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.

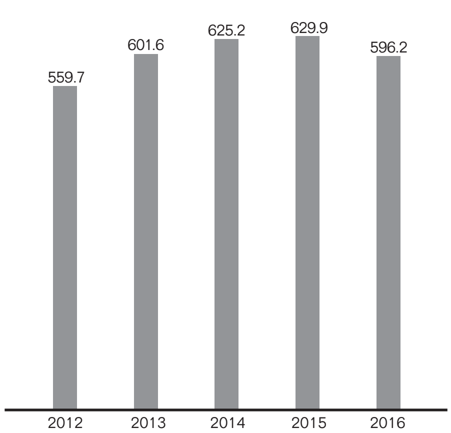
Sales, Expenses, and Earnings

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.

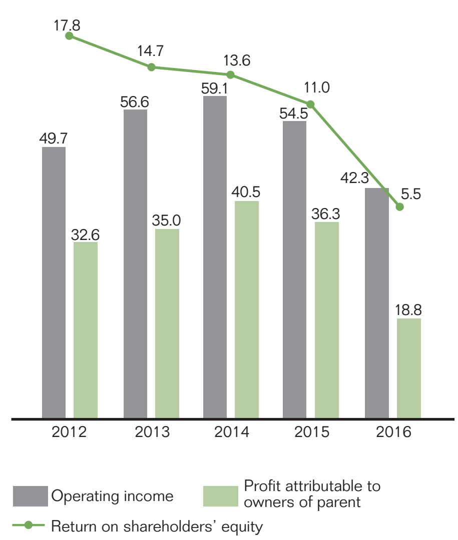
Gross profit declined 5.5%, to ¥212.4 billion. Selling, general and administrative expenses were basically unchanged, at ¥170.1 billion, despite the first-time inclusion of Alliance Tire Group's selling expenses and the inclusion of goodwill amortization expense and acquisition expenses in connection 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.

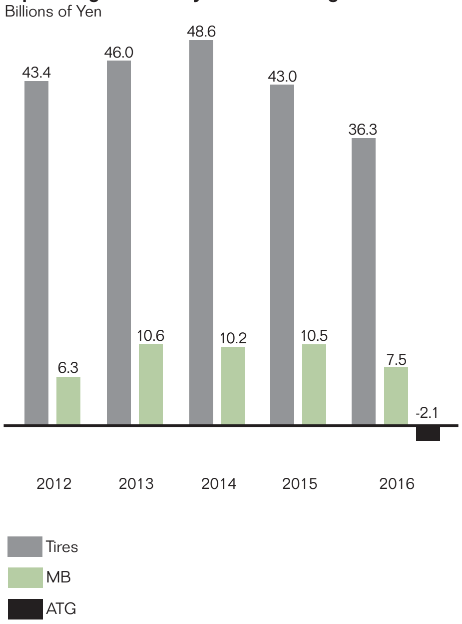
Yokohama's tire business in the Japanese replacement market declined in unit volume, but the successful promotion of high-value-added products improved the composition of the company's sales portfolio and produced an increase in operating income. Notable among the high-value-added products were high-performance 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

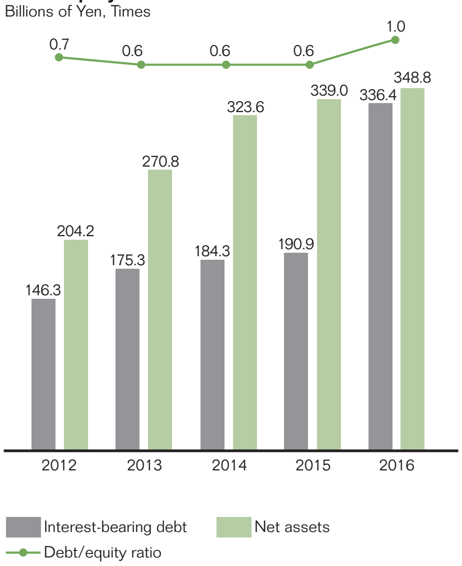
Net cash provided by operations in 2016 totaled ¥75.4 billion, which included ¥32.0 billion in income before income taxes and non-controlling interests and was Yokohama's highest-ever total for operating cash flow. Net cash used in investing activities totaled ¥166.5 billion, which consisted chiefly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

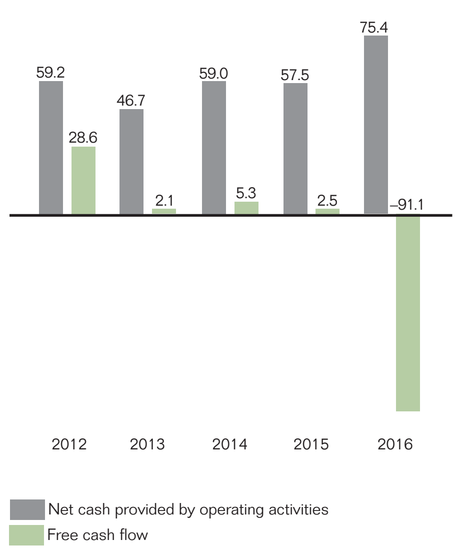
Capital expenditures in 2016 totaled ¥35.9 billion, including ¥25.2 billion in the Tires segment, ¥5.2 billion in the MB segment, and ¥2.3 billion in the ATG segment. Depreciation and amortization totaled ¥33.2 billion. The capital expenditures in the Tires segment included investment in fortifying production 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



* 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



*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

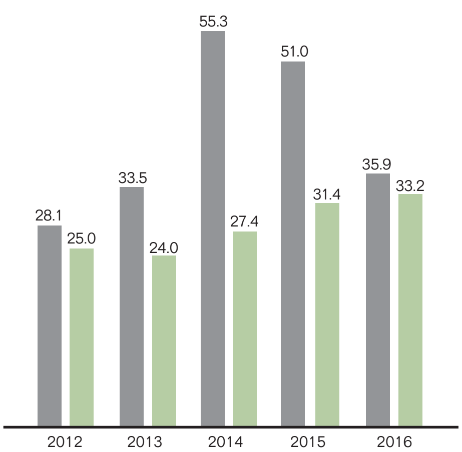
Management's projections for 2017 call for a 10.7% increase in net sales, to ¥660.0 billion; a 12.2% increase in operating income, to ¥47.5 billion; and a 59.7% increase in profit attributable to owners of parent, to ¥30.0 billion. Underlying those projections are the expectation of continued economic 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.

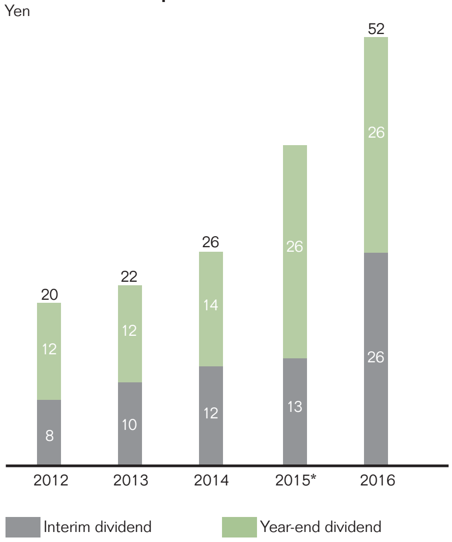
Projected Dividends in 2017

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

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 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)	 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 Comprehensive 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

EY
Building a better working world

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