their full potential.

The OHT Business: Strengths and Outlook

With the acquisitions of Alliance Tire Group in 2016, Aichi Tire Industry in 2017 and TWS in 2023, we now have the third largest share in the global OHT business. We may also be the only company in the OHT business that has strong brands and market share in both premium and value segments. We run these companies as separate entities with strong leadership teams. From the point of view of customers, this means that they get the same experience that they were getting before, but we are still able to harness synergies in the back end in areas such as raw materials procurement and manufacturing. As we continue our growth trajectory, we are entering new product segments and new markets. Yokohama TWS (Y-TWS) the agricultural tracks segment, which has huge growth potential, using their in-house R&D expertise. They have already homologated these tracks with a key OEM who is very happy with the performance as compared to the competition. Yokohama ATG (Y-ATG) team is re-entering the huge Indian market, which it could not serve in the past due to capacity constraints. They have developed “fit for market” products for this market that provide best in class performance at an attractive price. Finally, Yokohama OTR (Y-OTR) team is working on developing three star products that will provide best in class cost/hour performance to the end customers.

The OHT business is expected to grow at a healthy clip of 6% a year due to positive tail winds. As the growing population and improved standard of living require food, grains, new roads and infrastructure, the demand for agricultural and construction equipment is expected to remain strong. Due to the attractiveness of this business, we are seeing increasing competition from new players from Asia in the value segment. Interestingly, some of the premium brands that had left this business are also re-entering the market. But with our strong brands and “fit for purpose” business models, we believe that we can continue to grow at a pace that is faster than the market.

Growth Strategy for the YX2026 Plan and Beyond

In the Medium-term management plan YX2026, programmatic M&A is a key element of our “offense” strategy. While we continue to grow organically, as seen by our new plant additions in Vizag (India) and Saltillo (Mexico), we continue to look for opportunities to enter new product segments and markets using acquisitions.

We have already been able to generate significant financial value with past acquisitions and got access to global management talent that is helping broader YRC. Y-TWS, for example, brings in a few unique elements to YRC. With superior technology and strong brands, it has built a solid premium position in the marketplace. It is also a truly global organization with a “local for local” mindset. We are now using some of the learned lessons and techniques to move other brands up a tier. We plan to leverage these assets and infrastructure to repeat this success story with future acquisitions.

We will maintain our multi-brand strategy of having brands in every tier of the OHT business and will manage these brands separately so as to maintain their brand promise. We will continue to aggressively grow our Interfit centers, which deliver services to the end customer and improve our understanding of customer needs and provide additional outlets for our premium offerings.

One of the key issues we face in promoting these growth strategies is the integration of new acquisitions into YRC. For an acquisition to be successful, it is important to maintain the brand integrity and provide freedom to the incoming management team so that they can operate effectively. However, we also need to realize synergies from these acquisitions by leveraging YRC’s scale and global footprint. We have gained many insights in this area which has helped in fine-tuning our approach for future acquisitions. We now proactively create a detailed plan of how an acquisition will be integrated into YRC and communicate this future structure with all involved to get them aligned.

Going forward, in the OHT business, I would like us to maintain the growth trajectory and become a strong No.3 player in the world. There are many segments and markets that are still untapped, and I would like to gain significant share in those areas. Regarding the overseas tire business, we will have to fundamentally change how we go to market in many countries. Today, the business is run as an export business out of Japan, which prevents it from reaching full potential in many regions. We have come to experiment in a few markets and have seen significant success in Europe and India, where we built leadership teams with local experts and empowered them to grow the business. I would like to replicate this model of a “global brand with local management” in other parts of the world so that we can achieve a step change in our PCR/TBR growth trajectory.

To Our Stakeholders

In line with the vision set by our Chairman, we are making good progress in transforming society and creating value with tires during the once in a century transformation that started in 2017. While we plan to respect and build on our legacy of over 100 years, YRC will be a very different company at the end of YX2026.

We also continue to regard sustainability management as one of our practical business strategies to strengthen our business.

These efforts will lead to improvements in our corporate value through various activities from an environmental, social and governance perspective.