We posted our second consecutive year of record sales and earnings in 2013, with net sales of ¥601.6 billion, operating income of ¥56.6 billion, and net income of ¥35.0 billion. What is more, we are ahead of schedule in achieving the Phase III (2012–2014) target in our Grand Design 100 medium-term management plan. Our chief quantitative targets for Phase III are to achieve aggregate three-year net sales of ¥1.8 trillion and aggregate three-year operating income of ¥150 billion. Our two-year totals for earnings exceed two-thirds of those three-year figures, and we will do everything possible to maintain our momentum in 2014 and thereby exceed the Phase III targets.

Growing Globally as a Company Rich in Culture

Hikomitsu Noji, President and Representative Director
Keeping phase III of Grand Design 100 on track with two consecutive years of record sales and earnings... We posted our second consecutive year of record sales and earnings in 2013, with net sales of ¥601.6 billion, operating income of ¥56.6 billion, and net income of ¥35.0 billion. What is more, we are ahead of schedule in achieving the Phase III (2012–2014) target in our Grand Design 100 medium-term management plan. Our chief quantitative targets for Phase III are to achieve aggregate three-year net sales of ¥1.8 trillion and aggregate three-year operating income of ¥150 billion. Our two-year totals for earnings exceed two-thirds of those three-year figures, and we will do everything possible to maintain our momentum in 2014 and thereby exceed the Phase III targets.

Aiming for production capacity of 100 million tires a year by 2020... Strengthening our tire business is fundamental to attaining the targets of our Grand Design 100 medium-term management plan. And we are therefore moving to increase our annual production capacity to 100 million tires by 2020, from about 63 million at 2013 year-end.

As described elsewhere, we inaugurated Grand Design 100 in 2006 as a framework for achieving annual net sales of ¥1 trillion, annual operating income of ¥100 billion, and—thus—operating return on sales of 10% by 2017. The Lehman Shock of September 2008 changed the market outlook fundamentally and has obliged us to set back our horizon for the Grand Design 100 sales target to 2020 or later. We abide by the 2017 target for operating income, however, and are therefore aiming to attain our target for operating return on sales ahead of schedule.

Reinforcing our presence in original equipment tires... Upgrading our appeal to automakers will be crucial in strengthening our tire business. We are among a mere handful of tire manufacturers worldwide who possess the technological capabilities necessary for original equipment contracts. Our continuing success in winning fitments on premium-grade vehicle models underlines our technological attainment in that respect, and automakers’ acknowledgement of that attainment enhances our appeal to customers in the replacement tire market. Expanding business in original equipment tires yields the additional benefit of stabilizing output at our plants.

Shaping an inventory-free business model... What I am describing is “just-in-time” management. It reduces costs in warehousing, in management, and in shipping. Our production operations already operate on a highly just-in-time basis. But we need to do a lot better in our logistics and sales operations. We will step up our efforts to raise awareness of the need for just-in-time management and to translate that awareness into efficiency gains and cost reductions.

Deploying tire supply chains globally... The Yokohama production network for tires comprises 12 plants in seven nations, and 2 additions to that network are under construction. Those plants serve automakers, fleet operators, consumers, and other customers worldwide. Clearly, we need to link our production, logistics, and sales in ways that maximize efficiency and minimize delivery lead times. And I will spare no effort in tackling that challenge. Our efforts will include measures for optimizing operations in each nation and region and for optimizing the interaction among our operations globally.
Strengthening our R&D capabilities through an alliance with Kumho Tire

I am equally committed to strengthening our R&D capabilities, and that explains the alliance that we concluded with the Republic of Korea’s Kumho Tire in February 2014. Competition is escalating in the global tire industry in technological development for addressing such themes as minimizing environmental impact. Undertaking the R&D necessary to compete with our industry’s largest manufacturers requires immense expenditures. R&D spending as a percentage of net sales averages between 2% and 3% in the tire industry. Sharing R&D findings with Kumho will enable us to match the R&D results of companies twice our size.

Being alert to opportunities for furthering our strategic interests through alliances and through mergers and acquisitions

Our technological alliance with Kumho exemplifies a broader commitment to furthering our strategic interests and thereby fulfilling stakeholder expectations. Achieving business growth and increasing our corporate value are the most direct ways of fulfilling the expectations of our shareholders and our other stakeholders. And we will remain alert to opportunities to further those aims through alliances and through mergers and acquisitions.

Reciprocity is fundamental to interaction with other companies in the global marketplace. We therefore discontinued in March 2014 a “poison pill” provision adopted in 2007 to prevent unwelcome acquisitions of our shares. Our greatest assets at Yokohama are our culture and our brands. We need to be open to any and all possibilities for exercising those assets to their fullest potential in win-win relationships.

Increasing corporate value by fulfilling our corporate social responsibility

We have positioned the fulfilling of corporate social responsibility as a growth-strategy priority in Grand Design 100. Quantifying the fiscal benefits of fulfilling corporate social responsibility can be difficult on a short-term basis, but demonstrating a strong social commitment is unquestionably beneficial to long-term corporate value. Our customers among the world’s automakers are sensitive to the importance of corporate social responsibility, and we need to exhibit a comparable sensitivity.

“We are among a mere handful of tire manufacturers worldwide who possess the technological capabilities necessary for original equipment contracts.”
Tackling new measures for fortifying our approach to environmental protection, personal welfare, and corporate governance

A mounting commitment to fulfilling corporate social responsibility is readily evident in our recent activity in connection with environmental protection, personal welfare, and corporate governance. For example, avoiding any output of landfill waste has become an obvious criterion in building new plants. But we are reaching beyond that criterion and insisting on achieving new levels of environmental harmony with each new plant that we build.

Personal welfare is also a mounting emphasis, meanwhile, in our management stance. That means accommodating employees’ personal needs, as well as serving our host communities through public-interest activities. We are upgrading our employee support with new and expanded provisions for maternity leave, parental leave, and geriatric parental care.

In regard to corporate governance, the International Organization for Standardization’s ISO regimens provide solid frameworks for systematizing oversight functions. We are employing those frameworks to streamline and speed our internal auditing.

The objective perspective of independent directors buttresses, meanwhile, the oversight function of the Board of Directors. And we named a second independent member to our Board of Directors at our general meeting of shareholders in March 2014.

Nurturing Yokohama culture and building a vibrant brand

I want Yokohama to be a company that is rich in culture. We can and should become a company whose name and brand conjure strong associations with excellent products, superior technology, and a positive social interaction. Fostering that kind of strong corporate personality takes time, patience, and determination.

Thus have we served as the official tire supplier for the Macau Grand Prix annually since 1983. That has meant maintaining our support for the race through fiscal good times and bad. And that long-term commitment has nurtured lasting value in terms of positive perceptions of our company and products.

We will continue working to imbue our organization with culture while pursuing our global growth strategy in accordance with Grand Design 100. And I am grateful for the understanding and goodwill of our stakeholders as we address the challenges and opportunities that lie ahead.

“*We will continue working to imbue our organization with culture while pursuing our global growth strategy in accordance with Grand Design 100.*"
Overseas 45%

Grand Design 100
Medium-Term Management Plan

Our blueprint for growth is Grand Design 100, a medium-term management plan that we launched in 2006. That plan culminates in 2017, our corporate centennial, and comprises four three-year phases. Phase III began in 2012.

Our cumulative, three-year targets in Phase III are to achieve net sales of ¥1.8 trillion and operating income of ¥150 billion. We are well on the way toward achieving those targets with two consecutive years of record sales and earnings.

Financial Results and Targets in Regard to Grand Design 100

<table>
<thead>
<tr>
<th>Financial Targets in Phase III of Grand Design 100</th>
<th>Targets for Selected Financial Indicators in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years ended December 31; billions of yen, percent</td>
<td>Operating return on assets: More than 9%</td>
</tr>
<tr>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Net sales: ¥57.0</td>
<td>¥59.0</td>
</tr>
<tr>
<td>Operating income: ¥40.0</td>
<td>¥50.0</td>
</tr>
<tr>
<td>Operating return on sales: 7.0%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Results: 2012 and 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales: 2012 ¥559.7 2013 ¥601.6</td>
</tr>
<tr>
<td>Operating income: 2012 ¥49.7 2013 ¥56.6</td>
</tr>
<tr>
<td>Operating return on sales: 2012 8.9% 2013 9.4%</td>
</tr>
</tbody>
</table>

Growth Strategy: Multiple Business Group

Here is a summary of our growth strategy in our Tire Group and Multiple Business Group.

Aiming to attain ahead of schedule our 10% target for operating return on sales.

Changes in the business environment are likely to delay until 2019 or 2020 our attainment of our sales target of ¥1 trillion.

We expect to attain on schedule our operating income target of ¥100 billion and to attain ahead of schedule our 10% target for operating return on sales.

Robust and Responsive Growth

With the progress we achieved in Phase II, we are tackling concrete measures for achieving the overall Phase III goals.

To Mark the Yokohama Centennial in 2017

Evoke a distinctive global identity in building corporate value and building a strong market presence.

Long-Term Financial Targets

- Net sales: ¥1 trillion
- Operating income: ¥100 billion
- Operating return on sales: 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

Phase III began in 2012.

The plan culminates in 2017, our corporate centennial.

Financial Results: 2012 and 2013

- Net sales (Billions of yen, percent): 2012 ¥575.0, 2013 ¥595.0
- Operating income (Billions of yen): 2012 ¥40.0, 2013 ¥59.0
- Operating return on sales (Percent): 2012 7.0%, 2013 8.4%

Financial Results and Targets in Regard to Grand Design 100

- Operating return on sales: 2002 2.5%, 2005 4.2%, 2008 5.0%, 2011 5.1%, 2014 8.3%

Robust and Responsive Growth

With the progress we achieved in Phase II, we are tackling concrete measures for achieving the overall Phase III goals.

To Mark the Yokohama Centennial in 2017

Evoke a distinctive global identity in building corporate value and building a strong market presence.

Long-Term Financial Targets

- Net sales: ¥1 trillion
- Operating income: ¥100 billion
- Operating return on sales: 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

Phase III began in 2012.

The plan culminates in 2017, our corporate centennial.

Financial Results: 2012 and 2013

- Net sales (Billions of yen, percent): 2012 ¥575.0, 2013 ¥595.0
- Operating income (Billions of yen): 2012 ¥40.0, 2013 ¥59.0
- Operating return on sales (Percent): 2012 7.0%, 2013 8.4%

Financial Results and Targets in Regard to Grand Design 100

- Operating return on sales: 2002 2.5%, 2005 4.2%, 2008 5.0%, 2011 5.1%, 2014 8.3%

Robust and Responsive Growth

With the progress we achieved in Phase II, we are tackling concrete measures for achieving the overall Phase III goals.

To Mark the Yokohama Centennial in 2017

Evoke a distinctive global identity in building corporate value and building a strong market presence.

Long-Term Financial Targets

- Net sales: ¥1 trillion
- Operating income: ¥100 billion
- Operating return on sales: 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

Phase III began in 2012.

The plan culminates in 2017, our corporate centennial.

Financial Results: 2012 and 2013

- Net sales (Billions of yen, percent): 2012 ¥575.0, 2013 ¥595.0
- Operating income (Billions of yen): 2012 ¥40.0, 2013 ¥59.0
- Operating return on sales (Percent): 2012 7.0%, 2013 8.4%

Financial Results and Targets in Regard to Grand Design 100

- Operating return on sales: 2002 2.5%, 2005 4.2%, 2008 5.0%, 2011 5.1%, 2014 8.3%
Basic Approach in Phase III of Grand Design 100

Aiming to attain the overall Phase III goals, we are tackling concrete measures for achieving growth in our Tire Group and Multiple Business Group, for asserting technological strengths, for reinforcing our corporate foundation, and for fulfilling our corporate social responsibility. Here is a summary of our growth strategy in our Tire Group and our Multiple Business Group.

Fortify our operations to generate a strong cash flow, and invest heavily in expanding production capacity, especially in tires

Expand our supply capacity to keep up with demand in fast-growing economies

Pursue operating return on sales of 10% by strengthening our cost competitiveness and our branding

Growth Strategy: Tire Group

Asserting a Distinctive Presence in the Global Marketplace

- **Japan**: Bolster our competitiveness by strengthening our capabilities in technology and in product development
- **Overseas**: Expand our supply capacity in support of profitable growth

Expanding Supply Capacity Greatly

- Increase our annual production capacity by about 7 million tires during the three years of Phase III, principally in Russia, China, the Philippines, and Thailand
- Allocate ¥140.0 billion to capital spending in Phase III to increase our annual production capacity by 20 million tires in Phase IV

Deploying High-Value-Added Products Globally

- **Consumer tires**: Increase the global momentum for our ADVAN flagship brand for high-performance products, our BluEarth brand for fuel-saving tires, our iceGUARD brand for winter category tires, and our GEOLANDAR brand for sport-utility vehicle tires, and raise our market profile by winning factory fitments on globally prominent vehicle models
- **Commercial tires**: Increase sales and production capacity in large tires for off-the-road equipment, especially radial tires in sizes of 49 inches and larger; broaden our offerings in high-functionality tires for trucks and buses, such as ultra wide base tires; and expand our market presence in retreaded tires

Growth Strategy: Multiple Business Group

Asserting Market Leadership in Products Based on Three Core Technologies

- Create market-leading products based on the three core technologies of carrying, affixing, and buffering
- Realign our manufacturing operations in Japan and continue to expand our manufacturing overseas

Cultivating Business Opportunities

- Generate business opportunities by applying and combining advanced telecommunications and measurement technologies innovatively

Our Three Core Technologies

<table>
<thead>
<tr>
<th>Carrying</th>
<th>Affixing</th>
<th>Buffering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conveyor belts</td>
<td>Construction sealants</td>
<td>Rubber bearings</td>
</tr>
<tr>
<td>High-pressure hoses</td>
<td>Hard coatings</td>
<td>Marine fenders</td>
</tr>
<tr>
<td>Water tanks</td>
<td>Window sealants</td>
<td>Wheelchair cushions</td>
</tr>
</tbody>
</table>