YOKOHAMA

ANNUAL REPORT 2019

THE YOKOHAMA RUBBER CO., LTD. Year ended December 31, 2018

GD 2020

PROFILE

The Yokohama Rubber Co., Ltd., established in 1917, is a leading tire manufacturer. It has also deployed its polymer expertise in several lines of diversified business, including high-pressure hoses, sealants and adhesives, other industrial products, aircraft fixtures and components, and golf equipment. Yokohama is laying a foundation for sustainable growth in tires and in diversified products in Japan and overseas by developing high-functionality products and by expanding its production capacity.

BASIC PHILOSOPHY

To enrich people's lives and contribute to their greater happiness and well-being by devoting our wholehearted energies and advanced technology to the creation of beneficial products.

MANAGEMENT POLICIES

Take on the challenge of new technologies to produce new value.
Develop proprietary business fields to expand the scope of business.
Create a workplace that values, improves and energizes people.
Deal fairly with society and value harmony with the environment.

ACTION GUIDELINES

Develop ourselves so that we may give our personal best.
Trust, challenge and improve one another.
Nurture a welcoming, open spirit.

CORPORATE SLOGAN

Excellence by nature

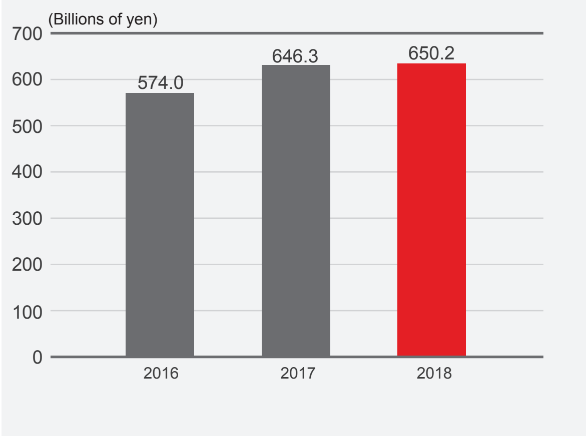
Forward-Looking Statements
This annual report contains forward-looking estimates and forecasts based on management's plans, which are subject to unforeseeable risks and uncertainties. The company's business results could differ significantly from those estimates and forecasts.

CONTENTS

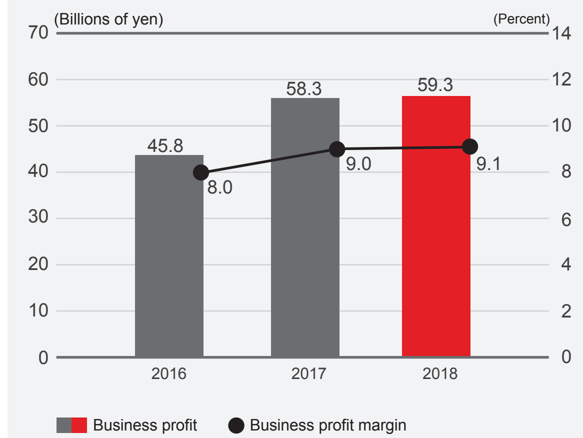
FINANCIAL HIGHLIGHTS

Yokohama has adopted the International Financial Reporting Standards (IFRS) in place of accounting principles generally accepted in Japan as of the fiscal 2017 year-end, and the company has restated its fiscal results for fiscal 2016 on an IFRS basis to facilitate year-on-year comparisons.

Sales Revenue

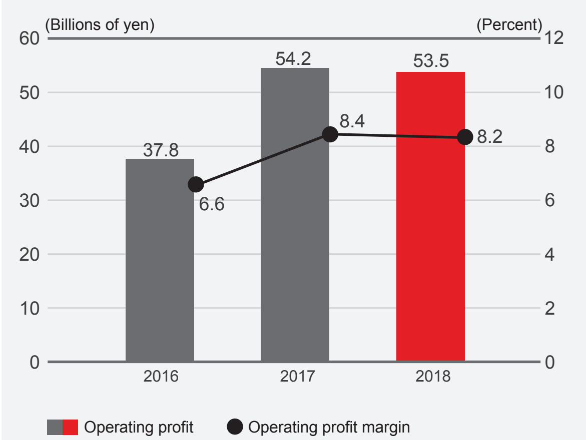


Business Profit* and Business Profit Margin

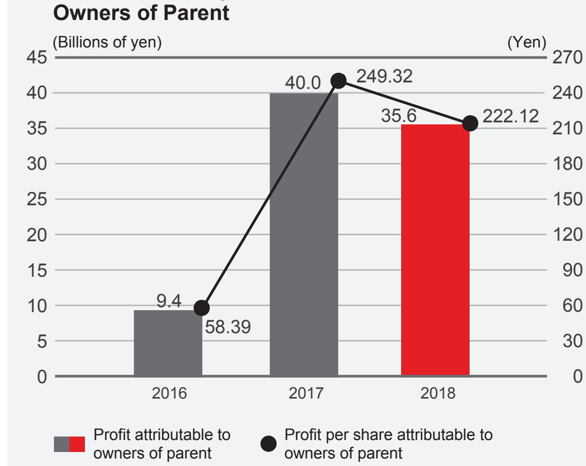


*Sales revenue less the sum of cost of sales and selling, general and administrative expenses

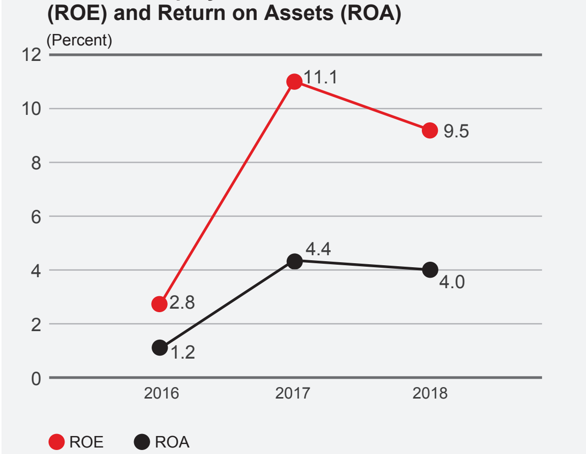
Operating Profit and Operating Profit Margin



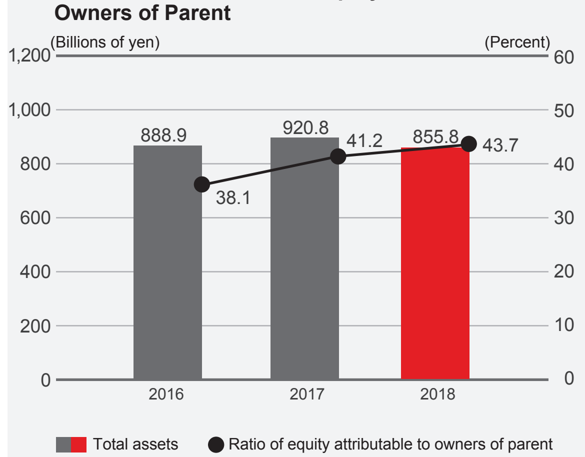
Profit and Profit per Share Attributable to Owners of Parent



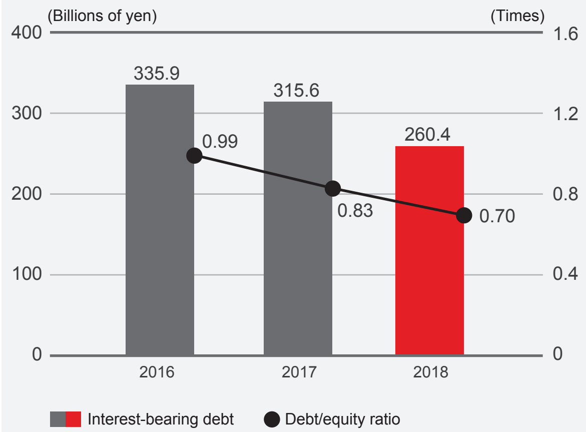
Return on Equity Attributable to Owners of Parent (ROE) and Return on Assets (ROA)



Total Assets and Ratio of Equity Attributable to Owners of Parent

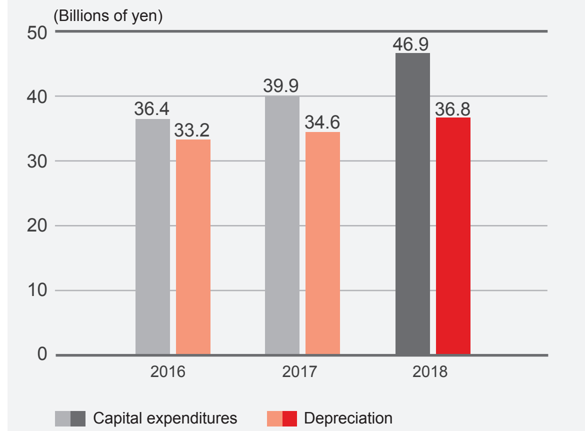


Interest-Bearing Debt and Debt/Equity Ratio*

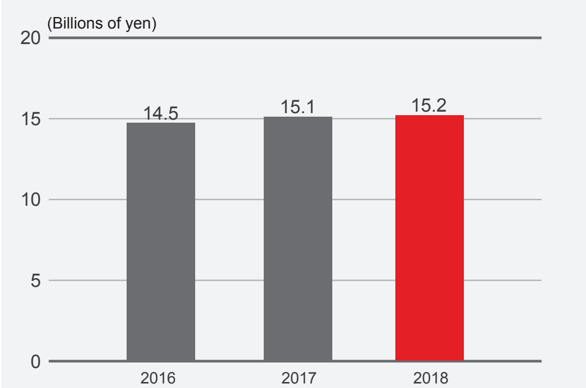


*Interest-bearing debt divided by total equity attributable to owners of parent

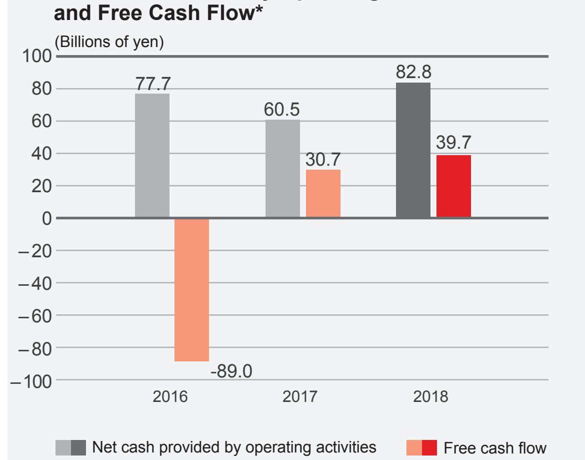
Capital Expenditures and Depreciation



R&D Expenditures

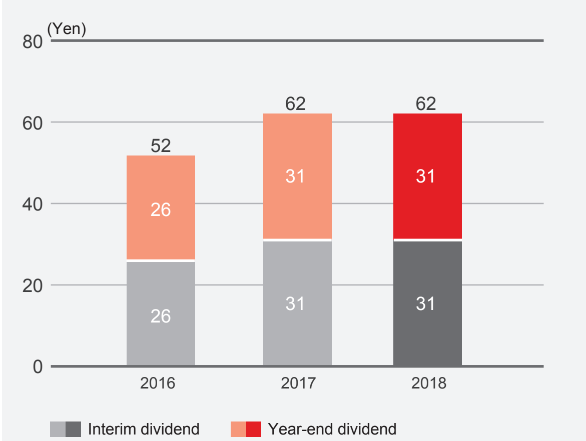


Net Cash Provided by Operating Activities and Free Cash Flow*

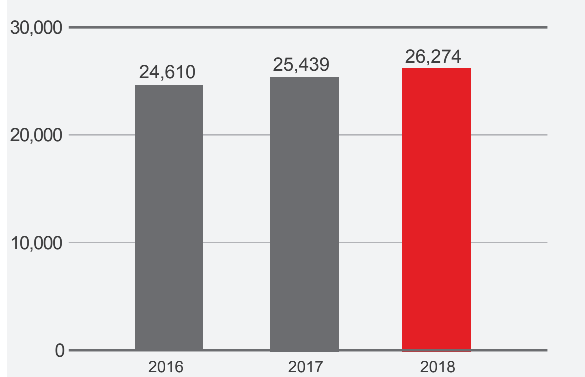


*Net cash provided by operating activities less net cash used in investing activities

Cash Dividends per Share



Employees



MEDIUM-TERM MANAGEMENT PLAN: GRAND DESIGN 2020

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

GD2020 Positioning

Vehicle production is poised to continue growing worldwide, and we expect demand for tires to grow even faster. In preparing GD2020, we have assumed annual growth rates of 1.9% in unit vehicle production and 3.2% in tire demand. Competition will escalate in our industry, however, as tire makers in emerging economies increase production. And the market share of the industry leaders will decline in terms of value.

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

Consumer Tires

Expand our presence further in premium tires.

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

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

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

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

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

Commercial Tires

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

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

Off-highway tires

» Build on the business scope afforded by the Yokohama subsidiaries Alliance Tire Group, which manufactures tires for agricultural and forestry machinery, and Aichi Tire Industry, which manufactures tires for industrial machinery, and by our established business in tires for construction machinery.

» Capitalize on the compelling edge in cost competitiveness provided by Alliance Tire Group's Indian plants.

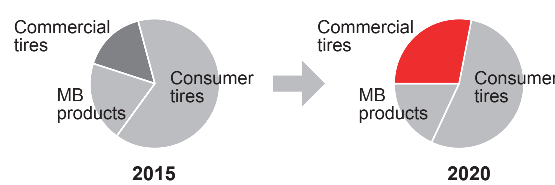
» Foster business in special-purpose tires where we assert distinctive strengths.

Truck and bus tires

» Make the most of our state-of-the-art plant in Mississippi to strengthen our position in regard to high-quality products and flexible supply capabilities. That plant has greatly upgraded our capacity for serving the huge North American market.

» Promote ultra-wide base tires that employ our patented SpiraLoop® technology.

Sales by Business Sector



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

Our ultra-wide base single tire

MB Operations

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

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

Automotive components

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

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

Marine products

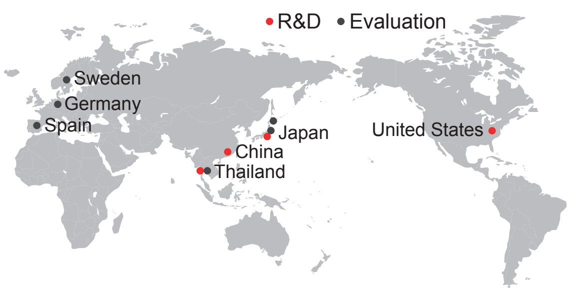
» Expand business in the highly regarded marine hoses and pneumatic marine fenders produced at Yokohama plants in Japan, Indonesia, and Italy.

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

Technology

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

Global R&D Network



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

Branding

GD2020 provides an opportunity for raising our profile further in markets worldwide through effective branding. This includes making the most of our official club partnership agreement with the English Premier League's Chelsea Football Club. It also includes fostering a dynamic identity for our company through effective promotion on Facebook and other social networking services.

Chelsea FC jerseys emblazoned with "Yokohama Tyres"

Fortifying Our Business Foundation

Corporate social responsibility

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

Human resources

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

Corporate governance

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

Risk management

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

Finance

Our financial targets include generating a three-year operating cash flow of ¥200 billion, and we are working to increase our financial efficiency by conducting cash management on a consolidated basis. Those measures will help reduce interest-bearing debt and otherwise fortify our financial position. And they will help enable us to provide sound return to shareholders. We aim to maintain a payout ratio of 30%. Investment will take place within the scope of depreciation.

Financial Targets (2020)

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

IR Website

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

A WORD FROM THE PRESIDENT

Fulfilling Our Grand Design 2020 Medium-Term Management Plan as a Platform for Profitable Growth into the 2020s

Masataka Yamaishi
President, Chairman of the Board

We inaugurated a medium-term management plan in 2018 as Grand Design 2020 (GD2020). That plan spans the three years to 2020. It provides for fortifying our business foundation by redefining Yokohama strengths and by deploying a growth strategy based on original approaches. We are counting on that framework to support new strides for our company in the decade of the 2020s. I will begin my message to you with a summary of our principal achievements in the first year of GD2020 and of the issues that we will tackle in the years ahead.

Record Figures for Sales Revenue and Business Profit

Japan's ongoing economic recovery continued in 2018. Economic expansion continued in the United States, and Europe, too, was the scene of continuing economic recovery, but economic growth slowed in China. Aggregate unit sales of original equipment tires and replacement tires in Japan declined slightly in 2018.

We at Yokohama achieved a 0.6% increase in sales revenue over the same period of the previous year, to ¥650.2 billion, and a 1.7% increase in business profit (basically equivalent to operating income under accounting principles generally accepted in Japan and calculated as sales revenue less the sum of cost of sales and selling, general and administrative expenses), to ¥59.3 billion. The figures for both of those items were Yokohama's highest ever. Our operating profit declined 1.4%, to ¥53.5 billion, and profit attributable to owners of parent declined 10.9%, to ¥35.6 billion. Those declines reflect an ¥11.2 billion third-quarter charge for asset impairment at our US tire production subsidiary Yokohama Tire Manufacturing Mississippi, LLC.

More Fitments on Premium-Grade Cars and Expansion of Our Product Lineup

Expanding our presence in premium tires is a core emphasis in consumer tire strategy under GD2020. We are addressing that emphasis in four ways: one, working to position our company as a "go to" tire maker for high-end quality and technology; two, working to build leadership in performance in winter tires and to assert that leadership in studless snow tires for Japan, in studded snow tires for Northern Europe and Russia, and in winter tires for other European nations; three, working to build a product line that serves the diverse needs of car enthusiasts, including racing, rallying, off-road driving, and classic car enjoyment; and four, stepping up our customer communication to help customers get more out of their motoring lifestyles.

As for positioning our company as a "go to" tire maker for high-end quality and technology, we marked important progress in 2018. That included winning factory fitments for our global flagship tire, the ADVAN Sport V105, on several models of premium-grade cars: the BMW M5, X4, X3 M Performance and X5 M Performance and the Mercedes-AMG E-Class 53-Series. Toyota has adopted our BluEarth-GT AE51 on its passenger car model, the Crown, in Japan.

Several product introductions highlighted our progress in 2018 in asserting leadership in winter tires. In Japan, we introduced new sizes for our iceGUARD 6, our highest-performance studless snow tire ever; for our iceGUARD SUV G075; and the iceGUARD 6 Z・P・S, a runflat version of the iceGUARD 6. All-season tires are an important facet of our winter tire strategy. Demand for all-season tires is mounting, especially in North America and Europe, and we launched our first all-season tire for the European market in September 2018. That tire, the BluEarth-4S AW21, has earned a solid market reception.

In R&D on winter tires, we developed technology in 2018 that allows for evaluating water absorptiveness accurately. Our new technology promises to help achieve dramatic improvements in performance on icy surfaces.

Product introductions in 2018 also bolstered our efforts in serving the diverse needs of car enthusiasts. An especially notable product launch was that of the GEOLANDAR X-MT, for sport utility vehicles and pickup trucks, in Japan and North America. We have targeted that tire at vehicle owners who enjoy driving on rock trails and other off-road settings.

Notable product launches also included those of new sizes for our ADVAN A053, ADVAN A08B, and ADVAN A052 tires. Those tires are popular with participants in motor rallies, gymkhana competitions, and dirt trials.

Our focus in stepping up customer communication is on helping customers get more out of their motoring lifestyles. In 2018, that included participating in several events for car lovers. One of those events, the Highway Motor Show, took place in September near Osaka and is Japan's only motor show held alongside a freeway. In another customer-communication event, we opened our Tire Test Center of Hokkaido, in Asahikawa, to members of the public for behind-the-wheel test driving. The local focus of the events occasions personal interaction and earns goodwill for the Yokohama brand. We reinforce our customer communication through frequent postings on social networking services on the Internet.

2018 Highway Motor Show (September 2018, near Osaka)

Global Motor Sports as a Laboratory for Honing Tire Technologies

Participating in motor sports is a valuable opportunity for developing and refining tire technologies, and we supply tires to competitors in prominent racing events worldwide. We were the exclusive tire supplier in 2018 for the World Touring Car Cup. In Japan, we were the exclusive tire supplier for the Super Formula Championship racing series and a supplier of tires to teams in the Super GT racing series. And Yokohama tires carried a competitor to the series championship in the top, OK class of the All Japan Karting Championship. In 2019, we will supply tires to teams in the Nürburgring 24-hour endurance race and the inaugural TCR Japan Series, for touring cars.

Left: *Vehicle that won 2018 series championship on Yokohama tires in top, OK class of All Japan Karting Championship*

Right: *2018 version of vehicle that will compete on Yokohama tires in 2019 running of Nürburgring 24-hour endurance race*

Vigor in Off-Highway Tires

We are nurturing business expansion in off-highway tires as a driver of growth in commercial tires. Two recent acquisitions have bolstered our presence greatly in off-highway tires: the 2016 acquisition of Alliance Tire Group B.V., a manufacturer of tires for agricultural and forestry machinery, and the 2017 acquisition of Aichi Tire Industry Co., Ltd., a manufacturer of tires for industrial equipment. Both of those companies offer ample potential for synergies with our other operations. We will foster those synergies to raise the percentage contribution of commercial tires to sales revenue in our second century.

Both of the new subsidiaries have performed well since the acquisitions. Sales revenue at Alliance Tire Group, now our ATG segment, has increased 25.3% since the acquisition, and Aichi Tire Industry posted record sales revenue in 2018. We are building on the sales momentum in our ATG business by expanding production capacity in that segment. The capacity of the ATG Dahej plant, in the Indian state of Gujarat, will increase 60% by 2019 year-end.

We are strengthening sales in the ATG segment and at Aichi Tire Industry by promoting their products through our Japanese sales channels. In February 2019, we began supplying ATG tires to a large Japanese manufacturer of construction equipment. We have added sizes to our ATG product offerings in tires for agricultural machinery, meanwhile, to better serve Japanese demand. And Aichi Tire Industry's tires for forklifts have become available through our Japanese sales channels.

ATG Dahej plant

Newly available in Japanese market, ATG 324FarmPRO tire for agricultural machinery (left), *and newly available through Yokohama's Japanese sales channels, AICHI E-Cushion tire for forklifts*

A North American Platform for Expanding Business in Truck and Bus Tires

Our truck and bus tires received certification from Volvo Trucks in late 2017 for fitment on that company's vehicles. We continued to supply tires in 2018 to three large US truck manufacturers to install as factory equipment. Eyeing further growth in business with truck and bus manufacturers, we secured IATF 16949 certification for Yokohama Tire Manufacturing Mississippi in March 2019. IATF 16949, a technical specification for quality management systems, is a widely used international standard in the automotive industry.

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

In 2018, we bolstered our Japanese and US offerings in ultra-wide base single tires with new sizes of the 902L tire. We are doubling the production capacity at our Mie Plant in stages to meet the surging demand for tires in this category.

A completely new Yokohama truck tire is the 712L, a long-haul, deep-tread drive tire launched in North America in April 2019. Several other products are in our development pipeline as we continue to fortify our portfolio in truck and bus tires.

902L ultra-wide base single tire

Automotive Components and Marine Products as Emphases in MB Operations

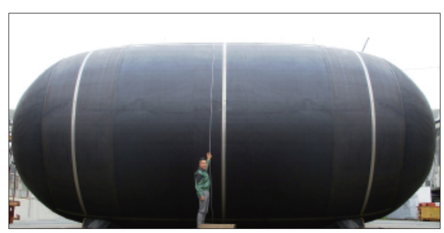
We are allocating resources in our MB operations on a priority basis to business fields of strength. That emphasis centers on expanding our components business in the growing automotive industry and asserting strong leadership in marine products.

In automotive products, Fiat Chrysler Automobiles has adopted two Yokohama components for air-conditioning systems in the Jeep® Wrangler and Jeep® Compass: hose for handling the next-generation refrigerant HFO-1234yf and an internal heat exchanger for raising cooling efficiency. We have also begun supplying a North American automaker with hoses for battery coolant. Our automotive adhesives have a big role to play in structural composite materials for achieving fuel-saving weight reductions in automobiles, and we have developed basic technology for high-strength, high-elasticity urethane adhesives for those materials.

Adhesives for diverse applications are a focus of continuing R&D at Yokohama. Along with pursuing further advances in structural adhesives for automobiles, we are working on industrial adhesives that will assert a compelling edge in performance.

Superior technology underlies our large market shares in pneumatic marine fenders and marine hoses, and we buttressed our technological edge in those products in 2018. Our product development yielded a six-meter-diameter marine fender, the world's largest. In marine hoses, PT. Yokohama Industrial Products Manufacturing Indonesia secured the GMPHOM 2009 international certification for marine hoses. That subsidiary began full-scale production in 2018 and expanded its shipments to domestic and export customers.

In other MB products, we strengthened our Japanese marketing for conveyor belts in 2018 and achieved our largest-ever market share in Japan. Our plants for producing high-pressure hoses in Japan and overseas operated at full capacity throughout the year to serve robust demand in construction equipment sector.



Ultra-large marine fender

Yokohama air-conditioning hose for handling next-generation refrigerant HFO-1234yf

Yokohama marine hose produced in Indonesia

Sports Marketing for Raising our Brand Profile

Strengthening the Yokohama brand is a global undertaking. It includes collaborations with sporting organizations, highlighted by our partnerships with the English Premier League's Chelsea Football Club and US Major League Baseball's Los Angeles Angels.

We commenced our partnership with Chelsea FC in 2015, and our partner has rewarded our commitment with superlative play, as in winning the UK Football Association's 2018 Emirates FA Cup. The Yokohama–Chelsea FC partnership provides for "Yokohama Tyres" to appear on our partner's matchday shirt, which has generated immense exposure for our brand.

Legendary Chelsea FC footballer Didier Drogba at fan gathering (Photo: Taro Irei)

In November 2018, we hosted a gathering in Japan for Chelsea FC fans. Attending as a Yokohama Rubber ambassador was the former English Premier League great and Chelsea FC legend Didier Drogba. The event was a huge success, drawing some 1,000 fans. Chelsea FC will play preseason matches in Japan in July 2019, which will earn extensive media coverage worldwide.

Our partnership with the Los Angeles Angels dates from 2011 and includes prominent Yokohama advertising on an outfield fence at Angel Stadium of Anaheim. The Angels have gained a huge following in Japan since signing Japan's two-way phenomenon Shohei Ohtani. He captured rookie-of-the-year honors in 2018, and his two-way, pitching-and-hitting exploits have heightened the branding value of our partnership greatly.

"Caring for the Future" through Fulfilling Our Corporate Social Responsibility

We are addressing five priorities in fulfilling our corporate social responsibility under the banner "Caring for the future": corporate governance, products, the earth, people, and community. We approach each of those priorities in the context of the UN sustainable development goals.

Recent measures that we adopted in regard to the earth include a policy in 2018 for ensuring sustainability in procuring natural rubber. An ongoing measure of special note is the Yokohama Forever Forest initiative, which provides for planting trees at and around Yokohama sites worldwide. Among the diverse activities in that initiative is an ongoing ecological preservation project in the Laojun Mountain Nature Reserve, in China's Yunnan Province.

The Yokohama Magokoro (Sincere Heart) Fund is a philanthropic vehicle funded with voluntary contributions by Yokohama employees and matching contributions by the company. The fund trustees allocate donations to emergency relief efforts and other worthy causes. In 2018, the fund disbursed funding to support relief efforts in the wake of several natural disasters around the world.

Our commitment to fulfilling our corporate social responsibility has earned high regard. In 2018, Yokohama remained a component of the FTSE4Good Index for the 14th consecutive year and a component of the FTSE Blossom Japan Index and the MSCI Japan ESG Select Leaders Index for the second consecutive year. The FTSE4Good Index is an influential reference for investors who weigh environmental, social, and governance (ESG) performance heavily in allocating equity investment, and the FTSE Blossom Japan Index and the MSCI Japan ESG Select Leaders Index are two of the three indexes that Japan's Government Pension Investment Fund uses as benchmarks for ESG performance.

New Ways of Working and Strengthened Corporate Governance

A motivational working environment and solid corporate governance are essential to sound, steady management. Our measures for fortifying our corporate foundation include incorporating new ways of working to reconcile work and personal lifestyles and to accommodate diverse human resources.

An employee task force is identifying ways of promoting fuller participation by women in the workplace. A program adopted in 2018 allows for work at home and hourly allocations of paid vacation time as necessary to care for young children and elderly parents. In another human resources initiative, we permit employees to work past our traditional retirement age and retain their jobs to the age of 70, and we extended that initiative in 2018 to the manufacturing workplace.

We have strengthened corporate governance by increasing the number and proportion of nonexecutive members of our Board of Directors. To increase diversity in management, we have appointed two non-Japanese executive officers and a female corporate auditor. We have upgraded our system for ensuring ethical compliance by extending our whistleblower-hotline function to our Chinese and Philippine operations.

Progress in Improving Our Financial Position

GD2020 calls for generating aggregate operating cash flow of ¥200 billion over the three years to 2020, reducing our interest-bearing debt, and otherwise improving our financial position. In 2018, we posted our largest-ever operating cash flow; reduced our interest-bearing debt; and lowered our debt/equity ratio 0.135 points, to 0.696. Our commitment to improving our financial position remains strong as we tackle the GD2020 targets for fortifying our corporate foundation.

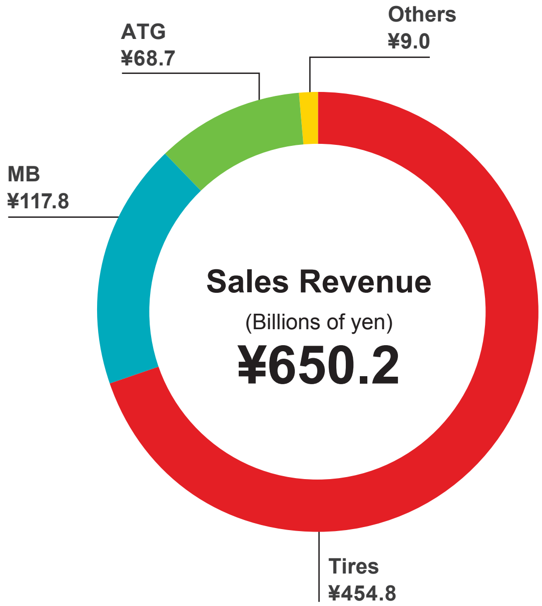
Company-Wide Solidarity in Pursuing Growth

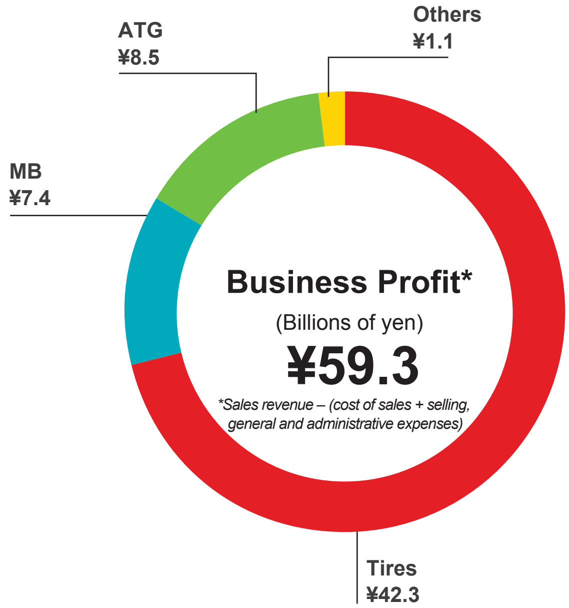
We revised upward, in May 2019, the full-year projections that we issued in February 2019 for operating profit and profit attributable to owners of parent. Our revised projections call for profit attributable to owners of parent to increase 29.1%, to ¥46.0 billion, on a 21.5% increase in operating profit, to ¥65.0 billion. The larger-than-projected growth in operating profit and in profit attributable to owners of parent reflects gains on the sale of fixed assets. We abide by the full-year fiscal projections for 2019 that we announced in February for sales revenue and business profit. Those projections call for business profit to decline 3.0%, to ¥57.5 billion, on a 1.5% increase in sales revenue, to ¥660.0 billion. Those projections reflect concerns about the effects of Chinese-US trade frictions and about the United Kingdom's path to an EU exit.

The GD2020 financial targets for 2020, the culminating year of the medium-term plan, are as announced in February 2018: sales revenue of ¥700.0 billion, operating profit of ¥70.0 billion, operating profit margin of 10%, a debt/equity ratio of 0.6, and return on equity of 10%. All of us at Yokohama share an unwavering commitment to attaining those targets.

GD2020 is our first step toward continued growth in our company's second century. I know Yokohama to be a company that asserts unique strengths in technology, products, manufacturing, and human resources. You have my assurance that we will continue working to redefine those strengths and to maintain profitable growth. Please know that we will strive indefatigably to position Yokohama as a presence trusted and valued by customers worldwide.

YOKOHAMA AT A GLANCE





Products and Companies by Business Segment

As of December 31, 2018

Tires

Principal products

Tires for passenger cars and light trucks; for trucks and buses; for construction and mining equipment; and for motor sports and tire tubes, aluminum alloy wheels, and other peripheral products

Principal production companies

Japan

Yokohama Rubber Co., Ltd.; Yokohama Tire Retread Co., Ltd.; Kameyama Bead Co., Ltd.

Overseas

Yokohama Tire Manufacturing Virginia LLC. (United States); LLC Yokohama R.P.Z. (Russia); Hangzhou Yokohama Tire Co., Ltd. (China);Yokohama Tire Philippines, Inc. (Philippines); Yokohama Tire Manufacturing (Thailand) Co., Ltd. (Thailand); Yokohama Tyre Vietnam Inc. (Vietnam); Yokohama India Pvt. Ltd. (India)

Principal sales and marketing support companies

Japan

Yokohama Tire Japan Co., Ltd.

Overseas

Yokohama Tire Corporation (United States); Yokohama Tire (Canada) Inc. (Canada); Yokohama Tire Mexico S. de R.L. de C.V. (Mexico); Yokohama HPT Ltd. (United Kingdom); Yokohama Europe GmbH (Germany); Yokohama Russia L.L.C. (Russia); Yokohama Tire Sales (Shanghai) Co., Ltd. (China); Yokohama Tire Sales Philippines, Inc. (Philippines); Yokohama Tire Sales (Thailand) Co., Ltd. (Thailand)

Employees: 18,263

ATG (Alliance Tire Group)

Principal products

Tires for agricultural, industrial, construction, and forestry machinery

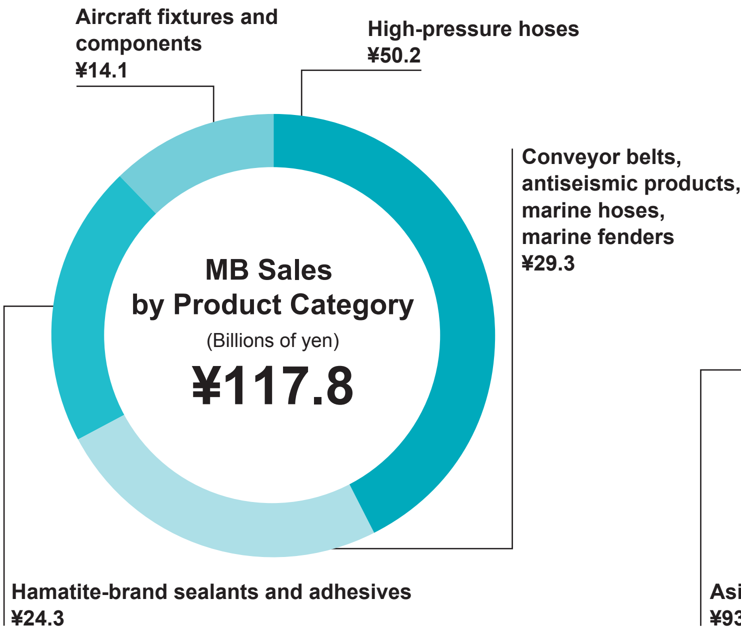
Principal production companies

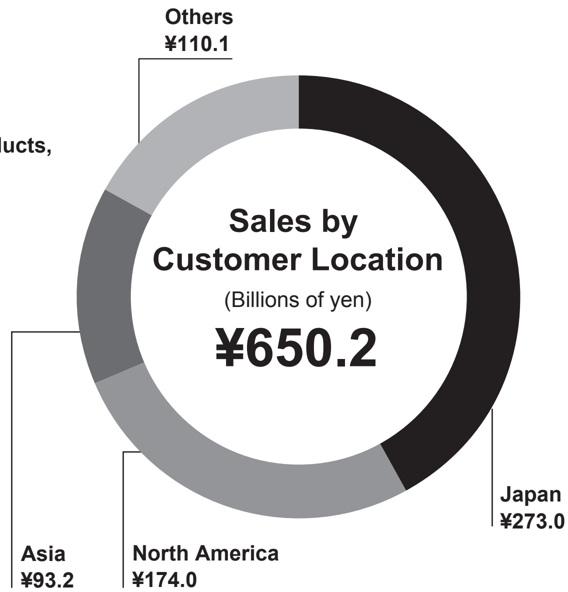
ATC Tires Private Ltd. (India); Alliance Tire Company Ltd. (Israel)

Principal sales, marketing, and other support companies

Alliance Tire Europe B.V. (Netherlands); Alliance Tire Americas Inc. (United States); Alliance Tire Group K.K. (Japan)

Employees: 2,757





MB (Multiple Business)

Principal products
High-pressure hoses, conveyor belts, marine hoses and pneumatic marine fenders, antiseismic products and roadway joints, Hamatite-brand sealants and adhesives, aircraft fixtures and components

Principal production companies

Japan
Yokohama Rubber Co., Ltd.

Overseas
Yokohama Industries Americas Inc. (United States); Yokohama Industries Americas de Mexico, S. de R.L. de C.V. (Mexico); Yokohama Industrial Products Italy S.r.l. (Italy); Yokohama Industrial Products-Hangzhou Co., Ltd. (China); SC Kingflex Corporation (Taiwan); PT Yokohama Industrial Products Manufacturing Indonesia (Indonesia); Yokohama Rubber (Thailand) Co., Ltd. (Thailand)

Principal sales and marketing support companies

Japan
Yokohama Industrial Products Japan Co., Ltd.

Overseas
Yokohama Aerospace America, Inc. (United States); Yokohama Industries Americas Ohio Inc. (United States); Yokohama Industrial Products Sales-Shanghai Co., Ltd. (China); Yokohama Industrial Products Asia-Pacific Pte. Ltd. (Singapore)

Employees: 4,008

Other operations

Principal products
Golf equipment and services for Yokohama Rubber and its subsidiaries and affiliates

Principal companies

Japan
PRGR Co., Ltd.; Hamagomu Fudousan Co., Ltd.; Acty Co., Ltd.; Yokohamagomu Finance Co., Ltd.; Yokohama Mold Co., Ltd.

Overseas
Y.T. Rubber Co., Ltd. (Thailand); Yokohama Rubber (China) Co., Ltd. (China); Yokohama Rubber Singapore Pte. Ltd. (Singapore)

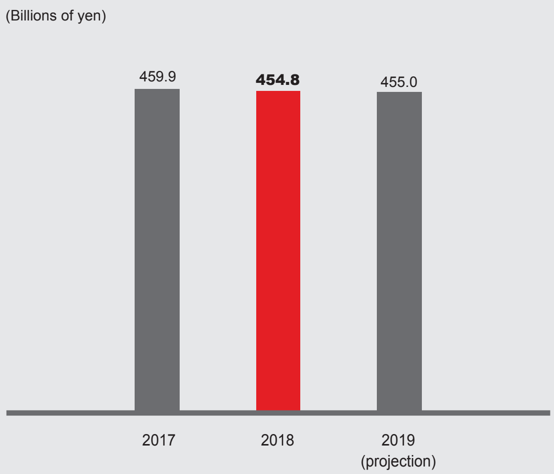
Employees: 1,246

RESULTS AND TRENDS BY BUSINESS SEGMENT

TIRES

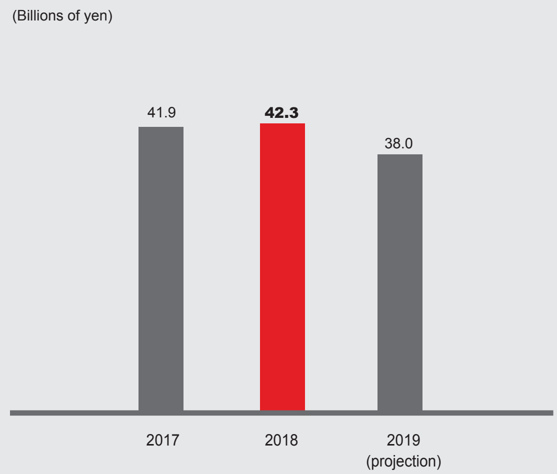
Sales Revenue:

¥454.8 billion



Business Profit:

¥42.3 billion



Business results in 2018

Business profit increased 1.0%, to ¥42.3 billion, on a 1.1% decline in sales revenue, to ¥454.8 billion. The Tires segment thus accounted for 71.4% of total business profit and for 69.9% of total sales revenue.

Original equipment

Sales revenue declined in original equipment business. Japanese business in this category suffered from product changeovers for multiple vehicle models equipped with Yokohama tires and from production adjustments at automakers in connection with natural disasters. Overseas business in original equipment suffered from production adjustments by automakers in China necessitated by weak sales. Yokohama won new fitments during the year on premium-grade passenger cars in Japan and overseas.

Replacement tires

Yokohama posted sales growth in the Japanese market for replacement tires. Business there benefited from strong sales in winter tires, led by the iceGUARD 6 studless snow tire. Japanese business in replacement tires also benefited from vigorous promotion of the premium-grade tires of Yokohama's global flagship brand, ADVAN, and the fuel-saving tires of the company's BluEarth series. Business declined, however, in replacement tires outside Japan on account of adverse weather trends, currency instability in some emerging economies, and the negative effect on demand of concerns about US-Chinese trade frictions.

Full-year projections for 2019

Management projects that business profit in Yokohama's Tires segment will decline 10.1% in 2019, to ¥38.0 billion, on a slight upturn in sales revenue, to ¥455.0 billion.

Yokohama's ADVAN Sport V105—factory equipment on several models of premium-grade cars

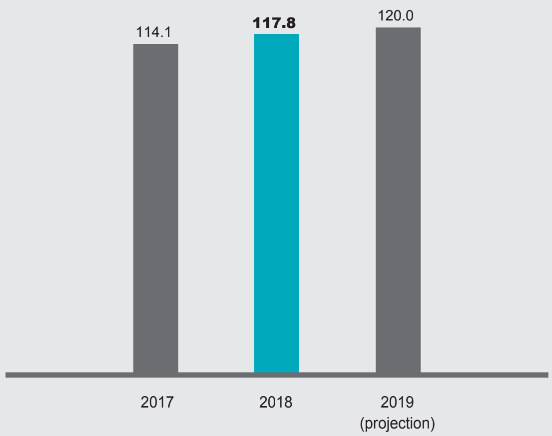
iceGUARD 6—unprecedented performance in studless snow tires

MB (Multiple Business)

Sales Revenue:

¥117.8 billion

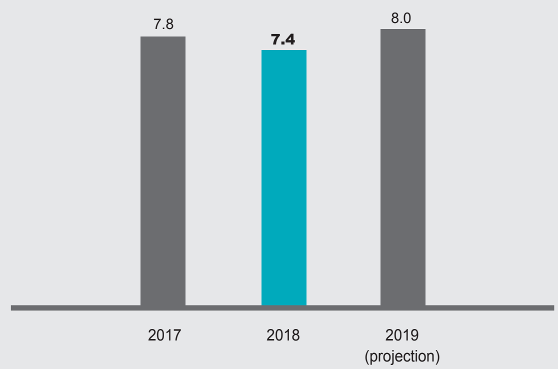
(Billions of yen)



Business Profit:

¥7.4 billion

(Billions of yen)



Business results in 2018
Business profit declined 4.6%, to ¥7.4 billion, on a 3.2% increase in sales revenue, to ¥117.8 billion. The MB segment thus accounted for 12.5% of total business profit and for 18.1% of total sales revenue.

High-pressure hoses
Sales revenue increased in high-pressure hoses, led by continuing vigor in Japan and overseas in hoses for construction equipment and industrial machines and in overseas markets for automotive hoses.

Industrial materials
Yokohama also posted growth in sales revenue in industrial materials, led by continuing strong momentum in conveyor belts in Japan and overseas.

Hamatite-brand sealants and adhesives
Sales revenue declined in Hamatite sealants and adhesives, principally on account of weak demand for construction sealants in Japan.

Aircraft fixtures and components
Business declined in aircraft fixtures and components, reflecting weak demand in the commercial sector and a cyclical downturn in government demand.

Full-year projections for 2019
Management projects that business profit in the MB segment will increase 8.1% in 2019, to ¥8.0 billion, on a 1.9% increase in sales revenue, to ¥120.0 billion.

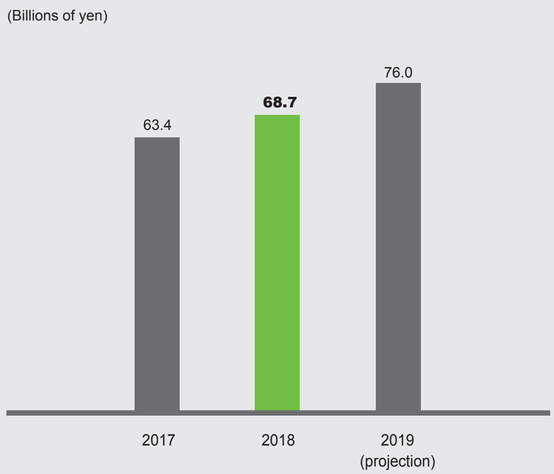
Hose from Yokohama for next-generation air-conditioning coolant—factory equipment on Jeep® Wrangler and Jeep® Compass

ECOTEX conveyor belt—energy-saving materials handling

ATG

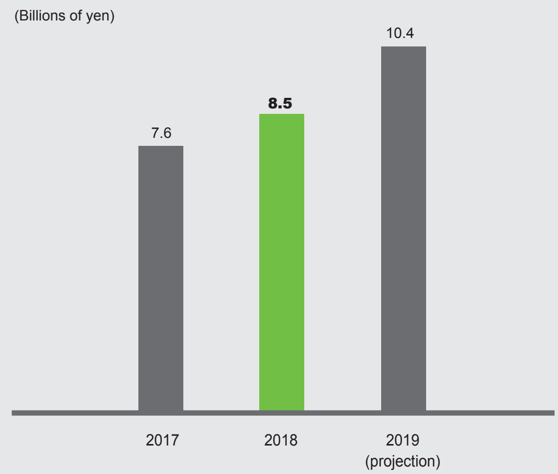
Sales Revenue:

¥68.7 billion



Business Profit:

¥8.5 billion



The ATG segment comprises the operations of Alliance Tire Group, which Yokohama acquired in July 2016 and which produces and markets tires for agricultural and forestry machinery and for other off-highway applications.

Business results in 2018

Business profit increased 11.8%, to ¥8.5 billion, on an 8.3% increase in sales revenue, to ¥68.7 billion. The ATG segment thus accounted for 14.3% of total business profit and for 10.6% of total sales revenue.

Off-highway tires

Sales revenue in the ATG segment increased as business expanded in replacement tires despite adverse weather patterns in Europe and as business expanded in original equipment tires, led by gains in North America and Europe.

Full-year projections for 2019

Management projects that business profit in the ATG segment will increase 22.9% in 2019, to ¥10.4 billion, on a 10.6% increase in sales revenue, to ¥76.0 billion.

324FarmPRO—ATG offering for agricultural machinery

Golf Equipment

Yokohama markets golf equipment under the PRGR brand in Japan and in China, the Republic of Korea, and Southeast Asian nations.

Highlights of 2018

Wins on the US PGA tour and on the Japanese tour for a Yokohama-sponsored pro

The Team PRGR pro Satoshi Kodaira won the RBC Heritage, on the US PGA tour, in April 2018. That made him the fifth Japanese golfer to capture a victory on the US men's tour. Kodaira also won the Golf Nippon Series JT Cup 2018. That tournament took place in December as the concluding event in the year's series. The win was Kodaira's third at a Japanese "major," following his victories at the Japan Golf Tour Championship in 2013 and at the Japan Open Golf Championship in 2015. Kodaira thus became the fourth-youngest golfer in history to capture three "majors" on the Japanese tour.

Satoshi Kodaira—winner of 2018 RBC Heritage

Launches of new-concept and upgraded clubs as the Q series and RS series

Yokohama introduced the Q series in March 2018 as a new approach to clubs for amateur golfers. The Q series clubs are especially good at lifting balls out of bad lies. They help apply spin to the ball and are good all-around equipment for aiming aggressively at the green. In July 2018, Yokohama remodeled its RS series of clubs for serious amateurs. The new RS clubs offer increased range and improved handling. Both of the new series have sold well since their launches.

Eleven years of the Yokohama Tire Golf Tournament PRGR Ladies Cup

The 11th Yokohama Tire Golf Tournament PRGR Ladies Cup took place in March 2018. That tournament has contributed to broadening the appeal of professional golf and to raising the profiles of the Yokohama Tire name and the PRGR brand.

In action at PRGR Ladies Cup: PRGR-sponsored Erina Hara

New-concept and upgraded clubs—Q series Q18 and the RS driver

CORPORATE PHILOSOPHY
CORPORATE SOCIAL RESPONSIBILITY

Corporate Philosophy

We at Yokohama abide by a formal Corporate Philosophy, which comprises our Basic Philosophy, Management Policies, Action Guidelines, and Corporate Slogan. The Basic Philosophy outlines our vision for the kind of company that we are committed to becoming. The Management Policies articulate the stance that our management team has adopted. The Action Guidelines are the code of conduct for each employee. Our slogan, "Excellence by nature," expresses our overall commitment to fulfilling all the elements of the Corporate Philosophy.

Corporate Philosophy (Launched in 1992)

Basic Philosophy

To enrich people's lives and contribute to their greater happiness and well-being by devoting our wholehearted energies and advanced technology to the creation of beneficial products

Management Policies

- Take on the challenge of new technologies to produce new value.
- Develop proprietary business fields to expand the scope of business.
- Create a workplace that values, improves and energizes people.
- Deal fairly with society and value harmony with the environment.

Action Guidelines

- Develop ourselves so that we may give our personal best.
- Trust, challenge and improve one another.
- Nurture a welcoming, open spirit.

Corporate Slogan

Excellence by nature

Corporate Social Responsibility

Fulfilling our corporate social responsibility (CSR) is fundamental to fulfilling our Corporate Philosophy, and that means building a trusted identity as a contributing member of the global community. In that spirit, we equate the notion of "corporate social responsibility" with "corporate social reliability." The latter phrasing, we believe, makes the concept easier to understand and to put into practice in our daily operations. It evinces our continuing determination in our second century to serve the greater good of the world.

CSR Management Vision (Launched in 2008)

To build a trusted identity as a contributing member of the global community

CSR Action Guidelines

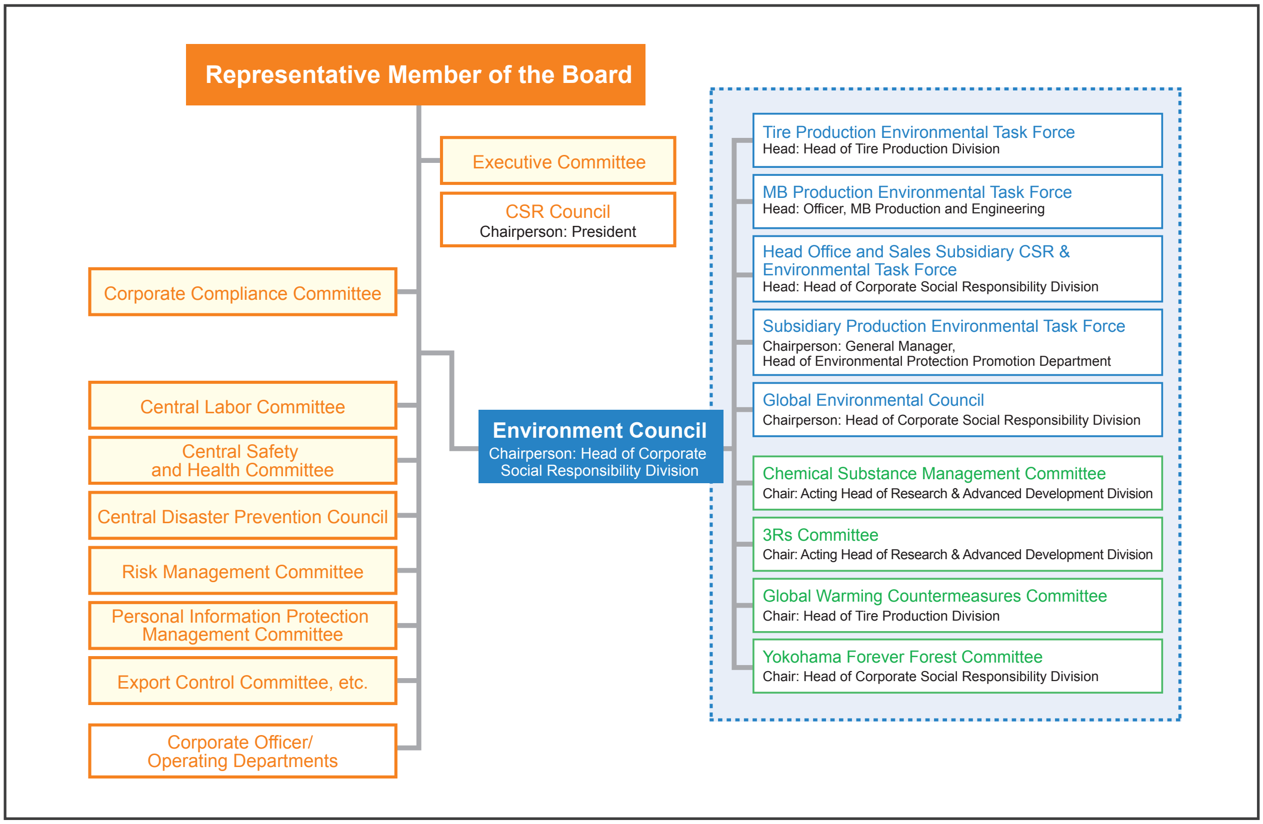
- Identify continually changing social trends.
- Ascertain the items that can contribute.
- Act swiftly to earn firm trust.
- Practice CSR in one's own work.

CSR and Environmental Management Promotion Framework

Overseeing our measures for fulfilling corporate social responsibility is our CSR Council, headed by our company president. Safeguarding the environment is a central emphasis, of course, in those measures, and we have established the Environmental Council, headed by the head of our Corporate Social Responsibility Division, to oversee our work in maintaining environmental quality. Each council meets twice yearly to establish priorities and to evaluate our progress in tackling those priorities. They evaluate our progress in reference to our seven pillars of critical issues and issue instructions as appropriate for making improvements in our approach.

Fulfilling our corporate social responsibility is a global undertaking in the Yokohama Group, and representatives of group companies worldwide gather annually for a global environmental conference. In addition, we have been holding regional gatherings of the managers responsible for environmental protection at Yokohama Group companies since 2014.

CSR and Environmental Promotion Framework



CSR Slogan

Under the Grand Design 2020 (GD2020) medium-term management plan, we must aim to become a global enterprise that is able to successfully develop localized business operations throughout the world. We will create value through business activities based on our CSR Slogan, “Caring for the Future.”

Corporate Governance
Lay a solid foundation for supporting sustainable business activity in accordance with international norms.

Products
Deliver products and services that help people enjoy fulfilling lives with peace of mind.

The Earth
Address environmental concerns through our operations and help leave a sound natural environment to future generations.

People
Nurture values accommodating diversity in the workplace and in the community at large.

Community
Earn the confidence of our neighbors through robust community engagement.

CORPORATE SOCIAL RESPONSIBILITY HIGHLIGHTS

Toward Sustainability in Natural Rubber Procurement

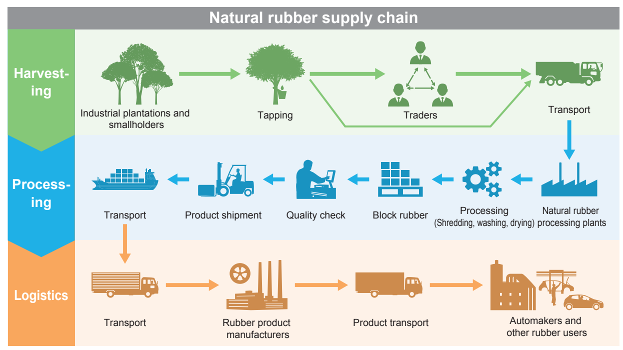
As a manufacturer of tires and other rubber products, we are alert to our social responsibility for ensuring sustainability in the production and consumption of natural rubber. We are engaged in multiple initiatives for fulfilling that responsibility.

Participation in global projects

Our company is a proactive participant in initiatives aimed at establishing industry-wide standards for sustainable natural rubber. We take part in the Sustainable Natural Rubber Initiatives (SNR-i) advanced by the International Rubber Study Group, comprised of governments of producer and consumer nations of natural and synthetic rubber. We are also a founding member of the Global Platform for Sustainable Natural Rubber initiated by the World Business Council for Sustainable Development's Tire Industry Project.

Procurement policy for bolstering sustainability in supply-chain management

Close cooperation among the participants in the supply chain is essential to sustainable natural rubber. We have convened information exchange gatherings with our natural rubber suppliers biannually since 2016. In October 2018, we formulated a Procurement Policy for the Sustainable Natural Rubber. The new policy reflects our stance in regard to natural rubber procurement and addresses measures for translating that stance into action and priorities for us to address hand in hand with suppliers. It provides a framework for stepped-up cooperation and heightened sustainability across the supply chain.



Assistance for rubber growers

Our Thai subsidiary for processing natural rubber, Y.T. Rubber Co., Ltd., is helping rubber growers secure reliable incomes through agroforestry. That includes helping the growers adopt mixed cultivation methods in which they grow commercially valuable trees and food crops alongside their rubber plants. Mixed cultivation helps stabilize the growers' incomes and offers the additional benefit of promoting biodiversity. The number of participating growers has increased annually, and Y.T. Rubber's plans call for broadening the total area to 180 hectares by the end of 2020.

Technological development for increasing sustainability in production

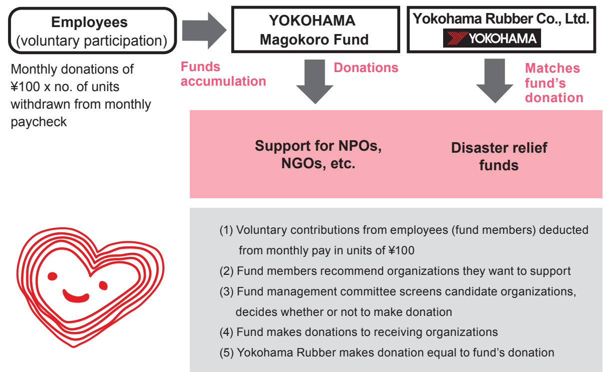
Thailand is our primary production site for natural rubber, and we conduct joint research there on natural rubber with Mahidol University and Prince of Songkla University. Our joint research with Mahidol University has identified proteins that promote and inhibit the biosynthesis of natural rubber. With Prince of Songkla University, we are engaged in basic research, and that research has verified the impressive stability of natural rubber in regard to composition and physical characteristics. We aim through our work with both universities to develop innovative natural rubber technologies for increasing sustainability in the production of natural rubber.

Activity at Y.T. Rubber

Processing natural rubber requires massive amounts of water. We therefore need to take thorough measures to avoid exerting an adverse effect on rivers, groundwater, or biodiversity. At Y.T. Rubber, we concluded a water quality agreement with our host community when we began operation. We pledged in that agreement to recycle all the water that we use at our plant and to refrain from discharging any untreated effluent. And we have installed and used a water treatment system to fulfill that pledge.

Yokohama Magokoro (Sincere Heart) Fund

We established the Yokohama Magokoro (Sincere Heart) Fund in May 2016 as a philanthropic undertaking funded with voluntary contributions by employees. Each participating employee specifies a portion of her or his salary for deducting and contributing to the fund. The fund trustees allocate donations to organizations engaged in environmental protection, human rights advocacy, and other worthy causes and to emergency relief efforts. Yokohama supports this initiative with matching gifts in the amount of the fund's donations. The Magokoro Fund continued in 2018 to allocate donations to organizations that are doing work on behalf of environmental protection and educational and medical support for young children and to emergency relief



Aggregate disbursements from January 2018 to December 2018

Amount (excluding matching contributions by the company) ---- ¥4.4 million
Beneficiary organizations ---- 6
Emergency relief efforts ---- 4

Emergency relief efforts (including matching contributions by the company)

- February 2018 earthquake in eastern Taiwan
  Local currency donation equivalent to about ¥1 million
- June 2018 earthquake in northern Osaka Prefecture
  ¥1 million
- July 2018 flooding in western Japan
  ¥11.5 million
- September 2018 earthquake in eastern Hokkaido Prefecture
  ¥1 million

Third-Party Regard for Our CSR Management

Yokohama has been included in the FTSE4Good Index, the FTSE Blossom Japan Index, and the MSCI Japan ESG Select Leaders Index 2018. The FTSE4Good Index is an influential reference for investors who weigh environmental, social, and governance (ESG) performance heavily in allocating equity investment, and Yokohama has been part of that index continuously since 2005. The FTSE Blossom Japan Index and the MSCI Japan ESG Select Leaders Index, meanwhile, are two of the three indexes that Japan's Government Pension Investment Fund adopted in 2017 as benchmarks for ESG performance.

FTSE4Good

FTSE Blossom Japan

MSCI 2018 Constituent MSCI ジャパンESG セレクト・リーダーズ指数

CORPORATE GOVERNANCE

Basic Approach

We in the Yokohama Group work in the spirit of our Corporate Philosophy to achieve continuing growth in corporate value and to thereby earn the unwavering confidence of all our stakeholders. Our efforts have included building a corporate governance framework for ensuring sound management that is fair and transparent, and we have worked continuously to reinforce that framework.

Framework

Our management framework centers on governance entities prescribed by Japan's Company Act: the annual General Meeting of Shareholders, the representative member of the Board, the Board of Directors, the Audit and Supervisory Board, and an independent public accountancy. We supplement those entities with officers who are responsible for operational management to speed the process of making and implementing decisions. Our senior management team comprises nine members of the Board, headed by the president, who serves concurrently as the chairman of the Board, and 18 officers, not including officers who serve concurrently as members of the Board. The members of the Board include four members who serve concurrently as officers and four nonexecutive members of the Board.

We reinforce our management framework with the Executive Committee, which comprises the chairman of the Board, other selected members of the Board, and other executives. That committee monitors our performance in fulfilling our business plans and deliberates on matters pertinent to our business strategy.

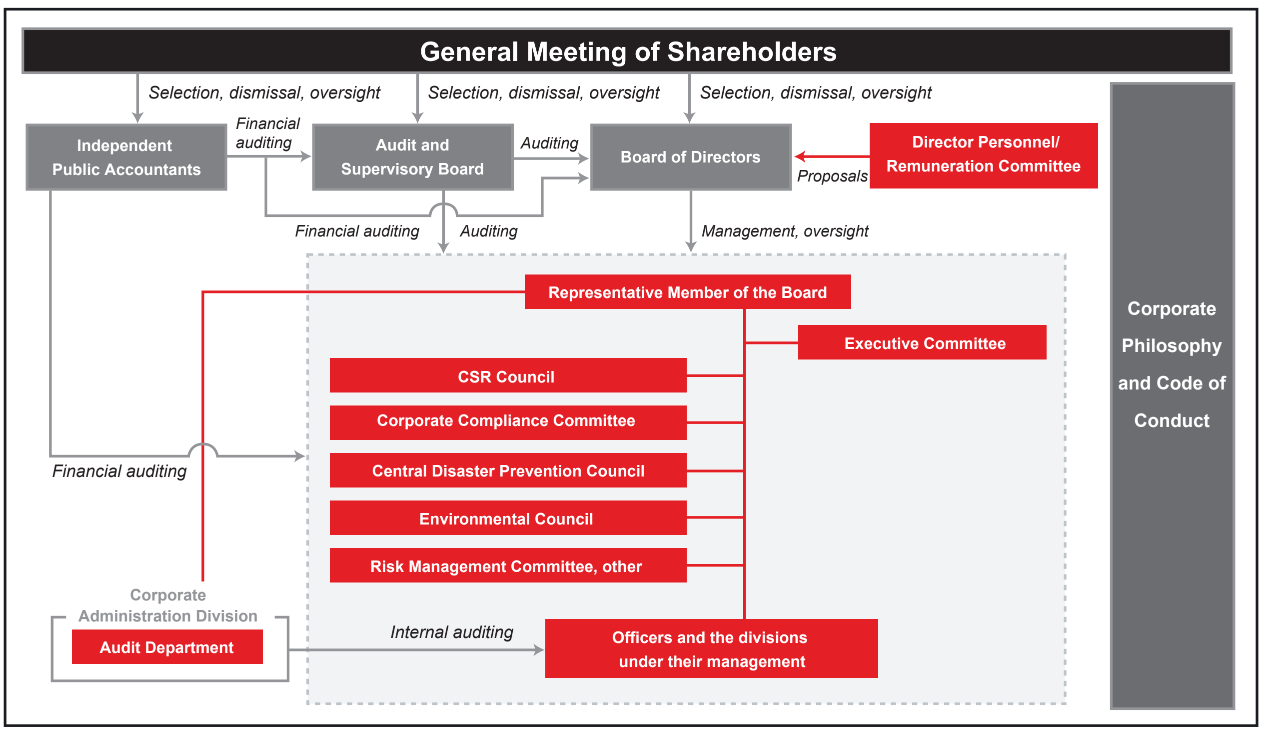
In the interest of clarifying management responsibility, we employ a one-year term for members of the Board. And we abide by the principles of transparency and fairness in personnel and remuneration decisions in regard to the Board. Our Director Personnel/Remuneration Committee, the members of which include one or more nonexecutive directors, reviews proposals for matters under its purview and makes recommendations to the Board of Directors, which makes the final decisions.

Yokohama adopted a stock compensation plan in March 2018 for members of the Board, not including the nonexecutive members. That plan, subject to restrictions on selling shares, is a measure for instilling a shareholder perspective on share-price movement and for strengthening the motivation to maximize Yokohama's corporate value and share valuation.

Audit and Supervisory Board Members

Auditing at Yokohama is a tripartite undertaking by our Audit and Supervisory Board, which monitors management; an

The Yokohama Framework of Corporate Governance



independent public accounting firm, which monitors the company's financial accounting; and our Audit Department, which conducts operational and financial auditing of the parent company and its principal subsidiaries and affiliates. We reinforce the auditing function by maintaining autonomy among those units.

The Audit and Supervisory Board comprises five members, including three recruited from outside the Company to help ensure objectivity in the auditing function. They participate in meetings of the Executive Committee and in other management gatherings where important matters are discussed and receive reports about the status of our business operations. The Audit and Supervisory Board members also obtain important information from the independent public accounting firm and from the 14-member Audit Department. We assign an assistant to the Audit and Supervisory Board members to help them carry out their work smoothly and effectively.

Nonexecutive Members of the Board and Independent Audit and Supervisory Board Members

Our Board and our Audit and Supervisory Board each include, as noted, members recruited from outside the company. In appointing the nonexecutive members of the Board and the independent Audit and Supervisory Board members, we refer to guidelines established by the Tokyo Stock Exchange for ensuring independence.

The nonexecutive members of the Board receive reports from the Audit Department about the results of internal audits and about the maintenance and operation of our framework of internal controls. They also receive regular reports from the Audit and Supervisory Board members about pertinent matters. The nonexecutive members of the Board thereby secure a grasp of the status of the Yokohama Group and of issues faced by the Group, and they express their views on matters of importance to their fellow members of the Board as they deem appropriate.

Our independent Audit and Supervisory Board members receive reports in the same manner as the nonexecutive members of the Board. They further fortify their capacity for conducting audits efficiently and effectively by exchanging information with the independent public accounting firm, with our Audit Department, and with the corporate auditors at Yokohama subsidiaries.

Internal Controls

The Board of Directors adopted a basic policy for internal controls based on Japan's Company Law in May 2006. It has subsequently adopted a series of measures for safeguarding the Company against risk and for ensuring compliance with rigorous standards of ethical behavior.

Risk Management

Spearheading risk-preparedness measures at Yokohama is our Risk Management Committee, chaired by the director responsible for risk management. That committee evaluates risk from a cross-sector perspective and devises precautionary measures. We have also established committees to manage risk, respond to incidents, establish guidelines, and distribute manuals in regard to ethical compliance, safety, disaster preparedness, environmental quality, information security, personal information management, and exports. Our Board of Directors, Executive Committee, and CSR Council receive timely reports from all of those committees.

Corporate Compliance Committee and Corporate Compliance Department

A member of the Board who discovers evidence of a serious legal or regulatory breach or of any other serious misconduct reports his or her suspicion to the chairman of our Corporate Compliance Committee, who is the director responsible for ethical compliance, and to the Audit and Supervisory Board members. Responsible for enforcing ethical compliance is our Corporate Compliance Department. That department establishes guidelines for ethical behavior in the Yokohama Group and conducts training and awareness-raising activities in regard to ethical compliance for the members of the Board, our officers, and our employees.

Enforcement at subsidiaries and affiliates

Each principal Yokohama subsidiary and affiliate has prepared and observes ethical guidelines based on the action guidelines established by the Corporate Compliance Committee. The Corporate Compliance Department and compliance officers designated by that department at our Japanese subsidiaries and affiliates share information and develop a common grasp of issues. In addition, the Corporate Compliance Department reports regularly to the CSR Council about the status of ethical compliance in the Yokohama Group. The Audit Department, meanwhile, systematically monitors the auditing functions for accounting, operations, and ethical compliance at the subsidiaries and affiliates and reports its findings to the members of the Board, to the pertinent divisions, and to the Audit and Supervisory Board members.

MEMBERS OF THE BOARD, AUDIT & SUPERVISORY BOARD MEMBERS, AND OFFICERS

As of June 1, 2019

Members of the Board

Masataka Yamaishi

President, Chairman of the Board

Osamu Mikami

Member of the Board and Senior Managing Officer,
in charge of Corporate Planning Div., in charge of MB Div., Head of Industrial Products Div., Head of Hamatite Div.

Masaki Noro

Member of the Board and Managing Officer,
Chief Technical Officer, Head of Research and Advanced Development Div., in charge of Multiple Business Production and Technology

Gota Matsuo

Member of the Board and Managing Officer,
Chief Financial Officer, Head of Corporate Administration Div., in charge of Corporate Finance & Accounting Dept., in charge of Corporate Social Responsibility Div., Head of Legal Dept., President of Yokohamagomu Finance Co., Ltd.

Toru Nakamura

Member of the Board and Officer,
Head of Tire Production Div., Head of Hiratsuka Factory

Naozumi Furukawa

Member of the Board (Outside)

Hideichi Okada

Member of the Board (Outside)

Nobuo Takenaka

Member of the Board (Outside)

Hirokazu Kono

Member of the Board (Outside)

Audit & Supervisory Board Members

Yasushi Kikuchi

Hisao Uchida

Atsushi Kamei

(Outside)

Megumi Shimizu
(Outside)

Hiroki Kimura
(Outside)

Officers

Hideto Katsuragawa
Senior Managing Officer,
Chairman and President of Yokohama Rubber (China) Co., Ltd., Chairman of Yokohama Tire Sales (Shanghai) Co., Ltd., Chairman of Hangzhou Yokohama Tire Co., Ltd., Chairman of Suzhou Yokohama Tire Co., Ltd., Chairman of Yokohama Industrial Products-Hangzhou Co., Ltd., Chairman of Yokohama Industrial Products Sales-Shanghai Co., Ltd., Vice Chairman of Shandong Yokohama Rubber Industrial Products Co., Ltd.

Takaharu Fushimi
Managing Officer,
Head of Global Procurement Div., President of Yokohama Rubber Singapore Pte. Ltd.

Hirohisa Hazama
Managing Officer,
Head of O.E. Tire Sales & Marketing Div.

Atao Kishi
Managing Officer,
Head of Commercial Tire Div., Head of Commercial Tire Business Planning Dept., Chairman of ATC Tires Private Limited

Shinichi Takimoto
Managing Officer,
Chairman and President of Yokohama Corporation of North America, Chairman of Yokohama Tire Corporation, Chairman of Yokohama Tire (Canada) Inc., Chairman of Yokohama Tire Mexico S. de R.L. de C.V.

Tadaharu Yamamoto
Managing Officer,
Assistant to President, Head of Tire Logistics Div., in charge of Tire Quality Assurance

Hitoshi Ikeda
Managing Officer,
Chairman of Yokohama Tire Japan Co., Ltd., in charge of Japan Replacement Tire Sales & Marketing Div.

Shigetoshi Kondo
Officer,
Head of Corporate Social Responsibility Div., Head of IT & Management System Planning Div., President of Hamagomu Aicom Inc.

Takashi Shirokawa
Officer,
Acting Head of Research and Advanced Development Div., Head of R&D Dept.

Hiroyuki Hosoda
Officer,
President of Yokohama Industrial Products Japan Co., Ltd.

Jeff Barna
Officer,
President of Yokohama Tire Corporation

Nitin Mantri
Officer,
CEO of ATC Tires Private Limited

Yasuo Nakayama
Officer,
Head of MB Div., Head of MB Planning Dept.

Shinji Seimiya
Officer,
Head of Tire Development Div., Head of Tire Designing Dept. No. 1

Tomoaki Miyamoto
Officer,
Head of Japan Replacement Tire Sales & Marketing Div., Head of Japan Replacement Tire Business Planning Dept.

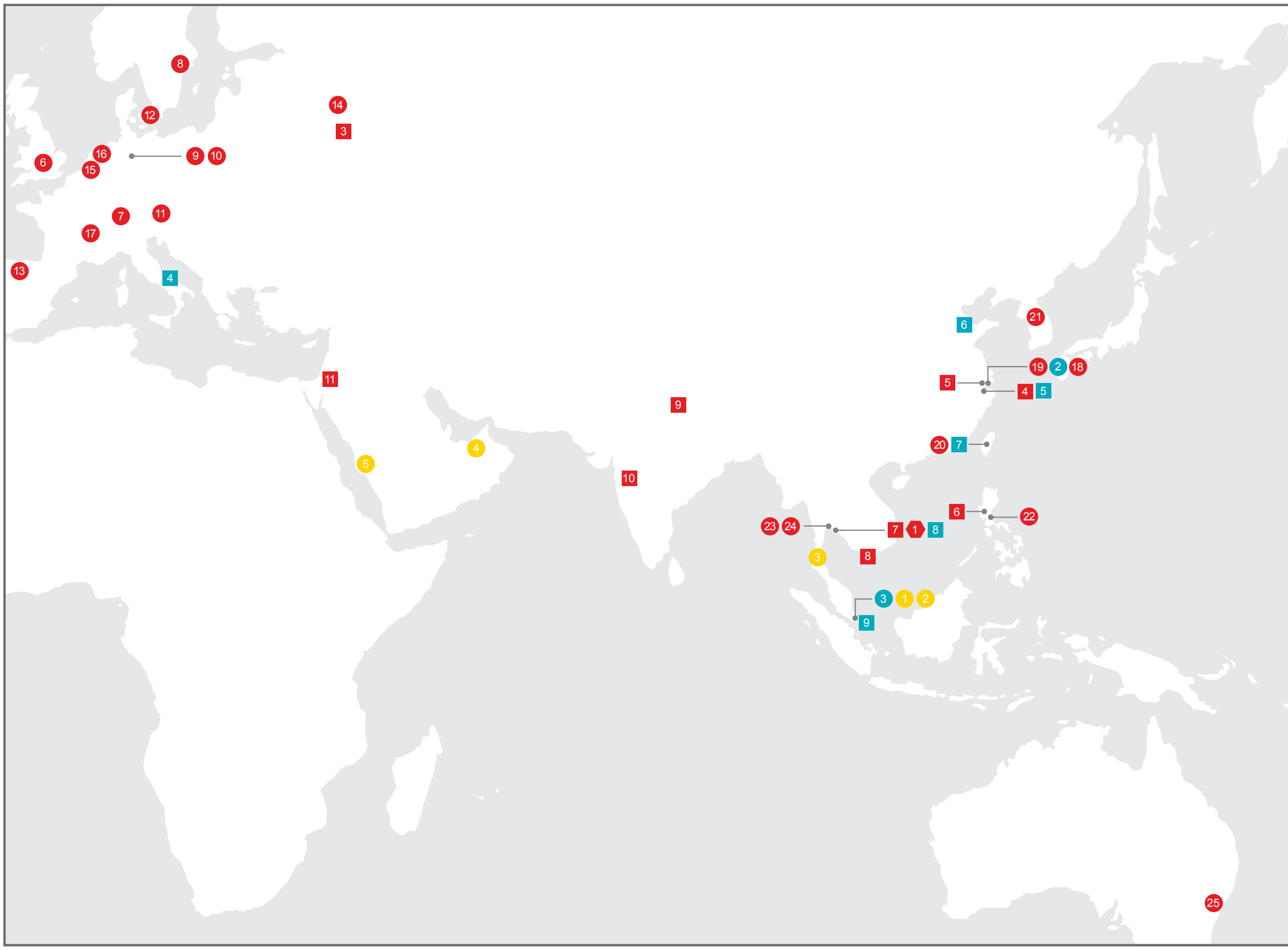
Masahiro Yuki
Officer,
Head of Tire Business Planning Div.

Hiroyuki Shioiri
Officer,
Head of Corporate Planning Div., Head of Corporate Planning Dept., President of Acty Corporation

Katsuhiko Yahata
Officer,
President of Yokohama Tire Japan Co., Ltd., Head of Japan Replacement Tire Consumer Tire Sales & Marketing Dept.

GLOBAL NETWORK

Overseas Subsidiaries and Affiliates



Tires Segment and ATG Segment

Production and Sales

Americas

1. YOKOHAMA TIRE MANUFACTURING VIRGINIA LLC. (United States)
2. YOKOHAMA TIRE MANUFACTURING MISSISSIPPI, LLC. (United States)

Europe

3. LLC YOKOHAMA R.P.Z. (Russia)

Asia

4. HANGZHOU YOKOHAMA TIRE CO., LTD. (China)
5. SUZHOU YOKOHAMA TIRE CO., LTD. (China)
6. YOKOHAMA TIRE PHILIPPINES, INC. (Philippines)
7. YOKOHAMA TIRE MANUFACTURING (THAILAND) CO., LTD. (Thailand)
8. YOKOHAMA TYRE VIETNAM INC. (Vietnam)
9. YOKOHAMA INDIA PRIVATE LIMITED (India)
10. ATC TIRES PRIVATE LTD. (India)
11. ALLIANCE TIRE COMPANY LTD. (Israel)

Sales and Marketing Support

Americas

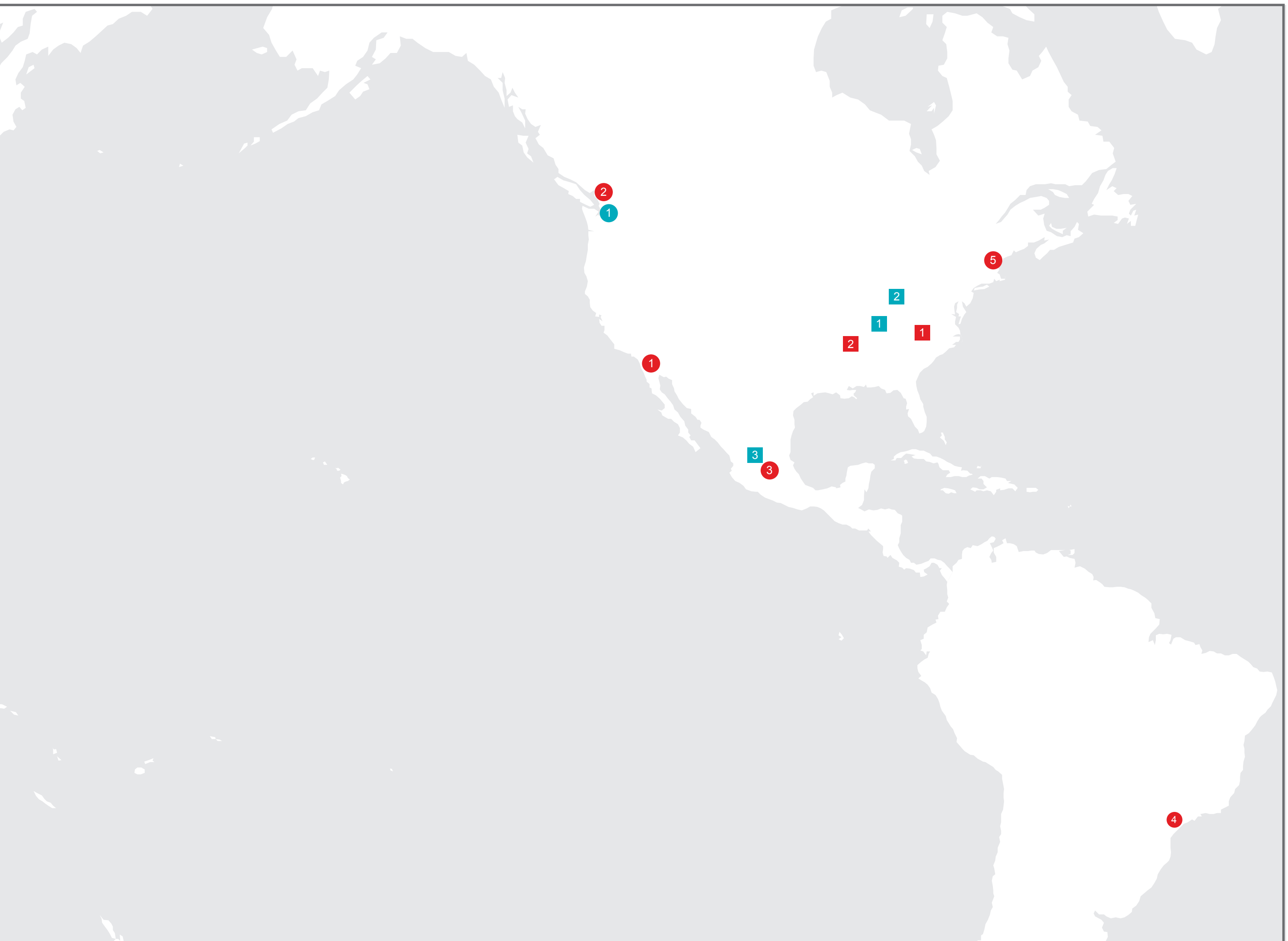
1. YOKOHAMA TIRE CORPORATION (United States)
2. YOKOHAMA TIRE (CANADA) INC. (Canada)
3. YOKOHAMA TIRE MEXICO S. de R.L. de C.V. (Mexico)
4. YOKOHAMA RUBBER LATIN AMERICA INDÚSTRIA E COMÉRCIO LTDA. (Brazil)
5. ALLIANCE TIRE AMERICAS INC. (United States)

Europe

6. YOKOHAMA HPT LTD. (United Kingdom)
7. YOKOHAMA SUISSE SA (Switzerland)
8. YOKOHAMA SCANDINAVIA AB (Sweden)
9. YOKOHAMA EUROPE GmbH (Germany)
10. YOKOHAMA REIFEN GmbH (Germany)
11. YOKOHAMA AUSTRIA GmbH (Austria)
12. YOKOHAMA DANMARK A/S (Denmark)
13. YOKOHAMA IBERIA, S.A. (Spain)
14. YOKOHAMA RUSSIA L.L.C. (Russia)
15. N.V. YOKOHAMA BELGIUM S.A. (Belgium)
16. ALLIANCE TIRE EUROPE B.V. (Netherlands)
17. YOKOHAMA FRANCE S.A.S. (France)

Asia

18. YOKOHAMA RUBBER (CHINA) CO., LTD. (China)
19. YOKOHAMA TIRE SALES (SHANGHAI) CO., LTD. (China)
20. YOKOHAMA TIRE TAIWAN CO., LTD. (Taiwan)
21. YOKOHAMA TIRE KOREA CO., LTD. (Republic of Korea)



22 YOKOHAMA TIRE SALES PHILIPPINES, INC. (Philippines)
23 YOKOHAMA TIRE SALES (THAILAND) CO., LTD. (Thailand)
24 YOKOHAMA ASIA CO., LTD. (Thailand)

Oceania

25 YOKOHAMA TYRE AUSTRALIA PTY., LTD. (Australia)

Proving Ground

1 TIRE TEST CENTER OF ASIA (Thailand)

MB (Multiple Business) Segment

Production and Sales

Americas

1 YOKOHAMA INDUSTRIES AMERICAS INC. (United States)
2 YOKOHAMA INDUSTRIES AMERICAS OHIO INC. (United States)
3 YOKOHAMA INDUSTRIES AMERICAS de MEXICO, S. de R.L. de C.V. (Mexico)

Europe

4 YOKOHAMA INDUSTRIAL PRODUCTS ITALY S.r.l. (Italy)

Asia

5 YOKOHAMA INDUSTRIAL PRODUCTS-HANGZHOU CO., LTD. (China)
6 SHANDONG YOKOHAMA RUBBER INDUSTRIAL PRODUCTS CO., LTD. (China)
7 SC KINGFLEX CORPORATION (Taiwan)
8 YOKOHAMA RUBBER (THAILAND) CO., LTD. (Thailand)
9 PT. YOKOHAMA INDUSTRIAL PRODUCTS MANUFACTURING INDONESIA (Indonesia)

Sales and Marketing Support

Americas

1 YOKOHAMA AEROSPACE AMERICA, INC. (United States)

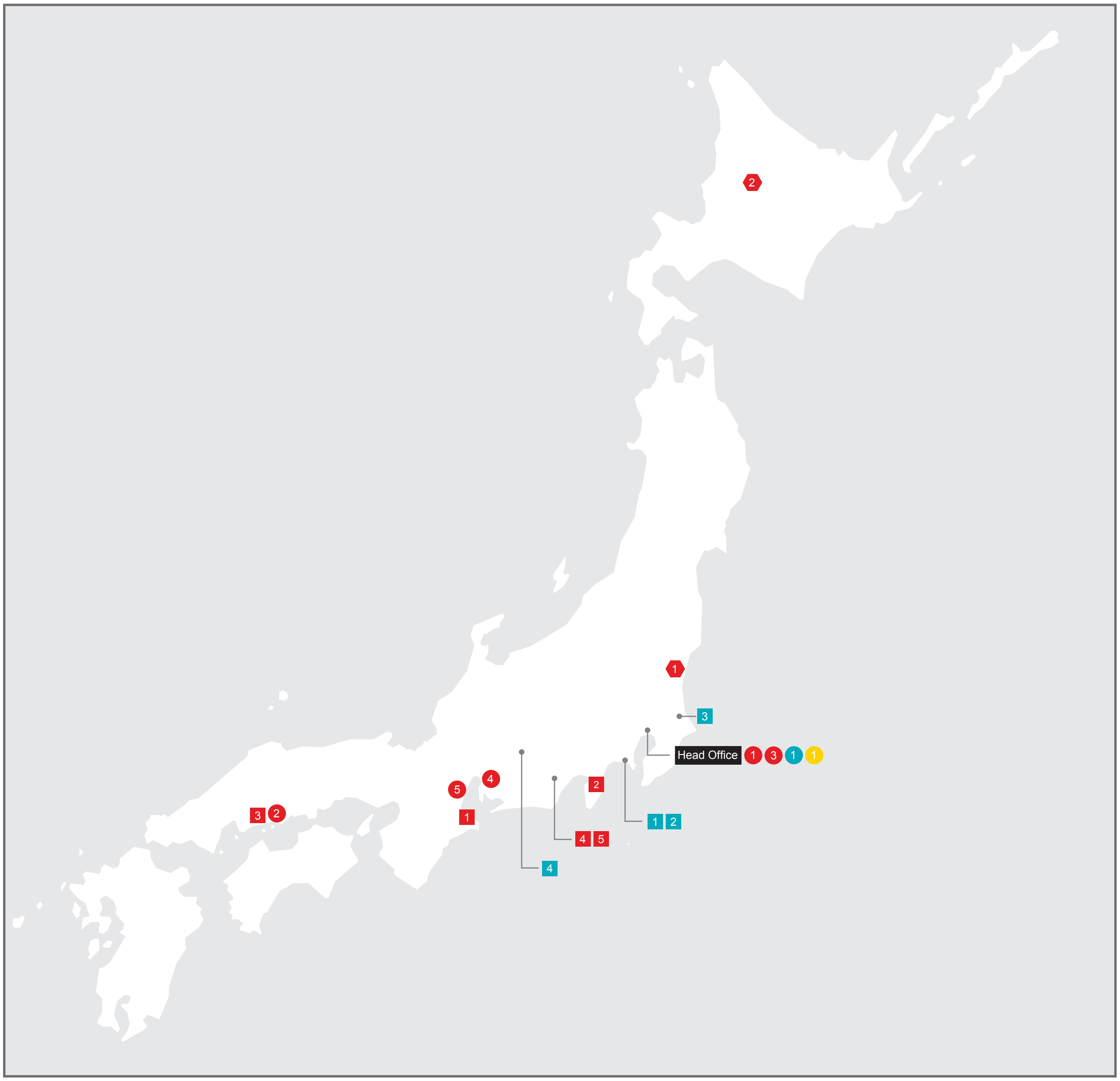
Asia

2 YOKOHAMA INDUSTRIAL PRODUCTS SALES-SHANGHAI CO., LTD. (China)
3 YOKOHAMA INDUSTRIAL PRODUCTS ASIA-PACIFIC PTE. LTD. (Singapore)

Other

1 YOKOHAMA RUBBER SINGAPORE PTE. LTD. (Singapore/Business coordination)
2 SINGAPORE BRANCH (Singapore/Business coordination)
3 Y.T. RUBBER CO., LTD. (Thailand/Natural rubber processing)
4 DUBAI OFFICE (Dubai/Business coordination)
5 JEDDAH OFFICE (Saudi Arabia/Business coordination)

PRINCIPAL OPERATIONS IN JAPAN



Tires Segment

Plants

1. MIE PLANT
2. MISHIMA PLANT
3. ONOMICHI PLANT
4. SHINSHIRO PLANT
5. SHINSHIRO-MINAMI PLANT

Sales Subsidiaries and Affiliates

1. YOKOHAMA TIRE JAPAN CO., LTD.
2. YOKOHAMA TIRE RETREAD CO., LTD.
3. YFC CO., LTD.
4. AICHI TIRE INDUSTRY CO., LTD.
5. KAMEYAMA BEAD CO., LTD.

Proving Grounds

1. D-PARC
2. TIRE TEST CENTER OF HOKKAIDO

MB (Multiple Business) Segment

Plants

1. HIRATSUKA FACTORY
2. HAMATITE PLANT
3. IBARAKI PLANT
4. NAGANO PLANT

Sales Subsidiaries

1. YOKOHAMA INDUSTRIAL PRODUCTS JAPAN CO., LTD.

Other

1. PRGR CO., LTD.

FINANCIAL SECTION

FINANCIAL REVIEW

Yokohama has adopted the International Financial Reporting Standards (IFRS) in place of accounting principles generally accepted in Japan as of fiscal 2017 year-end, and the Company has restated its fiscal results for 2016 on an IFRS basis to facilitate meaningful year-on-year comparisons. In the interest of expressing operational profitability accurately, Yokohama has employed the indicator “business profit.” That indicator corresponds to operating income under accounting principles generally accepted in Japan and is equal to sales revenue less the sum of cost of sales and selling, general and administrative expenses.

Business Environment

Japan’s ongoing economic recovery continued in 2018 amid positive trends in employment, in consumer spending, and in corporate earnings. Economic expansion continued in the United States, reflecting strength in employment and in corporate earnings. Europe, too, was the scene of continuing economic recovery, but economic growth slowed in China. The global economic outlook remains uncertain, meanwhile, as trade frictions between China and the United States simmer and as the United Kingdom stumbles toward withdrawal from the European Union.

Aggregate unit sales of original equipment tires and replacement tires in Japan declined slightly in 2018. Yokohama moved to optimize its business performance by implementing the medium-term management plan, Grand Design 2020 (GD2020). That plan provides for fortifying the Company’s business foundation by redefining Yokohama strengths and by deploying a growth strategy based on original approaches.

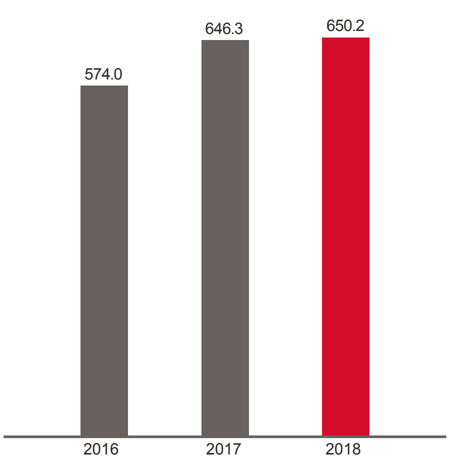
Sales, Expenses, and Earnings

Yokohama’s sales revenue increased 0.6% in 2018, to ¥650.2 billion. Business in the Tires segment expanded in the Japanese replacement market. In the MB (Multiple Business) segment, sales increased in high-pressure hoses and in industrial materials. Business in the ATG segment increased in original equipment.

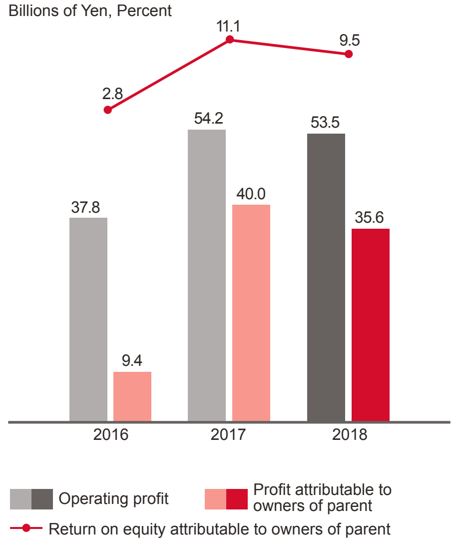
Gross profit increased ¥2.7 billion, to ¥215.7 billion. Selling, general and administrative expenses totaled ¥156.5 billion, and business profit increased 1.7%, to ¥59.3 billion. Other income totaled ¥8.4 billion, and other expenses totaled ¥14.2 billion, including an ¥11.2 billion charge for asset impairment at Yokohama’s US tire production subsidiary Yokohama Tire Manufacturing Mississippi, LLC.

Operating profit declined 1.4%, to ¥53.5 billion, and the operating profit margin was 8.2%. Finance income totaled ¥3.0 billion, and finance costs totaled ¥6.6 billion. Profit attributable to owners of parent declined 10.9%, to ¥35.6 billion. The average yen/US dollar exchange rate was ¥110, compared with ¥112 in 2017; the average yen/euro exchange rate ¥130, compared with ¥127 in 2017; and the average yen/ruble exchange rate ¥1.8, compared with ¥1.9 in 2017.

Sales Revenue
Billions of Yen



Operating Profit, Profit Attributable to Owners of Parent, and Return on Equity Attributable to Owners of Parent
Billions of Yen, Percent



Performance by Business Segment

In Yokohama's Tires segment, sales revenue declined 1.1%, to ¥454.8 billion, and business profit increased 1.0%, to ¥42.3 billion. Sales revenue declined in original equipment business. Japanese business in original equipment tires suffered from product changeovers for multiple vehicle models equipped with Yokohama tires and from production adjustments at automakers in connection with natural disasters. Overseas business in original equipment suffered from production adjustments by automakers in China necessitated by weak sales. Yokohama won new fitments during the year on premium-grade passenger cars in Japan and overseas.

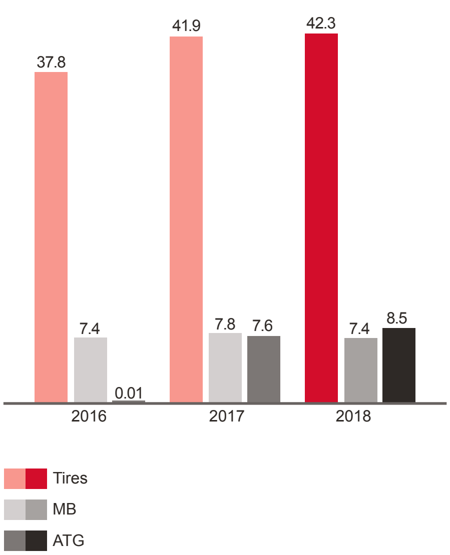
Yokohama posted sales growth in the Japanese market for replacement tires. Business there benefited from strong sales in winter tires, led by the iceGUARD 6 studless snow tire. Japanese business in replacement tires also benefited from vigorous promotion of the premium-grade tires of Yokohama's global flagship brand, ADVAN, and the fuel-saving tires of the Company's BluEarth series. Business in replacement tires outside Japan declined on account of adverse weather trends, currency instability in some emerging economies, and the negative effect on demand of concerns about Chinese-US trade frictions.

In the MB (Multiple Business) segment, sales revenue increased 3.2%, to ¥117.8 billion, and business profit declined 4.6%, to ¥7.4 billion. That segment consists primarily of business in high-pressure hoses; in conveyor belts, marine hoses, and other industrial materials; in Hamatite-brand sealants and adhesives for automotive and construction applications; and in aircraft fixtures and components.

Sales revenue increased in high-pressure hoses, led by continuing vigor in Japan and overseas in hoses for construction equipment and industrial machines and in overseas markets for automotive hoses. Yokohama also posted growth in sales revenue in industrial materials, led by continuing strong momentum in conveyor belts in Japan and overseas. Sales revenue declined in Hamatite sealants and adhesives and in aircraft fixtures and components.

In the ATG segment, sales revenue increased 8.3%, to ¥68.7 billion, and business profit increased 11.8%, to ¥8.5 billion. That segment consists of the operations of Alliance Tire Group, which produces and markets tires for agricultural and forestry machinery and for other off-highway applications. Sales revenue in the ATG segment increased in 2018 as business expanded in replacement tires despite adverse weather patterns in Europe and as business also expanded in original equipment, led by gains in North America and Europe.

Business Profit by Business Segment
Billions of Yen



Note:
Yokohama acquired Alliance Tire Group 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.

Financial Condition

Total assets declined ¥65.0 billion, to ¥855.8 billion at fiscal year-end. Current assets declined 7.4%, to ¥335.5 billion, principally on account of a decrease in cash and deposits. Non-current assets declined 6.8%, to ¥520.3 billion, principally on account of valuation losses on investment securities.

Total liabilities declined ¥59.6 billion, to ¥473.4 billion at fiscal year-end, principally on account of repayments of long-term loans payable. Interest-bearing debt declined ¥55.2 billion, to ¥260.4 billion. The ratio of interest-bearing debt to total equity attributable to owners of parent was 0.696 at year-end, down 0.135 points from the previous year-end.

Total equity declined 1.4%, to ¥382.4 billion at fiscal year-end. That decline consisted primarily of a decrease in other components of equity.

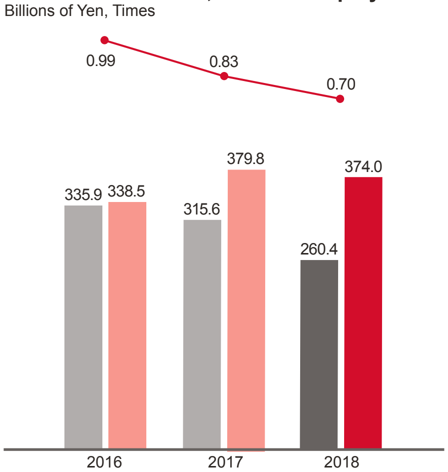
Cash Flow

Net cash provided by operations in 2018 totaled ¥82.8 billion, which consisted chiefly of ¥49.9 billion in profit before income taxes. Net cash used in investing activities totaled ¥43.1 billion, reflecting ¥45.4 billion in expenditures for purchases of property, plant and equipment. Free cash flow totaled ¥39.7 billion. Net cash used in financing activities totaled ¥64.9 billion, including ¥49.7 billion in expenditures for the repayment of long-term loans. Cash and cash equivalents at year-end declined ¥26.6 billion from the previous year-end, to ¥31.7 billion.

Capital Expenditures

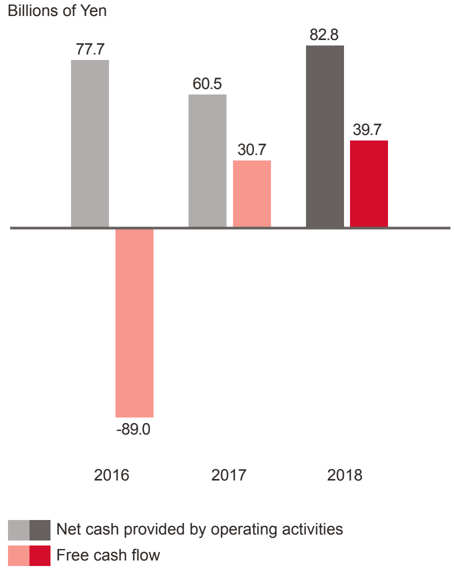
Capital expenditures in 2018 totaled ¥46.9 billion. In the Tires segment, capital expenditures included investment in fortifying production equipment at Japanese tire plants to manufacture new products and to accommodate Yokohama's heightened emphasis on high-performance tires, to raise productivity, and to improve product quality. They also included investment in expanding tire production capacity and increasing product value-added at overseas plants. The investment in the MB segment centered on expanding production capacity and improving quality in high-pressure hoses. In the ATG segment, investment centered on expanding production capacity for off-highway tires.

Interest-Bearing Debt, Total Equity Attributable to Owners of Parent, and Debt/Equity Ratio*
Billions of Yen, Times



*Interest-bearing debt divided by total equity attributable to owners of parent

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

R&D Expenditures

Yokohama conducts R&D on basic technologies at its R&D Center, in Hiratsuka, Kanagawa Prefecture. The Company 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 2018 totaled ¥15.2 billion.

Dividends

Yokohama paid an annual dividend of ¥62 per share for 2018, the same amount as the annual dividend for 2017. That comprised interim and year-end dividends of ¥31 each.

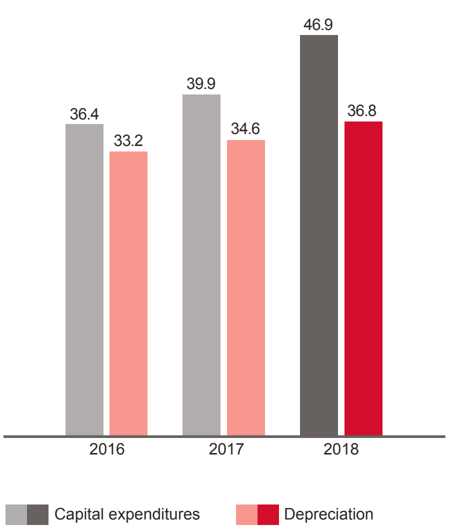
Outlook for 2019

Management's projections for 2019 call for a 1.5% increase in sales revenue, to ¥660.0 billion; a 3.0% decline in business profit, to ¥57.5 billion; a 21.5% increase in operating profit, to ¥65.0 billion; and a 29.1% increase in profit attributable to owners of parent, to ¥46.0 billion. Underlying those projections are concerns about Chinese-US trade frictions and about the United Kingdom's path to an EU exit. Yokohama is moving to strengthen its business foundation amid economic uncertainty by tackling GD2020 growth strategy in each of its business sectors. In preparing the fiscal projections for 2019, management has assumed average exchange rates of ¥110 to the US dollar, ¥125 to the euro, and ¥1.7 to the ruble.

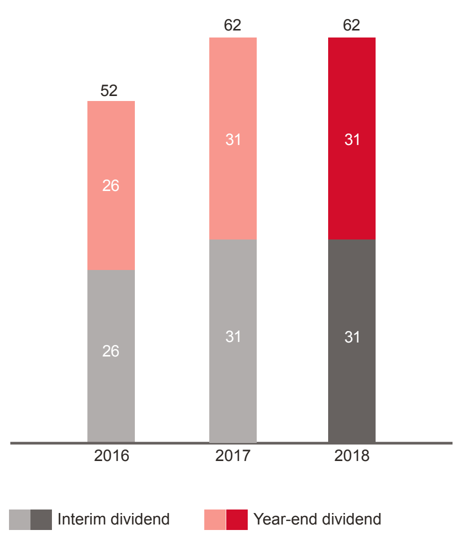
Projected Dividends for 2019

Management plans to pay an aggregate annual dividend of ¥62 per share for 2019, the same amount as for 2018. That would again comprise an interim dividend of ¥31 per share and a year-end dividend of ¥31.

Capital Expenditures and Depreciation
Billions of Yen



Cash Dividends per Share
Yen



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, 2018.

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 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 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, 2018, the Company's interest-bearing debt was equivalent to 30.4% 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.

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.

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. If any business acquired by the Company 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.

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 differs 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
As of December 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	**2018** (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
CURRENT ASSETS:			
Cash and cash equivalents (Note 8)	**¥ 31,745**	¥ 58,305	**$ 285,991**
Trade and other receivables (Notes 9 and 31)	**170,006**	181,750	**1,531,581**
Other financial assets (Notes 11 and 31)	**2,812**	4,417	**25,336**
Inventories (Note 10)	**119,655**	106,823	**1,077,974**
Other current assets	**11,288**	11,116	**101,692**
Total current assets (Note 18)	**335,506**	362,410	**3,022,574**
NON-CURRENT ASSETS:			
Property, plant and equipment (Notes 12, 15 and 18)	**287,020**	292,073	**2,585,765**
Goodwill (Notes 13 and 15)	**86,554**	88,114	**779,766**
Intangible assets (Notes 13 and 15)	**46,553**	49,683	**419,401**
Other financial assets (Notes 11 and 31)	**90,608**	117,716	**816,285**
Deferred tax assets (Note 16)	**6,169**	5,387	**55,580**
Other non-current assets	**3,401**	5,392	**30,644**
Total non-current assets (Note 18)	**520,306**	558,366	**4,687,441**
TOTAL ASSETS	**¥ 855,812**	¥ 920,776	**$ 7,710,016**
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES:			
Trade and other payables (Notes 17 and 31)	**¥ 83,876**	¥ 82,260	**$ 755,639**
Bonds and borrowings (Notes 18 and 31)	**91,721**	62,756	**826,320**
Other financial liabilities (Notes 19 and 31)	**16,110**	16,758	**145,133**
Income taxes payable	**5,422**	3,413	**48,847**
Other current liabilities	**40,914**	41,704	**368,597**
Total current liabilities	**238,044**	206,891	**2,144,536**
NON-CURRENT LIABILITIES:			
Bonds and borrowings (Notes 18 and 31)	**168,666**	252,798	**1,519,509**
Other financial liabilities (Notes 19 and 31)	**8,263**	8,461	**74,438**
Liabilities for retirement benefits (Note 20)	**17,256**	15,541	**155,456**
Deferred tax liabilities (Note 16)	**30,481**	39,032	**274,601**
Other non-current liabilities	**10,703**	10,300	**96,425**
Total non-current liabilities	**235,368**	326,133	**2,120,428**
TOTAL LIABILITIES	**473,411**	533,024	**4,264,965**
EQUITY:			
Share capital (Note 21)	**38,909**	38,909	**350,533**
Share premium (Note 21)	**31,118**	31,058	**280,343**
Retained earnings (Note 21)	**282,918**	260,428	**2,548,806**
Treasury shares (Note 21)	**(12,041)**	(12,119)	**(108,476)**
Other components of equity	**33,123**	61,501	**298,404**
Total equity attributable to owners of the parent	**374,027**	379,778	**3,369,609**
Non-controlling interests	**8,374**	7,974	**75,442**
TOTAL EQUITY	**382,401**	387,752	**3,445,051**
TOTAL LIABILITIES AND EQUITY	**¥ 855,812**	¥ 920,776	**$ 7,710,016**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
As of December 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Revenue (Notes 6 and 7)	**¥ 650,239**	¥ 646,272	**$ 5,858,006**
Cost of sales (Notes 12,13 and 20)	**(434,497)**	(433,234)	**(3,914,390)**
Gross profit	**215,741**	213,038	**1,943,616**
Selling, general, and administrative expenses (Notes 12,13,20 and 23)	**(156,485)**	(154,773)	**(1,409,772)**
Business profit (Note 6)	**59,257**	58,265	**533,844**
Other income (Note 24)	**8,389**	4,126	**75,577**
Other expenses (Notes 15 and 25)	**(14,168)**	(8,168)	**(127,639)**
Operating profit	**53,478**	54,224	**481,783**
Finance income (Note 26)	**3,036**	5,525	**27,349**
Finance costs (Note 26)	**(6,573)**	(4,858)	**(59,214)**
Profit before tax	**49,941**	54,891	**449,917**
Income taxes (Note 16)	**(13,249)**	(14,052)	**(119,360)**
Profit for the year	**36,692**	40,839	**330,558**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent	**35,623**	39,975	**320,929**
Non-controlling interests	**1,069**	864	**9,629**
Profit for the year	**¥ 36,692**	¥ 40,839	**$ 330,558**
EARNINGS PER SHARE (YEN/U.S. DOLLARS):			
Basic earnings per share (Note 28)	**222.12**	249.32	**2.00**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
As of December 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
PROFIT FOR THE YEAR	**¥ 36,692**	¥ 40,839	**$ 330,558**
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss			
Gains (losses) on financial assets measured at fair value through other comprehensive income (Notes 27 and 31)	**(18,845)**	13,451	**(169,775)**
Remeasurements of defined benefit plans (Notes 20 and 27)	**(2,561)**	(561)	**(23,076)**
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges (Note 27)	**1,233**	(1,038)	**11,104**
Exchange differences on translating foreign operations (Note 27)	**(11,337)**	(1,966)	**(102,133)**
Total other comprehensive income, net of tax	**(31,511)**	9,887	**(283,879)**
COMPREHENSIVE INCOME	**¥ 5,181**	¥ 50,726	**$ 46,679**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**4,519**	49,604	**40,710**
Non-controlling interests	**663**	1,122	**5,968**
Comprehensive income	**¥ 5,181**	¥ 50,726	**$ 46,679**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
As of December 31, 2018 and 2017

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

Millions of Yen

	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Share premium	Retained earnings	Treasury shares	Exchange differences on translating foreign operations	Cash flow hedges
BALANCE, JANUARY 1, 2018	¥ 38,909	¥ 31,058	¥ 260,428	¥ (12,119)	¥ 10,041	¥ (433)
Profit for the year			35,623			
Other comprehensive income (Note 27)					(10,949)	1,233
Comprehensive income	—	—	35,623	—	(10,949)	1,233
Purchase of treasury shares (Note 21)				(3)		
Disposal of treasury shares (Note 21)						
Share-based payment transactions (Notes 21 and 29)		79		81		
Dividends from surplus (Note 22)			(9,943)			
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control		(19)				
Transfer to retained earnings			(2,726)			
Others			(465)			
Total transactions with owners	—	60	(13,134)	78	—	—
BALANCE, DECEMBER 31, 2018	¥ 38,909	¥ 31,118	¥ 282,918	¥ (12,041)	¥ (908)	¥ 799

	Equity attributable to owners of the parent					
	Other components of equity					
	Gains (losses) on financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
BALANCE, JANUARY 1, 2018	¥ 51,893	¥ —	¥ 61,501	¥ 379,778	¥ 7,974	¥ 387,752
Profit for the year			—	35,623	1,069	36,692
Other comprehensive income (Note 27)	(18,830)	(2,558)	(31,104)	(31,104)	(406)	(31,511)
Comprehensive income	(18,830)	(2,558)	(31,104)	4,519	663	5,181
Purchase of treasury shares (Note 21)			—	(3)		(3)
Disposal of treasury shares (Note 21)			—	—		—
Share-based payment transactions (Notes 21 and 29)			—	160		160
Dividends from surplus (Note 22)			—	(9,943)	(283)	(10,226)
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control			—	(19)	19	0
Transfer to retained earnings	168	2,558	2,726	—		—
Others			—	(465)	2	(464)
Total transactions with owners	168	2,558	2,726	(10,270)	(262)	(10,533)
BALANCE, DECEMBER 31, 2018	¥ 33,232	¥ —	¥ 33,123	¥ 374,027	¥ 8,374	¥ 382,401

Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

	Millions of Yen					
	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Share premium	Retained earnings	Treasury shares	Exchange differences on translating foreign operations	Cash flow hedges
BALANCE, JANUARY 1, 2017	¥ 38,909	¥ 31,055	¥ 226,277	¥ (12,114)	¥ 12,248	¥ 604
Profit for the year			39,975			
Other comprehensive income (Note 27)					(2,207)	(1,038)
Comprehensive income	—	—	39,975	—	(2,207)	(1,038)
Purchase of treasury shares (Note 21)				(5)		
Disposal of treasury shares (Note 21)		0		0		
Share-based payment transactions (Notes 21 and 29)						
Dividends from surplus (Note 22)			(9,139)			
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control		3				
Transfer to retained earnings			2,471			
Others			844			
Total transactions with owners	—	3	(5,824)	(5)	—	—
BALANCE, DECEMBER 31, 2017	¥ 38,909	¥ 31,058	¥ 260,428	¥ (12,119)	¥ 10,041	¥ (433)

	Equity attributable to owners of the parent					
	Other components of equity					
	Gains (losses) on financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
BALANCE, JANUARY 1, 2017	¥ 41,492	¥ —	¥ 54,344	¥ 338,472	¥ 6,266	¥ 344,738
Profit for the year			—	39,975	864	40,839
Other comprehensive income (Note 27)	13,433	(560)	9,628	9,628	258	9,887
Comprehensive income	13,433	(560)	9,628	49,604	1,122	50,726
Purchase of treasury shares (Note 21)			—	(5)		(5)
Disposal of treasury shares (Note 21)			—	0		0
Share-based payment transactions (Notes 21 and 29)			—	—		—
Dividends from surplus (Note 22)			—	(9,139)	(347)	(9,486)
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control			—	3	(3)	—
Transfer to retained earnings	(3,031)	560	(2,471)	—		—
Others			—	844	937	1,781
Total transactions with owners	(3,031)	560	(2,471)	(8,298)	586	(7,711)
BALANCE, DECEMBER 31, 2017	¥ 51,893	¥ —	¥ 61,501	¥ 379,778	¥ 7,974	¥ 387,752

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

	Thousands of U.S. Dollars					
	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Share premium	Retained earnings	Treasury shares	Exchange differences on translating foreign operations	Cash flow hedges
BALANCE, JANUARY 1, 2018	**$ 350,533**	**$ 279,803**	**$ 2,346,200**	**$ (109,179)**	**$ 90,464**	**$ (3,905)**
Profit for the year			**320,929**			
Other comprehensive income (Note 27)					**(98,643)**	**11,104**
Comprehensive income	**—**	**—**	**320,929**	**—**	**(98,643)**	**11,104**
Purchase of treasury shares (Note 21)				**(30)**		
Disposal of treasury shares (Note 21)						
Share-based payment transactions (Notes 21 and 29)		**709**		**733**		
Dividends from surplus (Note 22)			**(89,575)**			
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control		**(170)**				
Transfer to retained earnings			**(24,556)**			
Others			**(4,191)**			
Total transactions with owners	**—**	**539**	**(118,322)**	**703**	**—**	**—**
BALANCE, DECEMBER 31, 2018	**$ 350,533**	**$ 280,343**	**$ 2,548,806**	**$ (108,476)**	**$ (8,179)**	**$ 7,199**

	Equity attributable to owners of the parent					
	Other components of equity					
	Gains (losses) on financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
BALANCE, JANUARY 1, 2018	**$ 467,507**	**$ —**	**$ 554,066**	**$ 3,421,423**	**$ 71,837**	**$ 3,493,260**
Profit for the year			**—**	**320,929**	**9,629**	**330,558**
Other comprehensive income (Note 27)	**(169,638)**	**(23,041)**	**(280,218)**	**(280,218)**	**(3,661)**	**(283,879)**
Comprehensive income	**(169,638)**	**(23,041)**	**(280,218)**	**40,710**	**5,968**	**46,679**
Purchase of treasury shares (Note 21)			**—**	**(30)**		**(30)**
Disposal of treasury shares (Note 21)			**—**	**—**		**—**
Share-based payment transactions (Notes 21 and 29)			**—**	**1,441**		**1,441**
Dividends from surplus (Note 22)			**—**	**(89,575)**	**(2,550)**	**(92,125)**
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control			**—**	**(170)**	**171**	**1**
Transfer to retained earnings	**1,515**	**23,041**	**24,556**	**—**		**—**
Others			**—**	**(4,191)**	**15**	**(4,176)**
Total transactions with owners	**1,515**	**23,041**	**24,556**	**(92,524)**	**(2,364)**	**(94,888)**
BALANCE, DECEMBER 31, 2018	**$ 299,384**	**$ —**	**$ 298,404**	**$ 3,369,609**	**$ 75,442**	**$ 3,445,051**

CONSOLIDATED STATEMENT OF CASH FLOWS

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
As of December 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax	**¥ 49,941**	¥ 54,891	**$ 449,917**
Depreciation and amortization	**36,793**	34,629	**331,467**
Impairment losses	**11,215**	584	**101,034**
Loss arising from fire	**—**	4,176	**—**
Increase (decrease) in liabilities for retirement benefits	**426**	(0)	**3,837**
Interest and dividend income	**(3,036)**	(3,071)	**(27,354)**
Interest expenses	**2,994**	3,245	**26,970**
Loss (gain) on sales and retirement of non-current assets	**(347)**	(300)	**(3,123)**
Decrease (increase) in trade receivables	**5,944**	(17,366)	**53,545**
Increase (decrease) in trade payables	**4,829**	2,323	**43,507**
Decrease (increase) in inventories	**(15,328)**	(2,538)	**(138,092)**
Other	**1,232**	802	**11,096**
Subtotal	**94,661**	77,375	**852,803**
Interests and dividends received	**2,759**	3,122	**24,859**
Interests paid	**(3,152)**	(2,915)	**(28,398)**
Income taxes (paid) refund	**(11,448)**	(17,115)	**(103,131)**
Net cash provided by operating activities	**82,821**	60,466	**746,133**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from withdrawal of time deposits	**3,730**	5,280	**33,601**
Payments into time deposits	**(696)**	(2,437)	**(6,272)**
Purchases of property, plant and equipment	**(45,358)**	(35,984)	**(408,631)**
Proceeds from sales of property, plant and equipment	**1,124**	1,604	**10,122**
Purchases of intangible assets	**(1,326)**	(1,425)	**(11,948)**
Purchases of investment securities	**(321)**	(23)	**(2,888)**
Proceeds from sales of investment securities	**0**	5,265	**0**
Purchases of shares of subsidiaries (Notes 30 and 32)	**—**	(2,353)	**—**
Other	**(286)**	328	**(2,580)**
Net cash used in investing activities	**(43,134)**	(29,746)	**(388,596)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings (Note 30)	**(10,314)**	123	**(92,919)**
Proceeds from long-term borrowings (Note 30)	**6,861**	10,389	**61,812**
Repayments of long-term borrowings (Note 30)	**(49,747)**	(27,452)	**(448,170)**
Purchases of treasury shares	**(3)**	(5)	**(30)**
Cash dividends paid (Note 22)	**(9,937)**	(9,140)	**(89,520)**
Other (Note 30)	**(1,732)**	(2,006)	**(15,607)**
Net cash used in financing activities	**(64,872)**	(28,091)	**(584,433)**
Effect of exchange rate changes on cash and cash equivalents	**(1,374)**	(170)	**(12,379)**
Net increase (decrease) in cash and cash equivalents	**(26,560)**	2,460	**(239,275)**
Cash and cash equivalents at the beginning of year (Note 8)	**58,305**	55,845	**525,266**
Cash and cash equivalents at the end of year (Note 8)	**¥ 31,745**	¥ 58,305	**$ 285,991**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries

1. REPORTING ENTITY
The Yokohama Rubber Co., Ltd. (the "Company") is a corporation located in Japan. The consolidated financial statements of the Company consist of the Company and its consolidated subsidiaries (collectively, the "Group"), and the consolidated financial statements for the fiscal year ended December 31, 2018 were approved by the Board of Directors on March 26, 2019. The details of the Group's main businesses are described in 6. "SEGMENT INFORMATION."

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
1. Statement of Compliance with IFRS
As the Group meets all the requirements for a "specified company under designated international accounting standards" prescribed in Article 1-2 of the Ordinance on Consolidated Financial Statements, in accordance with Article 93 of the Ordinance, the Group prepares its consolidated financial statements in conformity with IFRS issued by the International Accounting Standards Board (the "IASB").

2. Basis of Measurement
The consolidated financial statements are prepared on a historical cost basis, except for financial instruments and other items presented in 3. "SIGNIFICANT ACCOUNTING POLICIES."

3. Presentation Currency and Unit
The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and fractions less than one million yen are rounded to the nearest million.

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 ¥111.00 = $1.00, the approximate exchange rate prevailing on December 31, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES
1. Basis of Consolidation
Subsidiaries are entities over which the Group has control. The Group determines that it has control over an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

All subsidiaries of the Group are consolidated from the acquisition date (that is, the date on which the Group obtains control) until the date on which the Group loses the control.

When the accounting policies of a subsidiary are different from those of the Group, adjustments are reflected, as needed, to the financial statements of the subsidiary.

Any changes in interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and the gains or losses are not recognized. On the other hand, if there are any changes in interest in a subsidiary that result in a loss of control, the Group derecognizes the subsidiary's assets and liabilities as well as non-controlling interests and the cumulative amount of other comprehensive income related to the subsidiary.

Comprehensive income of a subsidiary is attributed to the Company's interest and non-controlling interests in the subsidiary even if this results in the non-controlling interests having a deficit balance. Intra-group balances of receivables and payables, intra-group transactions, and unrealized gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

2. Business Combinations
Business combinations are accounted for by the acquisition method. The Group elects to measure non-controlling interests in the acquiree for each business combination at either fair value or at the proportionate share of the acquiree's identifiable net assets. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are recognized at their fair value at the acquisition date. Acquisition costs incurred are expensed when incurred.

Goodwill is measured as the excess of the aggregate of the consideration transferred in a business combination, the amount of non-controlling interest in the acquiree and the fair value of equity interest in the acquiree previously held by the acquirer, over the net amount of identifiable assets and liabilities at the acquisition date.

3. Foreign Currency Translation

(1) Foreign Currency Transactions

Foreign currency transactions are translated into each functional currency of the Company and its subsidiaries at the spot exchange rate on the transaction date.

Foreign currency monetary assets and liabilities at the end of the fiscal year are retranslated into the functional currency using the exchange rate at the end of the fiscal year, and exchange differences arising from the translation and settlement are recognized in profit or loss; provided that exchange differences arising from financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, and the cumulative amount of the exchange differences is recognized in other components of equity.

(2) Translation of Foreign Operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the end of the fiscal year, while revenue and expenses of the foreign operations are translated into Japanese yen using the average exchange rate for the fiscal year, unless there have been significant changes in exchange rates during the period. Exchange differences arising from the translation of financial statements of the foreign operations are recognized in other comprehensive income, and the cumulative amount of the exchange differences is recognized in other components of equity.

4. Financial Instruments

(1) Non-derivative Financial Assets

(i) Initial recognition and measurement

Trade and other receivables are initially recognized on the date when they occur. All other financial assets are initially recognized on the trade date when the Group becomes a party to the contract of the financial assets. All financial assets, other than those measured at fair value through profit or loss, are initially measured at fair value plus transaction costs. Financial assets are classified into financial assets measured at amortized cost, at fair value through profit or loss, and at fair value through other comprehensive income. The classification is determined at initial recognition of the financial asset. Financial assets that meet both of the following conditions are classified as financial assets measured at amortized cost.

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

When the Group elects to recognize equity financial assets measured at fair value through other comprehensive income, the Group shall make the designation thereof and apply such method of recognition consistently in subsequent periods.

Debt financial assets measured at fair value that meet both of the following conditions are classified as financial assets measured at fair value through other comprehensive income and all other debt financial assets are classified as financial assets measured at fair value through profit or loss.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Subsequent measurement

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

For equity financial assets measured at fair value that are designated as measured at fair value through other comprehensive income, any changes in fair value are recognized in other comprehensive income. When these financial assets are derecognized or the decline in their fair value is significant, cumulative gains or losses previously recognized in other comprehensive income are transferred directly to retained earnings.

For debt financial assets measured at fair value that are classified as measured at fair value through other comprehensive income, any changes in fair value, excluding impairment gains or losses and foreign currency exchange gains or losses, are recognized in other comprehensive income until the financial assets are derecognized. When these financial assets are derecognized, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Dividends on equity financial assets measured at fair value through other comprehensive income are recognized as finance income.

(iii) Impairment of financial assets
For impairment of financial assets measured at amortized cost, an allowance for doubtful receivables is recognized for expected credit losses on the financial assets.

Expected credit losses are measured as the present value (discounted using the effective interest rate determined at initial recognition) of the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. At the end of each fiscal year, the Group assesses whether the credit risk on financial instruments has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group measures the allowance for doubtful receivables at an amount equal to 12-month expected credit losses. Meanwhile, if the credit risk has increased significantly since initial recognition, the Group measures the allowance for doubtful receivables at an amount equal to lifetime expected credit losses. However, for receivables, such as trade receivables, the Group always measures the allowance for doubtful receivables at an amount equal to lifetime expected credit losses.

The provision of allowance for doubtful receivables on financial assets is recognized in profit or loss. When an event that results in a reduction of the allowance for doubtful receivables occurs, the amount of reversal of the allowance for doubtful receivables is recognized in profit or loss.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the end of the fiscal year about past events, current conditions, and forecasts of future economic conditions.

(iv) Derecognition
The Group derecognizes financial assets when the contractual rights to receive cash flows of the financial assets expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset as a result of transferring the contractual right to receive cash flows of that financial asset.

(2) Non-derivative Financial Liabilities

(i) Initial recognition and measurement
The Group initially recognizes debt securities issued by the Group at the date of issuance. Financial liabilities other than debt securities are initially recognized on the transaction date when the Group becomes a party to the contract of the financial liabilities. All financial liabilities are classified as financial liabilities measured at amortized cost and are initially measured at fair value less transaction costs.

(ii) Subsequent measurement
Financial liabilities are subsequently measured at amortized cost using the effective interest method.

(iii) Derecognition
The Group derecognizes financial liabilities when they are extinguished, i.e., when the obligation specified in the contract is discharged or canceled or expires.

(3) Offsetting Financial Assets and Financial Liabilities
Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position when, and only when, the Group currently has a legal right to set off their balances and intends either to settle on a net basis or to recover the asset and settle the liability simultaneously.

(4) Derivatives and Hedge Accounting
The Group uses derivatives, such as forward foreign exchange contracts, to hedge foreign currency risk and interest rate risk. Such derivatives are initially measured at fair value on the date when the contract is entered into and are subsequently measured at fair value. Changes in the fair value of derivatives are accounted for depending on the hedging purpose and hedge designation when the derivatives are designated as qualifying hedging instruments, and are recognized in profit or loss when the derivatives are not designated as qualifying hedging instruments.

(i) Qualifying criteria for hedge accounting
At the inception of the hedge, the Group documents the relationship between the hedging instrument and the hedged item as well as the Group's risk management objective and strategy for undertaking the hedge transaction. In addition, at the inception of the hedge and throughout the term of the hedge, the Group assesses continuously whether all of the following criteria are met:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantities of the hedged item and the hedging instrument that the Group actually uses.

(ii) Accounting for derivative transactions qualifying for hedge accounting

• Fair value hedge

Any changes in the fair value of derivatives designated as hedging instruments are recognized in profit or loss. Any changes in the fair value of the hedged items are recognized in profit or loss, and the carrying amount of the hedged items is adjusted accordingly.

• Cash flow hedge

Of changes in the fair value of hedging instruments, the effective portion of the hedge is recognized in other comprehensive income, and the ineffective portion of the hedge is recognized in profit or loss.

The balances of cash flow hedges are deducted from other comprehensive income in the consolidated statement of comprehensive income for the same period when the hedged cash flows affect profit or loss, and reclassified to profit or loss in the same line items as the hedged items.

The Group discontinues the application of hedge accounting when the hedge ceases to meet the effectiveness criteria for hedge accounting, when the hedge designation is revoked, or when the hedging instrument expires or is sold, terminated, or exercised.

(iii) Accounting for derivative transactions not qualifying for hedge accounting

For derivatives held for hedging purposes that do not meet hedge accounting requirements, any changes in their fair value are immediately recognized in profit or loss.

(5) Fair Value of Financial Instruments

The fair value of financial instruments that are traded on an active financial market at the end of the fiscal year is based on quoted market prices or dealer prices.

The fair value of financial instruments for which there is no active market is determined based on prices derived by appropriate valuation techniques or presented by counterparty financial institutions.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash and subject to an insignificant risk of changes in value with original maturities of three months or less.

6. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost is determined primarily using the weighted average method.

7. Property, Plant and Equipment

Property, plant and equipment are presented at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes costs directly attributable to the acquisition of the asset, the costs of dismantling and removing the asset and restoring the site to the original condition, and borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset.

Expenditure incurred after the acquisition of an item of property, plant and equipment is recognized as an asset if, and only if:

• it is probable that future economic benefits associated with the expenditure will flow to the Group; and
• the expenditure can be measured reliably.

Property, plant and equipment are initially recognized at cost, which is measured using the cost model.

Property, plant, and equipment are depreciated using the straight-line method over the estimated useful life of each asset.

The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures	5 to 50 years
Machinery, equipment, and vehicles	2 to 10 years
Tools, furniture, and fixtures	2 to 10 years

The depreciation method, residual value, and estimated useful life of an asset are reviewed at the end of each fiscal year. Any changes are applied prospectively as changes in accounting estimates.

The gain or loss realized on the disposal of an asset is calculated as the difference between the price for disposal and the carrying amount of the asset, and included in profit or loss.

8. Goodwill and Intangible Assets

(1) Goodwill

Goodwill is presented at cost less accumulated impairment losses. Goodwill is not amortized and is tested for impairment. For impairment, please refer to "(10) Impairment of Non-financial Assets."

(2) Other Intangible Assets

Intangible assets acquired separately are measured at cost at initial recognition. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Intangible assets are subsequently measured using the cost model and presented at cost less accumulated amortization and accumulated impairment losses. Intangible assets with definite useful lives are amortized using the straight-line method over their estimated useful lives.

The estimated useful lives of major intangible assets are as follows:

Customer-related assets:	13 years
Software:	primarily 5 years

The amortization method, residual value, and estimated useful life of an asset are reviewed at the end of each fiscal year. Any changes are applied prospectively as changes in accounting estimates.

9. Leases

The Group determines whether an arrangement includes a lease based on the substance of the arrangement.

If the lease transfers substantially all the risks and rewards of ownership to the Group, such leases are classified as finance leases and the other leases are classified as operating leases.

(1) Finance Lease

Leased assets and lease obligations under a finance lease are initially recognized at the commencement of the lease at the lower of the fair value of the leased property or the present value of the total minimum lease payments. After initial recognition, such assets are accounted for based on the accounting policy applicable to the assets and are depreciated using the straight-line method over the shorter of the estimated useful life or the lease term. The lease payments are apportioned to the finance costs and the repayments of lease obligations.

(2) Operating Lease

Lease payments under an operating lease are recognized as expenses using the straight-line method over the lease term.

10. Impairment of Non-financial Assets

The Group assesses whether there is any indication of impairment for each asset. When an event or change in circumstance indicates that the carrying amount might not be recoverable, the asset is tested for impairment. Intangible assets with indefinite useful lives and goodwill are, regardless of whether there is an indication of impairment or not, tested for impairment annually at a cash-generating unit (CGU) level by estimating the recoverable amount of the CGU to which the asset belongs.

Impairment tests are performed by estimating the recoverable amount of an asset or CGU and comparing it with the carrying amount. For the purpose of impairment testing, individual assets are grouped at the lowest levels for which there are separately identifiable cash flows. Goodwill is allocated to each CGU or a group of CGUs that is expected to benefit from the synergies of the business combination. The recoverable amount is the higher of fair value less cost to sell the asset and its value in use. In calculating the value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects the time value of money and inherent risks of the asset.

The Group assesses at the end of the fiscal year the possibility of reversal of impairment losses recognized in prior years for property, plant and equipment and intangible assets other than goodwill.

11. Employee Benefits

(1) Short-term Employee Benefits

Short-term employee benefits are recognized as expenses on an undiscounted basis when related services are rendered. Short-term employee benefits, such as bonuses and paid annual leaves, are recognized as liabilities for the amounts estimated to be paid based on the applicable plans when the Group has legal or constructive obligations for such payments and when the obligations can be reliably estimated.

(2) Retirement Benefits

The Group has a defined contribution plan and a defined benefit plan.

(i) Defined contribution plan

Under a defined contribution plan, the employer contributes a fixed amount to an independent company and has no legal or constructive obligation to pay an amount in excess of the contributed amount. Therefore, the amount of contribution to be paid to the defined contribution plan is recognized as an expense in the period in which employees render related services to the Group.

(ii) Defined benefit plan

The Group determines the present value of defined benefit obligations and the related current service cost and past service cost using the projected unit credit method for each plan individually.

The discount rate is determined by reference to yields at the end of the fiscal year on high quality corporate bonds corresponding to a discounting period set based on a period until the expected date of benefit payment in each future fiscal year.

The present value of the defined benefit obligations less the fair value of the plan assets is recognized as an asset or liability.

Service cost, past service cost, and interest cost on the net defined benefit liability (asset) are recognized in profit or loss. Remeasurements of the net defined benefit liability (asset) are recognized in its entirety in other comprehensive income in the period in which they occur and are immediately transferred to retained earnings.

(3) Other Long-term Employee Benefits

Long-term employee benefits other than retirement benefits are determined by discounting future benefits that employees are entitled to receive as a consideration for their current and past services to the present value.

12. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when the amount of the obligation can be reliably estimated. When the time value of money is significant, the provisions are determined by discounting the estimated future cash flows to the present value at a pre-tax discount rate that reflects the time value of money and the risks specific to the obligation.

13. Revenue

The Group recognizes revenue in the amount that reflects a consideration to which the Group expects to be entitled in exchange for the transfer of goods and services to customers, based on the following five-step approach:

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to separate performance obligations
Step 5: Recognize revenue when the entity satisfies a performance obligation

Revenue from the sale of goods is recognized when the control of goods is transferred to customers. Expected returns, discounts, rebates, and other items are deducted from revenue. The amount of returns is derived by estimating an expected return rate of goods based on historical data and other information. The amount of discounts and rebates is derived by estimating future payments based on the contract or through other means. Please also refer to 7. “REVENUE.”

14. Finance Income and Finance Costs

Finance income mainly comprises interest income, dividend income, foreign currency gain, and changes in the fair value of financial instruments measured at fair value through profit or loss. Interest income is recognized when it occurs using the effective interest method. Dividend income is recognized when the Group’s right to receive payment is established. Finance costs mainly comprise interest expenses, foreign currency loss, and changes in the fair value of financial instruments measured at fair value through profit or loss. Interest expenses are recognized when they occur using the effective interest method.

15. Income Taxes

Income taxes comprise current taxes and deferred taxes. They are recognized in profit or loss, except for the items arising from business combinations, the items recognized in other comprehensive income, and the items directly recognized in equity.

Current taxes are measured as the amount that is expected to be paid to or refunded for current taxable profit based on the tax rates and the tax laws that have been enacted or substantially enacted by the end of the fiscal year.

Deferred taxes are recognized, through an asset-and-liability approach, for the differences (temporary differences) between the tax base of assets and liabilities and their carrying amount for accounting purposes at the end of the fiscal year.

However, deferred tax assets and liabilities are not recognized for the following temporary differences:

- temporary differences arising from the initial recognition of goodwill;
- differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit (loss); and
- taxable temporary differences associated with investments in subsidiaries or associates, to the extent that the Group can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to taxable profit for the fiscal year in which the temporary differences will be reversed. Deferred tax assets are recognized for unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and when income taxes are levied by the same taxation authority on the same taxable entity.

16. Equity

(1) Share Capital and Share Premium

The issue prices of equity financial instruments issued by the Company are recognized in share capital and share premium. Transaction costs directly attributed to the issuance are deducted from equity.

(2) Treasury Shares

When treasury shares are acquired, the acquisition cost is recognized as a deduction item from equity. When treasury shares are disposed of, any difference between the carrying amount and the consideration received at the time of disposal is recognized in share premium.

17. Earnings per Share

Basic earnings per share are calculated by dividing profit attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding (after adjusting for treasury shares) during each calculation period.

18. Share-based Payment

The Group has adopted a restricted stock compensation plan for payments to the Company's members of the Board excluding outside members based on equity-settled shares. Consideration for services received is measured at fair value of the Company's shares at the grant date, recognized as an expense in the consolidated statement of profit or loss over the vesting period starting from the grant date, and the corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

To prepare consolidated financial statements in conformity with IFRS, the Group uses judgments, accounting estimates, and assumptions that have an impact on the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Estimates and assumptions are based on management's best judgments made based on various factors which are considered to be reasonable in accordance with past results and conditions. By their nature, actual results may differ from these estimates and assumptions.

These estimates and assumptions, the basis of the estimates, are reviewed on an ongoing basis. The effects of any revisions to these estimates are recognized in the period of the revisions and future periods which are impacted by the revisions.

Information related to judgments made in the process of applying accounting policies that have a significant impact on the consolidated financial statements is as follows:

- Scope of consolidated subsidiaries (3. "SIGNIFICANT ACCOUNTING POLICIES (1) Basis of Consolidation")
- Revenue recognition (3. "SIGNIFICANT ACCOUNTING POLICIES (13) Revenue," 7. "REVENUE")

Estimates and assumptions that have a significant impact on the amounts recognized in the consolidated financial statements are as follows:

- Impairment of non-financial assets (15. "IMPAIRMENT OF NON-FINANCIAL ASSETS")

Impairment tests for non-financial assets are conducted by calculating the recoverable amounts based on a number of assumptions and estimates, such as assumptions for measuring fair value of CGUs after deducting the costs of disposal, or estimates of future cash flows of CGUs and assumptions of discount rates for calculating their value in use. These assumptions and estimates might cause significant revisions to the amount of impairment losses as a result of uncertain future changes in economic conditions.

- Recoverability of deferred tax assets (16. "INCOME TAXES")

In calculating income taxes, estimates and judgments are required for various factors, such as the interpretation of tax laws and regulations and the results of tax investigations in prior years. Therefore, the amount recognized as income taxes may differ from the amount actually imposed. Furthermore, deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; however, the timing and amount of available taxable profits may be affected by uncertain future changes in economic conditions. If the actual timing and amount differ from their estimates, they might cause significant changes in the amount to be recognized in the following fiscal years.

- Measurement of defined benefit obligations (20. "EMPLOYEE BENEFITS")

The present value of defined benefit obligations and relevant service costs are calculated based on actuarial assumptions. In determining actuarial assumptions, estimates and judgments on a broad range of variables, such as discount rates and salary increase rates, are required.

The Group has obtained an external actuary's advice regarding the appropriateness of actuarial assumptions, including these variables.

Actuarial assumptions are determined based on management's best estimates and judgments; however, they may be affected by uncertain future changes in economic conditions and the amendment or promulgation of relevant laws and regulations. Any revision to actuarial assumptions, when necessary, might cause significant changes in the amounts to be recognized in the consolidated financial statements in the following fiscal years.

- Valuation of financial instruments (31. "FINANCIAL INSTRUMENTS")

The Group uses valuation techniques using inputs that are unobservable in the market in measuring the fair value of certain financial instruments which are categorized as Level 3. Unobservable inputs may be affected by uncertain future changes in economic conditions. When revisions are needed, they might cause significant changes in the amounts to be recognized in the following fiscal years.

5. NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

Major standards and interpretations that have been established or amended by the date of approval for the consolidated financial statements but have not been applied by the Group are as follows.

The impacts of the application of these standards and interpretations are being assessed at the time of preparation of the consolidated financial statements.

Standards	Title	Mandatory application (fiscal year beginning on or after)	Application by the Group	Outline of new/amended standards
IFRS 16	Leases	January 1, 2019	Fiscal year ending December 2019	Amendment to accounting treatment for lease accounting

IFRS 16 introduces a single lessee accounting model, rather than classifying lessees' leases into finance leases and operating leases and, in principle, requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases. However, a lessee may elect not to apply the requirements in the standards to short-term leases or leases of low value. After right-of-use assets and lease liabilities are recognized, depreciation charges for the right-of-use assets and interest expenses on the lease liabilities are recorded. When applying the standards, the Group will adopt the method of recognizing the cumulative effect at the date of initial application which is permitted as a transitional measure.

6. SEGMENT INFORMATION

1. Outline of Reportable Segments

The Group's business segments are organizational units for which the Group is able to obtain discrete financial information in order for the Company's Board of Directors to regularly review performance to determine the distribution of management resources and evaluate business results.

The Group classifies organizational units by product and service. Each organizational unit plans domestic or overseas general strategies for its products and services and operates its business.

Therefore, the Group is organized by business segment, and its business segments and reportable segments are "Tires," "Multiple Business" ("MB"), and "Alliance Tire Group" ("ATG").

Major products in each reportable segment

Reportable segment	Major products
Tires	Tires for passenger cars, trucks and buses, light trucks, construction equipment, and industrial equipment, etc., tire tubes, aluminum alloy wheels, and auto supplies
MB	Conveyor belts, rubber sheets, hoses, pneumatic marine fenders, oil fences, marine hoses, molded parts, air springs, highway joints, antiseismic products, waterproof materials, water sealant materials, soundproof and vibration-proof products, adhesives, sealants, coatings, encapsulants, and aerospace products
ATG	Tires for agricultural machinery, industrial equipment, construction equipment, and forestry machinery

2. Information on Segment Revenues and Results

The accounting methods applied to the reportable segments are the same as those described in 3. "SIGNIFICANT ACCOUNTING POLICIES."

The figures related to reportable segments are based on business profit. Intersegment revenues are based on prevailing market prices.

Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

	Millions of Yen						
	Reportable segment			Others		Adjustments	
	Tires	MB	ATG	(Note 1)	Total	(Note 3)	Consolidated
Revenues							
Revenue from external customers	¥ 459,949	¥ 114,099	¥ 63,433	¥ 8,792	¥ 646,272	¥ —	¥ 646,272
Intersegment revenue	1,387	131	15	17,368	18,901	(18,901)	—
Total	¥ 461,335	¥ 114,230	¥ 63,447	¥ 26,160	¥ 665,173	¥ (18,901)	¥ 646,272
Segment profit (business profit) (Note 2)	41,889	7,757	7,568	1,171	58,385	(120)	58,265
Other income and expenses							(4,041)
Operating profit							54,224
(Other significant items)							
Depreciation and amortization	24,962	3,768	5,240	376	34,345	284	34,629
Impairment losses	330	254	—	—	584	—	584
Capital expenditures	30,096	3,933	2,880	280	37,189	2,718	39,908

Notes:
1. "Others" includes the sports business.
2. Segment profit (business profit) is calculated by deducting cost of sales and selling, general, and administrative expenses from revenues.
3. Segment profit adjustments include the elimination of intersegment transactions.

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

	Millions of Yen						
	Reportable segment			Others		Adjustments	
	Tires	MB	ATG	(Note 1)	Total	(Note 3)	Consolidated
Revenues							
Revenue from external customers	**¥ 454,801**	**¥ 117,782**	**¥ 68,689**	**¥ 8,966**	**¥ 650,239**	**¥ —**	**¥ 650,239**
Intersegment revenue	**1,923**	**113**	**45**	**15,311**	**17,392**	**(17,392)**	**—**
Total	**¥ 456,724**	**¥ 117,895**	**¥ 68,734**	**¥ 24,277**	**¥ 667,630**	**¥ (17,392)**	**¥ 650,239**
Segment profit (business profit) (Note 2)	**42,292**	**7,404**	**8,460**	**1,073**	**59,228**	**29**	**59,257**
Other income and expenses							**(5,779)**
Operating profit							**53,478**
(Other significant items)							
Depreciation and amortization	**26,562**	**3,926**	**5,506**	**400**	**36,394**	**398**	**36,793**
Impairment losses	**11,215**	**—**	**—**	**—**	**11,215**	**—**	**11,215**
Capital expenditures	**34,636**	**3,988**	**7,724**	**219**	**46,567**	**293**	**46,860**

	Thousands of U.S. Dollars						
	Reportable segment			Others		Adjustments	
	Tires	MB	ATG	(Note 1)	Total	(Note 3)	Consolidated
Revenues							
Revenue from external customers	**$ 4,097,310**	**$ 1,061,099**	**$ 618,819**	**$ 80,778**	**$ 5,858,006**	**$ —**	**$ 5,858,006**
Intersegment revenue	**17,322**	**1,020**	**403**	**137,935**	**156,680**	**(156,680)**	**—**
Total	**$ 4,114,631**	**$ 1,062,119**	**$ 619,223**	**$ 218,713**	**$ 6,014,686**	**$ (156,680)**	**$ 5,858,006**
Segment profit (business profit) (Note 2)	**381,008**	**66,699**	**76,213**	**9,662**	**533,582**	**263**	**533,844**
Other income and expenses							**(52,062)**
Operating profit							**481,783**
(Other significant items)							
Depreciation and amortization	**239,301**	**35,367**	**49,604**	**3,606**	**327,878**	**3,589**	**331,467**
Impairment losses	**101,034**	**—**	**—**	**—**	**101,034**	**—**	**101,034**
Capital expenditures	**312,038**	**35,932**	**69,582**	**1,970**	**419,523**	**2,637**	**422,160**

Notes:
1. "Others" includes the sports business.
2. Segment profit (business profit) is calculated by deducting cost of sales and selling, general, and administrative expenses from revenues.
3. Segment profit adjustments include the elimination of intersegment transactions.

3. Revenue from External Customers by Product and Service Category

Disclosure is omitted because product and service categories are the same as the reportable segments.

4. Geographic Information

(1) Revenue from External Customers

Revenue from external customers by area is presented in 7. “REVENUE.”

(2) Non-current Assets

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Japan	**¥ 133,830**	¥ 134,275	**$ 1,205,676**
United States of America (“USA”)	**44,641**	56,018	**402,168**
India	**119,688**	116,281	**1,078,266**
China	**31,162**	28,706	**280,742**
Philippines	**26,823**	24,949	**241,652**
Others	**67,385**	72,698	**607,072**
Total	**¥ 423,529**	¥ 432,927	**$ 3,815,576**

Note:

Non-current assets are classified based on the location of each company in the Group. They exclude other financial assets, assets for retirement benefits, and deferred tax assets.

5. Information on Major Customers

There was no single external customer that accounted for 10% or more of revenue on the consolidated statement of profit or loss.

7. REVENUE

1. Relationship between the Breakdown of Revenues and Segment Revenues

Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

	Millions of Yen				
	Tires	MB	ATG	Others	Total
Areas					
Japan	¥ 192,153	¥ 71,951	¥ 229	¥ 7,265	¥ 271,598
North America	121,132	19,313	29,401	61	169,907
Asia	73,656	16,045	2,639	1,467	93,808
Others	73,007	6,789	31,163	—	110,960
Total	¥ 459,949	¥ 114,099	¥ 63,433	¥ 8,792	¥ 646,272

Note:

Revenues are classified based on the location of customers and exclude intersegment transactions.

North America mainly refers to the USA (¥161,005 million).

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

	Millions of Yen				
	Tires	MB	ATG	Others	Total
Areas					
Japan	**¥ 194,729**	**¥ 70,556**	**¥ 172**	**¥ 7,532**	**¥ 272,990**
North America	**121,481**	**20,083**	**32,361**	**65**	**173,990**
Asia	**69,480**	**18,587**	**3,750**	**1,369**	**93,187**
Others	**69,111**	**8,555**	**32,406**	**—**	**110,072**
Total	**¥ 454,801**	**¥ 117,782**	**¥ 68,689**	**¥ 8,966**	**¥ 650,239**

	Thousands of U.S. Dollars				
	Tires	MB	ATG	Others	Total
Areas					
Japan	**$ 1,754,318**	**$ 635,639**	**$ 1,552**	**$ 67,857**	**$ 2,459,367**
North America	**1,094,425**	**180,931**	**291,540**	**585**	**1,567,482**
Asia	**625,949**	**167,453**	**33,782**	**12,335**	**839,518**
Others	**622,618**	**77,076**	**291,946**	**—**	**991,640**
Total	**$ 4,097,310**	**$ 1,061,099**	**$ 618,819**	**$ 80,778**	**$ 5,858,006**

Note:
Revenues are classified based on the location of customers and exclude intersegment transactions.
North America mainly refers to the USA (¥163,059 million, $1,468,997 thousand).

The Group is engaged in the manufacturing of products in the Tires, MB, ATG, and Others segments, and conducts a range of business with the tire business at its core. In these businesses, the Group itself is a party to contracts with customers.

Since performance obligations for revenues from automakers, retailers, and other business operators, all of which are the major customers of the Tires, MB, and ATG segments, are satisfied when the Group's products are delivered to customers, revenues are recorded at that point in time. This is because control over the Group's products is deemed to be transferred on delivery, the point in time in which customers can use and sell the products on their own will and obtain benefits from the products.

The amounts of contractual considerations include no significant financing components since they are paid primarily within six months from the delivery of products to customers.

In the Tires, MB, and ATG segments, the Group determines product transaction prices when initiating transactions with each customer. For some transactions which provide sales rebates and sales fees according to the volume of transactions and other aspects for certain periods from several months to one year, the Group adjusts transaction prices by estimating the amounts of variable consideration based on contractual conditions and other factors. Refund liabilities relating to these adjustments are included in others of financial liabilities.

The Tires, MB, and ATG segments do not classify product warranties as independent performance obligations or allocate part of transaction prices to product warranties because they do not provide service-type product warranties, such as providing services more than repairing defects that existed at the time of sale.

The Tires segment, which records a reversal of revenues from winter tires mainly sold in Japan partly due to returns from winter to spring, reduces revenues by estimating expected returns, and the right to collect products to be returned is recognized as a returned asset in "Other current assets."

2. Contract Balance
The Group's contract balance consists solely of receivables (notes and accounts receivables) arising from contracts with customers, which is presented in 9. "TRADE AND OTHER RECEIVABLES."

3. Transaction Prices Allocated to Remaining Performance Obligations
The Group has no significant transactions whose respective contract period exceeds one year.

Moreover, consideration arising from contracts with customers includes no significant amounts excluded from transaction prices.

4. Assets Recognized from Costs for Obtaining or Performing Contracts with Customers
The Group has no additional costs for obtaining contracts or costs for performing contracts which should be recognized as assets.

8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Cash and deposits	**¥ 28,295**	¥ 50,047	**$ 254,913**
Time deposits with maturities of three months or less	**3,450**	8,258	**31,078**
Total	**¥ 31,745**	¥ 58,305	**$ 285,991**

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Notes and accounts receivable-trade	**¥ 159,888**	¥ 171,094	**$ 1,440,429**
Others	**13,074**	13,872	**117,781**
Allowance for doubtful receivables	**(2,956)**	(3,216)	**(26,628)**
Total	**¥ 170,006**	¥ 181,750	**$ 1,531,581**

The amounts less allowance for doubtful receivables are presented in the consolidated statement of financial position.
Trade and other receivables are classified as financial assets measured at amortized cost.

Credit risk management and the fair value of trade and other receivables are presented in 31. "FINANCIAL INSTRUMENTS."

10. INVENTORIES

The breakdown of inventories is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Merchandise and finished goods	**¥ 78,483**	¥ 68,521	**$ 707,057**
Work in progress	**7,924**	8,164	**71,383**
Raw materials and supplies	**33,248**	30,138	**299,534**
Total	**¥ 119,655**	¥ 106,823	**$ 1,077,974**

The valuation loss on inventories was ¥856 million and ¥791 million ($7,123 thousand) for the fiscal years ended December 31, 2017 and 2018, respectively.

11. OTHER FINANCIAL ASSETS

The breakdown of other financial assets is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Non-derivative financial assets measured at amortized cost			
Loans	**¥ 2,928**	¥ 2,609	**$ 26,375**
Others	**4,916**	8,772	**44,285**
Allowance for doubtful receivables	**(277)**	(288)	**(2,493)**
Non-derivative financial assets measured at fair value through profit or loss			
Others	**257**	256	**2,313**
Non-derivative financial assets measured at fair value through other comprehensive income			
Shares	**82,553**	109,305	**743,723**
Others	**892**	623	**8,032**
Derivative assets	**2,152**	855	**19,385**
Total	**¥ 93,420**	¥ 122,132	**$ 841,621**
Current assets	**2,812**	4,417	**25,336**
Non-current assets	**90,608**	117,716	**816,285**
Total	**¥ 93,420**	¥ 122,132	**$ 841,621**

The amounts less allowance for doubtful receivables are presented in the consolidated statement of financial position.

Derivative assets are classified as financial assets measured at fair value through profit or loss, except for those to which hedge accounting is applied.

Major equity financial assets measured at fair value through other comprehensive income and their fair values were as follows:

Fiscal Year Ended December 31, 2017 (December 31, 2017)

	Millions of Yen
Share issuer	Amount
Zeon Corporation	¥ 36,995
TOYOTA MOTOR CORPORATION	24,973
Honda Motor Co., Ltd.	12,106
SUZUKI MOTOR CORPORATION	5,384
FURUKAWA CO., LTD.	3,105

Fiscal Year Ended December 31, 2018 (December 31, 2018)

	Millions of Yen
Share issuer	Amount
Zeon Corporation	**¥ 22,819**
TOYOTA MOTOR CORPORATION	**22,179**
Honda Motor Co., Ltd.	**9,073**
SUZUKI MOTOR CORPORATION	**4,587**
ADEKA Corporation	**1,753**

	Thousands of U.S. Dollars
Share issuer	Amount
Zeon Corporation	**$ 205,573**
TOYOTA MOTOR CORPORATION	**199,813**
Honda Motor Co., Ltd.	**81,740**
SUZUKI MOTOR CORPORATION	**41,326**
ADEKA Corporation	**15,795**

These shares are classified as equity financial assets measured at fair value through other comprehensive income as they are mainly held for strategic investment purposes.

The Group sells (derecognizes) equity financial assets measured at fair value through other comprehensive income to streamline and effectively use the assets it holds.

The fair values and accumulated gains or losses recognized in other comprehensive income in equity at the time of sale in each fiscal year were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Fair value	**¥ 34**	¥ 5,270	**$ 304**
Accumulated gains (losses) recognized in other components of equity (Note)	**21**	3,031	**186**

Note:
Accumulated gains or losses recognized in other components of equity were transferred to retained earnings at the time of sale.

The breakdown of dividends received which are recognized from equity financial instruments is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Investments derecognized during the year	**¥ 0**	¥ 143	**$ 2**
Investments held as of the end of the year	**2,603**	2,401	**23,447**
Total	**¥ 2,603**	¥ 2,543	**$ 23,449**

12. PROPERTY, PLANT AND EQUIPMENT

Changes

Changes in the cost, accumulated depreciation, and accumulated impairment losses and carrying amounts of property, plant and equipment were as follows:

	Millions of Yen						
Cost	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Construction in progress	Leased assets	Total
Balance at January 1, 2017	¥ 201,616	¥ 459,022	¥ 84,479	¥ 46,810	¥ 24,311	¥ 14,366	¥ 830,605
Individual acquisition	504	1,956	2,852	28	30,999	2,144	38,482
Acquisition through business combinations	351	217	16	1,669	3	3	2,259
Sale or disposal	(2,675)	(18,794)	(7,284)	(555)	(22)	(195)	(29,524)
Exchange differences on translating foreign operations	(62)	410	87	(13)	(300)	6	129
Transfer from construction in progress	7,838	18,862	5,677	3	(32,380)	—	—
Others	313	2,355	171	(4)	(477)	(481)	1,876
Balance at December 31, 2017	¥ 207,886	¥ 464,028	¥ 85,998	¥ 47,938	¥ 22,133	¥ 15,844	¥ 843,827
Individual acquisition	808	2,997	2,949	1	38,166	613	45,534
Sale or disposal	(1,089)	(10,126)	(5,623)	(199)	(8)	(205)	(17,250)
Exchange differences on translating foreign operations	(2,638)	(6,567)	(1,012)	(282)	(507)	(55)	(11,060)
Transfer from construction in progress	4,970	23,223	5,027	4	(33,224)	—	—
Others	16	(98)	(73)	57	(74)	(1,118)	(1,289)
Balance at December 31, 2018	¥ 209,954	¥ 473,456	¥ 87,266	¥ 47,520	¥ 26,487	¥ 15,079	¥ 859,762

	Thousands of U.S. Dollars						
Cost	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Construction in progress	Leased assets	Total
Balance at December 31, 2017	$ 1,872,848	$ 4,180,429	$ 774,758	$ 431,877	$ 199,401	$ 142,735	$ 7,602,047
Individual acquisition	7,278	27,001	26,565	7	343,841	5,521	410,212
Sale or disposal	(9,814)	(91,226)	(50,658)	(1,789)	(70)	(1,849)	(155,406)
Exchange differences on translating foreign operations	(23,761)	(59,161)	(9,117)	(2,544)	(4,568)	(492)	(99,643)
Transfer from construction in progress	44,779	209,213	45,284	40	(299,316)	—	—
Others	144	(887)	(654)	518	(664)	(10,069)	(11,611)
Balance at December 31, 2018	$ 1,891,474	$ 4,265,369	$ 786,179	$ 428,109	$ 238,624	$ 135,845	$ 7,745,600

	Millions of Yen						
Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Construction in progress	Leased assets	Total
Balance at January 1, 2017	¥ (106,221)	¥ (358,317)	¥ (71,595)	¥ (148)	¥ —	¥ (8,008)	¥ (544,289)
Depreciation	(5,927)	(17,158)	(6,087)	—	—	(1,714)	(30,885)
Impairment losses	—	(584)	—	—	—	—	(584)
Sale or disposal	1,554	17,651	6,504	13	—	167	25,888
Exchange differences on translating foreign operations	(310)	(542)	(48)	1	—	(2)	(902)
Others	(114)	(1,251)	(190)	90	—	483	(982)
Balance at December 31, 2017	¥ (111,019)	¥ (360,201)	¥ (71,417)	¥ (44)	¥ —	¥ (9,073)	¥ (551,754)
Depreciation	(6,172)	(17,995)	(6,998)	—	—	(1,628)	(32,793)
Impairment losses	(17)	(8,978)	(136)	(423)	(1,644)	—	(11,199)
Sale or disposal	923	9,490	5,437	—	—	179	16,029
Exchange differences on translating foreign operations	933	3,981	701	2	(10)	9	5,616
Others	(36)	(391)	(57)	(202)	943	1,103	1,359
Balance at December 31, 2018	¥ (115,389)	¥ (374,094)	¥ (72,471)	¥ (668)	¥ (711)	¥ (9,409)	¥ (572,742)

	Thousands of U.S. Dollars						
Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Construction in progress	Leased assets	Total
Balance at December 31, 2017	$ (1,000,167)	$ (3,245,052)	$ (643,397)	$ (401)	$ —	$ (81,739)	$ (4,970,756)
Depreciation	(55,602)	(162,117)	(63,049)	—	—	(14,668)	(295,436)
Impairment losses	(157)	(80,884)	(1,227)	(3,810)	(14,811)	—	(100,888)
Sale or disposal	8,313	85,494	48,986	—	—	1,616	144,408
Exchange differences on translating foreign operations	8,402	35,869	6,315	14	(88)	82	50,596
Others	(327)	(3,524)	(518)	(1,824)	8,495	9,941	12,242
Balance at December 31, 2018	$ (1,039,538)	$ (3,370,214)	(652,889)	$ (6,020)	$ (6,404)	$ (84,768)	$ (5,159,835)

	Millions of Yen						
Carrying amount	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Construction in progress	Leased assets	Total
Balance at January 1, 2017	¥ 95,395	¥ 100,705	¥ 12,884	¥ 46,663	¥ 24,311	¥ 6,359	¥ 286,316
Balance at December 31, 2017	96,868	103,827	14,581	47,894	22,133	6,770	292,073
Balance at December 31, 2018	94,565	99,362	14,795	46,852	25,776	5,670	287,020

	Thousands of U.S. Dollars						
Carrying amount	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Construction in progress	Leased assets	Total
Balance at December 31, 2018	$ 851,935	$ 895,155	$ 133,290	$ 422,089	$ 232,219	$ 51,077	$ 2,585,765

The carrying amounts of leased assets were as follows:

	Millions of Yen				
Leased assets	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Total
Balance at January 1, 2017	¥ —	¥ 3,924	¥ 791	¥ 1,644	¥ 6,359
Balance at December 31, 2017	1,387	3,150	655	1,578	6,770
Balance at December 31, 2018	1,275	2,622	237	1,535	5,670

	Thousands of U.S. Dollars				
Leased assets	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Land	Total
Balance at December 31, 2018	$ 11,485	$ 23,621	$ 2,139	$ 13,833	$ 51,077

Depreciation of property, plant and equipment is included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of profit or loss.

13. GOODWILL AND INTANGIBLE ASSETS

1. Changes

Changes in the cost, accumulated amortization, and accumulated impairment losses and carrying amounts of goodwill and intangible assets were as follows:

	Millions of Yen					
Cost	Goodwill	Customer related	Trademark right	Software	Others	Total
Balance at January 1, 2017	¥ 90,835	¥ 29,503	¥ 15,322	¥ 4,786	¥ 7,339	¥ 147,785
Individual acquisition	—	—	—	1,415	11	1,425
Acquisition through business combinations	—	—	—	1	3	4
Sale or disposal	—	—	—	(24)	(9)	(33)
Exchange differences on translating foreign operations	(2,721)	(879)	(471)	26	(41)	(4,087)
Others	—	—	—	(351)	77	(274)
Balance at December 31, 2017	¥ 88,114	¥ 28,624	¥ 14,850	¥ 5,852	¥ 7,380	¥ 144,819
Individual acquisition	—	—	—	1,317	10	1,326
Sale or disposal	—	—	—	(79)	(2)	(81)
Exchange differences on translating foreign operations	(1,560)	(504)	(270)	(66)	(66)	(2,465)
Others	—	—	13	50	(1)	62
Balance at December 31, 2018	¥ 86,554	¥ 28,120	¥ 14,593	¥ 7,075	¥ 7,320	¥ 143,661

	Thousands of U.S. Dollars					
Cost	Goodwill	Customer related	Trademark right	Software	Others	Total
Balance at December 31, 2017	$ 793,816	$ 257,870	$ 133,787	$ 52,721	$ 66,484	$ 1,304,679
Individual acquisition	—	—	—	11,861	86	11,948
Sale or disposal	—	—	—	(708)	(18)	(727)
Exchange differences on translating foreign operations	(14,050)	(4,539)	(2,431)	(591)	(596)	(22,208)
Others	—	—	113	453	(11)	555
Balance at December 31, 2018	$ 779,766	$ 253,331	$ 131,469	$ 63,736	$ 65,945	$ 1,294,247

	Millions of Yen					
Accumulated amortization and accumulated impairment losses	Goodwill	Customer related	Trademark right	Software	Others	Total
Balance at January 1, 2017	¥ —	¥ (1,197)	¥ (92)	¥ (731)	¥ (1,681)	¥ (3,701)
Amortization	—	(2,221)	(74)	(730)	(719)	(3,744)
Sale or disposal	—	—	—	24	—	24
Exchange differences on translating foreign operations	—	21	14	(21)	(11)	4
Others	—	—	—	417	(22)	395
Balance at December 31, 2017	¥ —	¥ (3,397)	¥ (152)	¥ (1,041)	¥ (2,432)	¥ (7,022)
Amortization	—	(2,172)	(74)	(1,031)	(723)	(3,999)
Impairment losses	—	—	—	(16)	—	(16)
Sale or disposal	—	—	—	78	0	78
Exchange differences on translating foreign operations	—	49	10	47	17	122
Others	—	—	—	278	5	284
Balance at December 31, 2018	¥ —	¥ (5,520)	¥ (216)	¥ (1,685)	¥ (3,132)	¥ (10,554)

	Thousands of U.S. Dollars					
Accumulated amortization and accumulated impairment losses	Goodwill	Customer related	Trademark right	Software	Others	Total
Balance at December 31, 2017	$ —	$ (30,606)	$ (1,366)	$ (9,380)	$ (21,912)	$ (63,264)
Amortization	—	(19,567)	(664)	(9,291)	(6,509)	(36,031)
Impairment losses	—	—	—	(146)	—	(146)
Sale or disposal	—	—	—	701	2	703
Exchange differences on translating foreign operations	—	440	86	427	151	1,103
Others	—	—	—	2,506	49	2,555
Balance at December 31, 2018	$ —	$ (49,733)	$ (1,944)	$ (15,183)	$ (28,220)	$ (95,080)

Carrying amount	Goodwill	Customer related	Trademark right	Software	Others	Total
	Millions of Yen					
Balance at January 1, 2017	¥ 90,835	¥ 28,306	¥ 15,230	¥ 4,055	¥ 5,659	¥ 144,084
Balance at December 31, 2017	88,114	25,226	14,699	4,811	4,947	137,797
Balance at December 31, 2018	86,554	22,599	14,377	5,389	4,187	133,108

Carrying amount	Goodwill	Customer related	Trademark right	Software	Others	Total
	Thousands of U.S. Dollars					
Balance at December 31, 2018	$ 779,766	$ 203,598	$ 129,526	$ 48,552	$ 37,725	$ 1,199,167

Amortization of intangible assets is included in "Cost of sales" and "Selling, general, and administrative expenses" in the consolidated statement of profit or loss.

2. Intangible Assets with Indefinite Useful Lives

The carrying amounts of intangible assets with indefinite useful lives at the end of the fiscal years ended December 31, 2017 and 2018 were ¥14,387 million and ¥14,132 million ($127,318 thousand), respectively. These assets are trademark rights acquired in business combinations. They were deemed to have indefinite useful lives in the fiscal year ended December 31, 2018 since they will basically survive as long as the business continues.

3. Significant Goodwill and Intangible Assets

Goodwill at the end of the fiscal years ended December 31, 2017 and 2018 was that in ATG, a CGU, whose carrying amounts were ¥88,114 million and ¥86,554 million ($779,766 thousand), respectively.

Significant intangible assets other than goodwill at the end of the fiscal years ended December 31, 2017 and 2018 were related to ATG customers, whose carrying amounts were ¥25,069 million and ¥22,484 million ($202,560 thousand), respectively. The remaining amortization period at the end of the fiscal year ended December 2018 was 11 years.

4. Research and Development Expenses

Research and development expenses recognized in the fiscal years ended December 31, 2017 and 2018 were ¥15,095 million and ¥15,169 million ($136,655 thousand), respectively, which were included in "Cost of sales" and "Selling, general, and administrative expenses" in the consolidated statement of profit or loss.

14. LEASE TRANSACTIONS

1. Present Value of Finance Lease Obligations

The total minimum lease payments under finance lease contracts and their present values were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2018 (December 31, 2018)		2017 (December 31, 2017)		**2018** (December 31, 2018)	
	Total minimum lease payments	Present value	Total minimum lease payments	Present value	Total minimum lease payments	Present value
Within one year	**¥ 1,639**	**¥ 1,544**	¥ 1,790	¥ 1,676	**$ 14,766**	**$ 13,911**
Over one year through five years	**2,584**	**2,332**	3,512	3,196	**23,277**	**21,013**
Over five years	**1,108**	**939**	1,280	1,063	**9,984**	**8,463**
Total	**¥ 5,331**	**¥ 4,816**	¥ 6,582	¥ 5,936	**$ 48,027**	**$ 43,386**
Deduction—future financial cost	**(515)**	**—**	(646)	—	**(4,641)**	**—**
Total present value	**¥ 4,816**	**¥ 4,816**	¥ 5,936	¥ 5,936	**$ 43,386**	**$ 43,386**

Some finance lease contracts have a renewal option, a purchase option, or an escalation clause. There are no significant restrictions imposed by lease contracts (restrictions on additional borrowings or additional leases, etc.).

2. Future Minimum Lease Payments under Noncancelable Operating Leases
The total minimum lease payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Within one year	**¥ 3,366**	¥ 2,737	**$ 30,321**
Over one year through five years	**9,289**	9,620	**83,681**
Over five years	**9,197**	9,798	**82,856**
Total	**¥ 21,851**	¥ 22,156	**$ 196,858**

As a lessee, the Group leases rental buildings, land, fixtures, and other assets under operating leases.

Some lease contracts have a renewal option, a purchase option, or an escalation clause. There are no significant restrictions imposed by lease contracts (restrictions on additional borrowings or additional leases, etc.).

3. Minimum Lease Payments
Total minimum lease payments under operating leases which were recognized as an expense in the fiscal years ended December 31, 2017 and 2018 were ¥5,224 million and ¥5,595 million ($50,410 thousand), respectively.

15. IMPAIRMENT OF NON-FINANCIAL ASSETS
1. Impairment Losses
Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

Non-financial assets are grouped by the smallest CGU that generates cash inflows that are largely independent. The recognition of impairment losses on idle assets is determined by individual assets.

Impairment losses were recorded on the following assets in the fiscal year ended December 31, 2017.

			Millions of Yen
Usage	Segment	Type	Amount
Idle assets	Tires	Machinery, equipment, and vehicles	**¥ 330**

			Millions of Yen
Usage	Segment	Type	Amount
Business assets	MB	Machinery, equipment, and vehicles	**¥ 254**

The Tires segment reduced the carrying amounts of idle assets with no prospects for future use to recoverable amounts and recorded a reduction of ¥330 million as impairment losses in “Other expenses” in the consolidated statement of profit or loss. The recoverable amounts of the assets are measured at value in use, which is zero.

As a result of careful examinations of future business plans and recoverability, the MB segment reduced the carrying amounts of relevant property, plant and equipment to recoverable amounts and recorded a reduction of ¥254 million as impairment losses in “Other expenses” in the consolidated statement of profit or loss. The recoverable amounts of the asset group are measured at value in use. Value in use is calculated by discounting estimated future cash flows to the present value at a pre-tax discount rate of 15.0%.

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

Non-financial assets are grouped by the smallest CGU that generates cash inflows that are largely independent. Impairment losses were recorded on the following assets in the fiscal year ended December 31, 2018.

			Millions of Yen	Thousands of U.S. Dollars
Usage	Segment	Type	Amount	Amount
Business assets	Tires	Buildings and structures	**¥ 17**	**$ 157**
		Machinery, equipment, and vehicles	**8,978**	**80,887**
		Tools, furniture, and fixtures	**136**	**1,227**
		Land	**423**	**3,810**
		Construction in progress	**1,644**	**14,811**
		Software	**16**	**146**

Yokohama Tire Manufacturing Mississippi, LLC (USA), the Company's consolidated subsidiary, has not been able to make its business profitable as planned due to delays in its initial plan to commence production. Accordingly, as a result of careful examinations of future business plans and recoverability, the subsidiary reduced the carrying amounts of its non-current assets to recoverable amounts and recorded a reduction of ¥11,215 million ($101,034 thousand) as impairment losses in "Other expenses" in the consolidated statement of profit or loss. The recoverable amounts of the asset group are measured at value in use. Value in use is calculated at ¥8,713 million ($78,495 thousand) by discounting estimated future cash flows, which are based on a management-approved business plan for up to five years, to the present value at a pre-tax discount rate of 11.5%.

2. Impairment Tests on Goodwill and Intangible Assets with Indefinite Useful Lives

The Group performs impairment tests on goodwill and intangible assets with indefinite useful lives at least once a year and whenever there is an indication that an asset may be impaired.

Recoverable amounts used for impairment tests on goodwill and intangible assets with indefinite useful lives are calculated based on value in use.

Value in use is calculated by discounting estimated cash flows, which are based on a management-approved business plan and a growth rate, to present value. The plan reflects management's evaluation on the industry's future outlook and past results, and the growth rate is obtained based on published figures.

Major assumptions used as the basis of calculation of value in use are as follows:

- Long-term average growth rate of the market to which the CGU belongs used to extend cash flow forecasts
  Fiscal year ended December 31, 2018: 2.1% to 4.0%, Fiscal year ended December 31, 2017: 2.0% to 5.0%
- Pre-tax discount rate applied to cash flow forecasts (calculated based on a weighted-average cost of capital)
  Fiscal year ended December 31, 2018: 10.0%, Fiscal year ended December 31, 2017: 9.3%

Concerning the goodwill and intangible assets with indefinite useful lives, since the CGU sufficiently exceeds the carrying amount, the Group considers that the recoverable amount of the CGU is unlikely to fall below the carrying amount even if the major assumptions change within a reasonable range.

16. INCOME TAXES

1. Income Taxes

The breakdown of income taxes recognized through profit or loss is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Current tax expense	**¥ 12,917**	¥ 12,091	**$ 116,365**
Deferred tax expense	**332**	1,962	**2,995**
Total	**¥ 13,249**	¥ 14,052	**$ 119,360**

Deferred tax expense includes expenses arising from valuation losses on deferred tax assets and the reversal of valuation losses recorded in prior fiscal years.

In the US, a tax reform act was enacted on December 22, 2017 to reduce the federal corporate income tax rate from January 1, 2018. Accordingly, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities for the fiscal year ended December 31, 2017 was changed to that based on the amended federal corporate income tax rate of 21%. As a result of this change in the tax rate, deferred tax expense for the fiscal year ended December 31, 2017 decreased by ¥222 million.

2. Reconciliation of Effective Tax Rate

The breakdown of major factors contributing to differences between the statutory effective tax rate and the actual effective tax rate is as follows.

The Company and its domestic subsidiaries were mainly subject to national corporate income tax, inhabitant tax, and enterprise tax, which, in aggregate, would result in the statutory effective tax rate of 30.5% for the fiscal years ended December 31, 2017 and 2018.

The overseas subsidiaries were subject to local corporate and other taxes.

	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)
Statutory effective tax rate	**30.5 %**	30.5 %
(Reconciliation)		
Difference between statutory effective tax rates of overseas consolidated subsidiaries	**(5.1)**	(2.6)
Permanently nondeductible expenses	**0.7**	0.7
Permanently nontaxable income	**(0.5)**	(0.4)
Tax deduction for research and development	**(1.7)**	(0.2)
Effect of recoverability assessment of deferred tax assets	**1.6**	0.1
Reduction of year-end deferred tax assets due to tax system revisions	**—**	(0.4)
Effect of organizational restructuring	**(1.7)**	(0.5)
Others	**2.7**	(1.6)
Average actual effective tax rate	**26.5 %**	25.6 %

3. Deferred Tax Assets and Deferred Tax Liabilities

The major breakdown of deferred tax assets and deferred tax liabilities is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Deferred tax assets			
Liabilities for retirement benefits	**¥ 11,739**	¥ 10,036	**$ 105,760**
Unrealized gains	**2,751**	3,588	**24,785**
Tax loss carryforwards and tax credit carryforwards	**2,381**	3,221	**21,448**
Accrued expenses	**1,766**	1,549	**15,910**
Valuation loss on inventories	**1,153**	1,397	**10,392**
Impairment losses	**3,131**	522	**28,210**
Others	**5,573**	7,955	**50,207**
Total deferred tax assets	**28,495**	28,269	**256,712**
Deferred tax liabilities			
Intangible assets identified as a result of business combinations	**(19,856)**	(21,239)	**(178,884)**
Liabilities for pension and severance payments	**(4,993)**	(4,993)	**(44,981)**
Gain on receipt of stock set by pension plan	**(1,581)**	(1,581)	**(14,243)**
Reserve for advanced depreciation of non-current assets	**(1,546)**	(1,357)	**(13,929)**
Non-current assets	**(4,205)**	(6,374)	**(37,884)**
Unrealized gains on securities	**(14,298)**	(22,406)	**(128,813)**
Others	**(6,327)**	(3,963)	**(57,000)**
Total deferred tax liabilities	**(52,807)**	(61,914)	**(475,734)**
Net deferred tax assets (liabilities)	**¥ (24,311)**	¥ (33,645)	**$ (219,022)**

Net deferred tax assets and net deferred tax liabilities are included in the following items in the consolidated statement of financial position.

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Deferred tax assets	**¥ 6,169**	¥ 5,387	**$ 55,580**
Deferred tax liabilities	**(30,481)**	(39,032)	**(274,601)**

The Group recognized deferred tax assets by taking into account taxable temporary differences, the estimation of taxable profit, and tax planning.

Deductible temporary differences, tax loss carryforwards, and tax credit carryforwards for which deferred tax assets were not recognized were as follows.

The amounts of deductible temporary differences, tax loss carryforwards, and tax credit carryforwards are on a tax amount basis multiplied by the effective tax rate.

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Deductible temporary differences	**¥ 7,125**	¥ 6,850	**$ 64,188**
Tax loss carryforwards and tax credit carryforwards	**5,613**	9,786	**50,564**

The tax loss carryforwards and tax credit carryforwards for which deferred tax assets were not recognized will expire as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
First year	**¥ 19**	¥ —	**$ 167**
Second year	**—**	15	**—**
Third year	**—**	27	**—**
Fourth year	**36**	177	**321**
Fifth year and after	**5,558**	9,567	**50,076**
Indeterminate	**—**	—	**—**
Total	**¥ 5,613**	¥ 9,786	**$ 50,564**

Total taxable temporary differences associated with investments in subsidiaries, etc. for which deferred tax liabilities were not recognized in the fiscal years ended December 31, 2017 and 2018 were ¥7,738 million and ¥8,942 million ($80,555 thousand), respectively.

Deferred tax liabilities were not recognized for these temporary differences because the Group was able to control the timing of reversal of the temporary differences and it was probable that the temporary differences would not be reversed in the foreseeable future.

In the fiscal years ended December 31, 2017 and 2018, dividend payouts from the Group to shareholders had no impact on income taxes.

17. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Accounts and notes payable-trade	**¥ 71,220**	¥ 68,162	**$ 641,626**
Others	**12,656**	14,099	**114,014**
Total	**¥ 83,876**	¥ 82,260	**$ 755,639**

Trade and other payables are classified as financial liabilities measured at amortized cost.

18. BONDS AND BORROWINGS

1. The Breakdown of Bonds and Borrowings Is as Follows:

	Millions of Yen		Thousands of U.S. Dollars		
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)	Average interest rate	Repayment period
Short-term borrowings	**¥ 30,841**	¥ 41,536	**$ 277,844**	1.21 %	
Commercial paper	**—**	—	**—**		
Current portion of bonds (Note)	**9,000**	—	**81,081**		
Current portion of long-term borrowings	**51,881**	21,220	**467,394**	0.58	
Bonds (Note)	**40,893**	49,851	**368,403**		
Long-term borrowings	**127,773**	202,947	**1,151,106**	0.54	2020 - 2026
Total	**260,387**	315,554	**2,345,829**	—	—
Current liabilities	**91,721**	62,756	**826,320**		
Non-current liabilities	**168,666**	252,798	**1,519,509**		
Total	**¥ 260,387**	¥ 315,554	**$ 2,345,829**		

Bonds and borrowings are classified as financial liabilities measured at amortized cost.

The Company's borrowings at December 31, 2017 and 2018 include those under syndicated loan agreements (total agreement amount: $720 million and ¥54,240 million ($488,649 thousand), respectively) concluded with the counterparty banks on June 30, 2016.

Those agreements are subject to the following financial covenants:

- From the fiscal year ended December 31, 2016, net assets recorded on the consolidated statement of financial position at the end of each fiscal year must be maintained at a designated level or higher on a year-on-year basis.
- From the fiscal year ended December 31, 2016, the Company must not record operating losses on the consolidated statement of profit or loss for two consecutive years.

The Company's borrowings at December 31, 2018 include those under syndicated loan agreements (total agreement amount: ¥5,000 million ($45,045 thousand)) concluded with the counterparty banks on December 10, 2018.

Those agreements are subject to the following financial covenants:

- From the fiscal year ended December 31, 2018, net assets recorded on the consolidated statement of financial position at the end of each fiscal year must be maintained at a designated level or higher on a year-on-year basis.
- From the fiscal year ended December 31, 2017, the Company must not record operating losses on the consolidated statement of profit or loss for two consecutive years.

Note:

The summary of the terms for issuing bonds is as follows:

			Millions of Yen		Thousands of U.S. Dollars			
Company name	Trading name	Issuance date	**2018** (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)	Interest rate	Collateral	Maturity date
The Company	Ninth series of unsecured bonds	October 31, 2013	**¥ 9,987**	¥ 9,979	**$ 89,970**	0.509%	Unsecured	October 30, 2020
The Company	Tenth series of unsecured bonds	October 31, 2014	**9,980**	9,973	**89,908**	0.355	Unsecured	October 29, 2021
The Company	Eleventh series of unsecured bonds	October 30, 2015	**11,968**	11,960	**107,820**	0.381	Unsecured	October 28, 2022
The Company	Twelfth series of unsecured bonds	December 9, 2016	**8,988**	8,975	**80,972**	0.001	Unsecured	December 9, 2019
The Company	Thirteenth series of unsecured bonds	December 9, 2016	**8,970**	8,964	**80,814**	0.250	Unsecured	December 8, 2023
Total	—	—	**¥ 49,893**	¥ 49,851	**$ 449,484**	—	—	—

2. Assets Pledged as Collateral and Corresponding Liabilities Were as Follows:

(1) Assets Pledged as Collateral

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Cash and cash equivalents	**¥ 453**	¥ 509	**$ 4,079**
Trade and other receivables	**12,146**	16,745	**109,425**
Inventories	**11,597**	16,529	**104,475**
Other current assets	**3,423**	3,091	**30,838**
Property, plant and equipment	**19,992**	15,506	**180,105**
Intangible assets	**—**	1,285	**—**
Other non-current assets	**43**	228	**383**
Other financial assets	**—**	—	**—**
Total	**¥ 47,653**	¥ 53,893	**$ 429,305**

(2) Liabilities Corresponding to Assets Pledged as Collateral

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Short-term borrowings	**¥ 1,548**	¥ 5,585	**$ 13,945**
Current portion of long-term borrowings	**—**	—	**—**
Long-term borrowings	**—**	—	**—**
Total	**¥ 1,548**	¥ 5,585	**$ 13,945**

19. OTHER FINANCIAL LIABILITIES

The breakdown of other financial liabilities is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Non-derivative financial liabilities measured at amortized cost			
Lease obligations	**¥ 4,816**	¥ 5,936	**$ 43,386**
Others	**18,039**	18,190	**162,511**
Derivative liabilities	**1,518**	1,094	**13,673**
Total	**24,372**	25,220	**219,571**
Current liabilities	**16,110**	16,758	**145,133**
Non-current liabilities	**8,263**	8,461	**74,438**
Total	**¥ 24,372**	¥ 25,220	**$ 219,571**

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss (except those to which hedge accounting is applied).

20. EMPLOYEE BENEFITS

1. Outline of Defined Benefit Plans

The Company, its domestic consolidated subsidiaries, and some of its overseas consolidated subsidiaries have adopted defined retirement benefit plans to cover employee retirement benefits.

In addition to the above plans, the Company and some of its consolidated subsidiaries have defined contribution pension plans.

The Group has mainly adopted lump-sum retirement benefit plans as defined retirement benefit plans. Under lump-sum retirement benefit plans, the source of funds is not saved externally but lump-sum benefits are paid to employees when they retire or voluntarily resign. Lump-sum retirement benefits are paid based on retirement benefit regulations under the Work Rules. Moreover, the Group has established a retirement benefit trust for the payment of lump-sum retirement benefits.

Some of the consolidated subsidiaries in the US have adopted post-retirement medical benefit plans. Post-retirement medical benefit plans are included in liabilities for retirement benefits as they have similar features to those of post-retirement benefits.

2. Defined Benefit Plans

(1) Breakdown of Liabilities or Assets for Retirement Benefits

Reconciliation of defined benefit obligations and plan assets, and liabilities or assets for retirement benefits in the consolidated statement of financial position is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Defined benefit obligations	**¥ 59,812**	¥ 61,244	**$ 538,849**
Plan assets	**(42,557)**	(48,039)	**(383,393)**
Net liabilities (assets) for retirement benefits presented in the consolidated statement of financial position	**17,256**	13,205	**155,456**
Amounts presented in the consolidated statement of financial position			
Liabilities for retirement benefits	**17,256**	15,541	**155,456**
Assets for retirement benefits	**—**	2,336	**—**

Assets for retirement benefits are included in “Other non-current assets” in the consolidated statement of financial position.

(2) Defined Benefit Obligations

Changes in defined benefit obligations were as follows:

	Millions of Yen	
	Defined benefit plans	Post-retirement medical benefits
At January 1, 2017	¥ 51,254	¥ 6,474
Current service cost	2,742	178
Interest cost	834	228
Changes through remeasurements		
Actuarial losses (gains) arising from changes in demographic assumptions	(122)	(134)
Actuarial losses (gains) arising from changes in financial assumptions	1,640	365
Actuarial losses (gains) arising from other factors	520	769
Benefits paid	(2,401)	(785)
Exchange differences on translating foreign operations, etc.	(541)	64
Effect of business combinations and disposals	161	—
At December 31, 2017	¥ 54,086	¥ 7,158
Current service cost	3,042	129
Interest cost	852	222
Changes through remeasurements		
Actuarial losses (gains) arising from changes in demographic assumptions	(67)	(4)
Actuarial losses (gains) arising from changes in financial assumptions	(1,929)	(565)
Actuarial losses (gains) arising from other factors	275	539
Benefits paid	(2,139)	(1,023)
Past service cost (gains)	—	(326)
Exchange differences on translating foreign operations, etc.	(460)	20
At December 31, 2018	¥ 53,662	¥ 6,150

	Thousands of U.S. Dollars	
	Defined benefit plans	Post-retirement medical benefits
At December 31, 2017	$ 487,262	$ 64,487
Current service cost	27,408	1,167
Interest cost	7,678	2,001
Changes through remeasurements		
Actuarial losses (gains) arising from changes in demographic assumptions	(600)	(37)
Actuarial losses (gains) arising from changes in financial assumptions	(17,375)	(5,093)
Actuarial losses (gains) arising from other factors	2,482	4,855
Benefits paid	(19,272)	(9,214)
Past service cost (gains)	—	(2,939)
Exchange differences on translating foreign operations, etc.	(4,140)	180
At December 31, 2018	$ 483,442	$ 55,407

The weighted-average duration of defined benefit obligations was as follows:

	Years	
	2018 (December 31, 2018)	2017 (December 31, 2017)
Weighted-average duration	**11.8**	12.4

(3) Plan Assets

Changes in plan assets were as follows:

	Millions of Yen	
	Defined benefit plans	Post-retirement medical benefits
At January 1, 2017	¥ 43,805	¥ —
Interest income	803	—
Changes through remeasurements		
Return on plan assets (excluding interest income)	4,212	—
Contributions from employer	785	—
Benefits paid	(1,081)	—
Exchange differences on translating foreign operations, etc.	(549)	—
Effect of business combinations and disposals	64	—
At December 31, 2017	¥ 48,039	¥ —
Interest income	814	—
Changes through remeasurements		
Return on plan assets (excluding interest income)	(5,501)	—
Contributions from employer	610	—
Benefits paid	(980)	—
Exchange differences on translating foreign operations, etc.	(426)	—
At December 31, 2018	¥ 42,557	¥ —

	Thousands of U.S. Dollars	
	Defined benefit plans	Post-retirement medical benefits
At December 31, 2017	$ 432,787	$ —
Interest income	7,334	—
Changes through remeasurements		
Return on plan assets (excluding interest income)	(49,557)	—
Contributions from employer	5,495	—
Benefits paid	(8,826)	—
Exchange differences on translating foreign operations, etc.	(3,839)	—
At December 31, 2018	$ 383,393	$ —

The asset management policies relating to domestic and overseas plans of the Company and its consolidated subsidiaries have been prepared in order to optimize total return from a medium- and long-term perspective under risks accepted to secure future benefits for employees.

The Group will contribute ¥1,023 million to defined benefit plans in the fiscal year ending December 31, 2019.

(4) Major Components of Plan Assets

The major components of total plan assets are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2018 (December 31, 2018)			2017 (December 31, 2017)			**2018** (December 31, 2018)		
	With quoted prices in active markets	Without quoted prices in active markets	Total	With quoted prices in active markets	Without quoted prices in active markets	Total	With quoted prices in active markets	Without quoted prices in active markets	Total
Cash and deposits	**¥ 4,187**	**¥ —**	**¥ 4,187**	¥ 3,203	¥ —	¥ 3,203	**$ 37,719**	**$ —**	**$ 37,719**
Equity financial instruments									
Domestic equity securities	**20,109**	**—**	**20,109**	25,037	—	25,037	**181,166**	**—**	**181,166**
Foreign equity securities	**2,461**	**—**	**2,461**	2,906	—	2,906	**22,168**	**—**	**22,168**
Debt instruments									
Foreign bonds	**15,454**	**—**	**15,454**	16,534	—	16,534	**139,224**	**—**	**139,224**
Others	**2**	**343**	**346**	—	360	360	**22**	**3,094**	**3,116**
Total	**¥ 42,213**	**¥ 343**	**¥ 42,557**	¥ 47,680	¥ 360	¥ 48,039	**$ 380,300**	**$ 3,094**	**$ 383,393**

(5) Items Related to Actuarial Assumptions

Major actuarial assumptions were as follows:

	2018 (December 31, 2018)	2017 (December 31, 2017)
Discount rate (weighted-average)	**2.2 %**	2.0 %

In addition to the above item, actuarial assumptions include expected salary increase rates, mortality rates, and expected retirement rates.

Note:

The sensitivity of defined benefit obligations for each fiscal year against changes in major assumptions is as follows. It assumes that the other variables are constant, but in reality the assumptions do not always change independently. Negative figures represent decreases in defined benefit obligations, and positive figures represent increases in defined benefit obligations.

		Millions of Yen		Thousands of U.S. Dollars
	Changes in assumptions	**2018** (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Discount rate	0.5% increase	**¥ (3,253)**	¥ (3,516)	**$ (29,311)**
	0.5% decrease	**3,523**	3,832	**31,741**

3. Defined Contribution Pension Plans

Contributions to defined contribution pension plans for the fiscal years ended December 31, 2017 and 2018 were ¥1,602 million and ¥1,413 million ($12,732 thousand), respectively.

4. Employee Benefit Expenses

Employee benefit expenses included in the consolidated statement of profit or loss for the fiscal years ended December 31, 2017 and 2018 were ¥140,366 million and ¥145,785 million ($1,313,379 thousand), respectively.

They are recorded in “Cost of sales” and “Selling, general, and administrative expenses.”

21. EQUITY AND OTHER EQUITY ITEMS

1. Share Capital

(1) Number of Authorized Shares

Authorized shares of common stock as of December 31, 2017 and 2018 were 400,000,000.

(2) Number of Issued Shares (Fully Paid-in)

Changes in the number of issued shares were as follows:

	Thousands of Shares	Millions of Yen	
	Number of issued shares	Share capital	Share premium
January 1, 2017	169,549	¥ 38,909	¥ 31,055
Changes	—	—	3
2017 (December 31, 2017)	169,549	38,909	31,058
Changes	—	—	60
2018 (December 31, 2018)	169,549	¥ 38,909	¥ 31,118

	Thousands of Shares	Thousands of U.S. Dollars	
	Number of issued shares	Share capital	Share premium
2017 (December 31, 2017)	169,549	$ 350,533	$ 279,803
Changes	—	—	539
2018 (December 31, 2018)	169,549	$ 350,533	$ 280,343

All shares issued by the Company are no-par common stock without any limitation on the rights.

2. Treasury Shares

Changes in the number of treasury shares were as follows:

	Thousands of Shares	Millions of Yen
	Number of shares	Amount
January 1, 2017	9,209	¥ 12,114
Changes	2	5
2017 (December 31, 2017)	9,211	12,119
Changes	(60)	(78)
2018 (December 31, 2018)	9,150	¥ 12,041

	Thousands of Shares	Thousands of U.S. Dollars
	Number of shares	Amount
2017 (December 31, 2017)	9,211	$ 109,179
Changes	(60)	(703)
2018 (December 31, 2018)	9,150	$ 108,476

The number of treasury shares decreased due to disposal associated with payment of restricted stock compensation.

3. Share Premium and Retained Earnings

(1) Share Premium

The Companies Act of Japan prescribes that at least one-half of the payment or delivery relating to the issuance of equity financial instruments must be incorporated into share capital and the remaining amount must be incorporated into legal capital surplus.

In addition, legal capital surplus may be incorporated into share capital by resolution of a general meeting of shareholders.

(2) Retained Earnings

Retained earnings consist of legal retained earnings and other surpluses.

The Companies Act prescribes that one-tenth of the amount to be distributed as dividends from retained earnings must be set aside as legal capital surplus or legal retained earnings until the total amount of legal capital surplus or legal retained earnings reaches one-fourth of share capital. In addition, legal retained earnings may be reversed by resolution of a general meeting of shareholders.

22. DIVIDENDS

1. Dividends Paid

Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

Resolution	Class of stock	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
March 30, 2017 General Meeting of Shareholders	Common stock	¥ 4,169	¥ 26	December 31, 2016	March 31, 2017
August 10, 2017 Board of Directors meeting	Common stock	¥ 4,971	¥ 31	June 30, 2017	August 31, 2017

Note:
Dividends per share of ¥31 resolved at the August 10, 2017 Board of Directors meeting include ¥5 to commemorate the Company's hundredth anniversary.

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

Resolution	Class of stock	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
March 29, 2018 General Meeting of Shareholders	Common stock	**¥ 4,970**	**¥ 31**	December 31, 2017	March 30, 2018
August 10, 2018 Board of Directors meeting	Common stock	**¥ 4,972**	**¥ 31**	June 30, 2018	August 31, 2018

Resolution	Class of stock	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
March 29, 2018 General Meeting of Shareholders	Common stock	**$ 44,779**	**$ 0.28**	December 31, 2017	March 30, 2018
August 10, 2018 Board of Directors meeting	Common stock	**$ 44,796**	**$ 0.28**	June 30, 2018	August 31, 2018

2. Dividend Plans for Common Stock

Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

Resolution	Class of stock	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
March 29, 2018 General Meeting of Shareholders	Common stock	Retained earnings	**¥ 4,970**	**¥ 31**	December 31, 2017	March 30, 2018

Note:
Dividends per share of ¥31 resolved at the March 29, 2018 general meeting of shareholders include ¥5 to commemorate the Company's hundredth anniversary.

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

Resolution	Class of stock	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
March 28, 2019 General Meeting of Shareholders	Common stock	Retained earnings	**¥ 4,972**	**¥ 31**	December 31, 2018	March 29, 2019

Resolution	Class of stock	Source of dividends	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
March 28, 2019 General Meeting of Shareholders	Common stock	Retained earnings	**$ 44,796**	**$ 0.28**	December 31, 2018	March 29, 2019

23. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The breakdown of selling, general, and administrative expenses is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Employee benefit expenses	**¥ 58,131**	¥ 55,976	**$ 523,700**
Freightage and warehousing expenses	**36,818**	36,156	**331,695**
Advertising and promotion expenses	**19,807**	20,173	**178,439**
Others	**41,729**	42,468	**375,937**
Total	**¥ 156,485**	¥ 154,773	**$ 1,409,772**

24. OTHER INCOME

The breakdown of other income is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Gain on sales of non-current assets	**¥ 851**	¥ 1,093	**$ 7,667**
Others (Note)	**7,538**	3,033	**67,911**
Total	**¥ 8,389**	¥ 4,126	**$ 75,578**

Note:

"Others" for 2018 include insurance income arising in connection with a loss arising from a fire that occurred at the Company's consolidated subsidiary Yokohama Tire Philippines, Inc. on Sunday, May 14, 2017.

25. OTHER EXPENSES

The breakdown of other expenses is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Loss on sales and retirement of non-current assets	**¥ 504**	¥ 793	**$ 4,544**
Impairment losses	**11,215**	584	**101,034**
Loss arising from fire	**—**	4,176	**—**
Others	**2,449**	2,614	**22,061**
Total	**¥ 14,168**	¥ 8,168	**$ 127,639**

26. FINANCE INCOME AND FINANCE COSTS

1. The Breakdown of Finance Income Is as Follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Interest income			
Financial assets measured at amortized cost	**¥ 433**	¥ 528	**$ 3,905**
Dividend income			
Equity financial assets measured at fair value through other comprehensive income	**2,603**	2,543	**23,449**
Foreign exchange gains	**—**	2,443	**—**
Gain on valuation of derivatives	**—**	—	**—**
Others	**(1)**	11	**(6)**
Total	**¥ 3,036**	¥ 5,525	**$ 27,349**

2. The Breakdown of Finance Costs Is as Follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Interest expenses			
Financial liabilities measured at amortized cost	**¥ 2,994**	¥ 3,245	**$ 26,970**
Foreign exchange losses	**2,556**	—	**23,028**
Loss on valuation of derivatives	**880**	1,538	**7,925**
Others	**143**	75	**1,292**
Total	**¥ 6,573**	¥ 4,858	**$ 59,214**

27. OTHER COMPREHENSIVE INCOME

The breakdown of amounts recognized in other comprehensive income, amounts reclassified to profit or loss, and tax effects are as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Exchange differences on translating foreign operations			
Amount recognized	**¥ (11,337)**	¥ (1,966)	**$ (102,133)**
Before tax effects	**(11,337)**	(1,966)	**(102,133)**
Exchange differences on translating foreign operations	**(11,337)**	(1,966)	**(102,133)**
Cash flow hedges			
Amount recognized	**3,616**	(421)	**32,576**
Amount reclassified	**(1,955)**	(818)	**(17,615)**
Before tax effects	**1,661**	(1,238)	**14,961**
Tax effects	**(428)**	201	**(3,857)**
Cash flow hedges	**1,233**	(1,038)	**11,104**
Gains (losses) on financial assets measured at fair value through other comprehensive income			
Amount recognized	**(27,085)**	19,665	**(244,010)**
Before tax effects	**(27,085)**	19,665	**(244,010)**
Tax effects	**8,240**	(6,214)	**74,235**
Gains (losses) on financial assets measured at fair value through other comprehensive income	**(18,845)**	13,451	**(169,775)**
Remeasurements of defined benefit plans			
Amount recognized	**(3,751)**	1,176	**(33,789)**
Before tax effects	**(3,751)**	1,176	**(33,789)**
Tax effects	**1,189**	(1,737)	**10,713**
Remeasurements of defined benefit plans	**(2,561)**	(561)	**(23,076)**
Total			
Amount recognized	**(38,556)**	18,455	**(347,355)**
Amount reclassified	**(1,955)**	(818)	**(17,615)**
Before tax effects	**(40,512)**	17,637	**(364,970)**
Tax effects	**9,001**	(7,750)	**81,091**
Other comprehensive income	**(31,511)**	9,887	**(283,879)**

28. EARNINGS PER SHARE

	Yen		U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Basic earnings per share	**¥ 222.12**	¥ 249.32	**$ 2.00**

Note:

The basis of calculation of basic earnings per share is as follows:

	Millions of Yen (unless otherwise stated)		Thousands of U.S. Dollars (unless otherwise stated)
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Profit for the year attributable to owners of the parent	**¥ 35,623**	¥ 39,975	**$ 320,929**
Weighted-average number of common stock (Thousands of Shares)	**160,375**	160,339	**160,375**

Diluted earnings per share are not presented because there are no potential shares.

29. SHARE-BASED PAYMENT

1. Outline of Stock Compensation Plan

From the fiscal year ended December 31, 2018, the Group introduced a restricted stock compensation plan for the members of the Board excluding outside members (hereinafter the "Directors") to share with other shareholders the merits and risks of share price fluctuations, thereby further increasing their incentive to raise the stock price and enhance corporate value. This plan provides for the payment of monetary compensation receivables required for the allotment of restricted shares as compensation to the Directors, and each Director will then make an in-kind investment of all such monetary compensation receivables in return for the receipt of said shares.

The Company will conclude a restricted share allotment agreement with the Directors. Directors to whom restricted shares have been allotted may not transfer the shares to third parties, establish a pledge or a security interest on the shares, use them as an inter vivos gift, bequest them to another party or otherwise dispose of the allotted shares (hereinafter the "Transfer Restrictions") for a period of between five and 30 years, as specified by the Company's Board of Directors (hereinafter the "Transfer Restriction Period"). The Transfer Restrictions are removed on the transfer of all shares allotted to a Director upon conclusion of the Transfer Restriction Period if the holder of the shares has been a member of the Board, an officer or an employee of the Company continuously from the initial day of the Transfer Restriction Period until the day of the first subsequent Ordinary General Meeting of Shareholders. On the other hand, the Company may reacquire the allotted shares free of charge in cases where the Transfer Restrictions have not been removed at the expiration of the Transfer Restriction Period.

2. Number of Shares Granted during the Year and Fair Value

	Yen (unless otherwise stated)		U.S. Dollars (unless otherwise stated)
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Grant date	**May 25, 2018**	—	**May 25, 2018**
Number of shares granted (Shares)	**61,802**	—	**61,802**
Fair value at grant date	**¥ 2,589**	¥ —	**$ 23.32**

3. Expenses related to Share-based Payments

Expenses related to share-based payments were ¥120 million ($1,081 thousand) for the fiscal year ended December 31, 2018, which were included in "Selling, general, and administrative expenses" in the consolidated statement of profit or loss.

30. SUPPLEMENTARY INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

1. Acquisition of Subsidiaries

Information on the acquisition of subsidiaries is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Consideration for the acquisition of subsidiaries	**¥ —**	¥ 3,085	**$ —**
Share of cash and cash equivalents in consideration	**—**	3,085	**—**
Cash and cash equivalents included in assets acquired	**—**	732	**—**
Total assets acquired (including cash and cash equivalents)		6,171	
Total liabilities assumed	**¥ —**	¥ 2,909	**$ —**

Significant business combinations are presented in 32. "BUSINESS COMBINATIONS."

2. Reconciliation of Financing Activity Items

Changes in liabilities arising from financing activities were as follows:

Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

	Millions of Yen					
	Balance at January 1, 2017	Cash flows	Non-cash changes			Balance at December 31, 2017
			Acquisition	New leases	Others	
Short-term borrowings	¥ 41,554	¥ 123	¥ 150	¥ —	¥ (291)	¥ 41,536
Long-term borrowings	244,549	(17,063)	280	—	(3,599)	224,167
Bonds	49,810	—	—	—	41	49,851
Lease obligations	5,411	(1,678)	3	2,159	40	5,936
Financial liabilities	¥ 341,324	¥ (18,618)	¥ 433	¥ 2,159	¥ (3,809)	¥ 321,490

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

	Millions of Yen					
	Balance at January 1, 2018	Cash flows	Non-cash changes			Balance at December 31, 2018
			Acquisition	New leases	Others	
Short-term borrowings	¥ 41,536	¥ (10,314)	¥ —	¥ —	¥ (381)	¥ 30,841
Long-term borrowings	224,167	(42,886)	—	—	(1,628)	179,654
Bonds	49,851	—	—	—	41	49,893
Lease obligations	5,936	(1,732)	—	588	24	4,816
Financial liabilities	¥ 321,490	¥ (54,932)	¥ —	¥ 588	¥ (1,943)	¥ 265,203

	Thousands of U.S. Dollars					
	Balance at January 1, 2018	Cash flows	Non-cash changes			Balance at December 31, 2018
			Acquisition	New leases	Others	
Short-term borrowings	$ 374,195	$ (92,919)	$ —	$ —	$ (3,432)	$ 277,844
Long-term borrowings	2,019,521	(386,358)	—	—	(14,663)	1,618,501
Bonds	449,112	—	—	—	372	449,484
Lease obligations	53,477	(15,607)	—	5,300	216	43,386
Financial liabilities	$ 2,896,305	$ (494,883)	$ —	$ 5,300	$ (17,507)	$ 2,389,215

31. FINANCIAL INSTRUMENTS

1. Capital Management

In order to realize the Group's sustainable growth and enhancement of corporate value, the Group's capital management aims to improve capital efficiency to secure sufficient capital for the growth of its core business.

The Group monitors, as indicators related to capital management, debt to equity ratio (D/E ratio) and return on equity (ROE) attributable to owners of the parent.

2. Basic Policies on Financial Risk Management

The Group is exposed to financial risks in the course of conducting business activities. To avoid or reduce such risks, the Group practices risk management based on prescribed policies.

The Group conducts derivative transactions only for actual demand and not for speculative purposes.

3. Credit Risk

(1) Credit Risk Management and Maximum Exposure to Credit Risk

Trade receivables such as notes and accounts receivables held by the Group are exposed to customer credit risk. For such credit risk, the Group monitors creditworthiness of main counterparties on a regular basis and manages due dates and outstanding balances of each counterparty. In addition, efforts are made to promptly identify and reduce the risk of uncollectibility due to deterioration of financial position of counterparties or other reasons. The Group's consolidated subsidiaries also manage credit risk in accordance with the internal policies for managing receivables.

The Group is not exposed to credit risk that is significantly concentrated on any particular counterparty.

The maximum exposure to the credit risk of financial assets is the carrying amount after impairment of the financial assets presented in the consolidated statement of financial position.

(2) Credit Risk Management Practices

The Group recognizes allowance for doubtful receivables on financial assets classified as measured at amortized cost. In recognizing and measuring the allowance for doubtful receivables, the Group categorizes financial assets into three stages based on whether there has been a significant increase in the credit risk and whether the financial asset has been credit-impaired.

Stage 1: There is no indication of a significant increase in credit risk.
Stage 2: There is an indication of a significant increase in credit risk, but no indication of credit impairment.
Stage 3: A significant increase in credit risk and credit impairment are both apparent.

A significant increase in credit risk refers to a significant increase in the risk of default occurring at the end of the fiscal year compared to the initial recognition. The Group determines whether there is a significant increase in credit risk mainly based on the principal and interest payment in arrears for over 30 days, in light of the economic conditions of the industry to which the debtor belongs and the possibility of future changes in debtor’s solvency.

The Group determines that a default has been triggered when events occur, such as significant financial difficulties of the debtor or issuer and the principal and interest payment in arrears.

If it is determined that the default is occurring, an objective evidence of credit impairment is considered to exist, and such financial assets are classified as credit-impaired financial assets.

Irrespective of the above three stages, when it is reasonably determined that all or part of a financial asset is not collectable, such as in the case of financial assets legally being extinguished, the carrying amount of the financial asset is directly written off.

In estimating allowance for doubtful receivables, expected credit losses of trade receivables are measured on a collective basis, and each group company individually sets its own grouping or sub-grouping of credit losses.

In measuring the 12-month and lifetime expected credit losses, the Group uses reasonable and supportable information that is available without undue cost or effort at the end of the fiscal year about past events, current conditions and forecasts of future economic conditions.

In measuring the expected credit losses on a collective basis, the actual rate of default from the past experiences may be used.

(3) Changes in Allowance for Doubtful Receivables

Changes in allowance for doubtful receivables are as follows:

	Millions of Yen							
	2018 (From January 1, 2018 to December 31, 2018)				2017 (From January 1, 2017 to December 31, 2017)			
	Allowance for doubtful receivables for financial instruments other than trade and other receivables (12-month expected credit loss)	Allowance for doubtful receivables for trade and other receivables (Lifetime expected credit loss)	Allowance for doubtful receivables for financial instruments for which credit risk has increased significantly (Lifetime expected credit loss)	Allowance for doubtful receivables for financial instruments that are credit-impaired (Lifetime expected credit loss)	Allowance for doubtful receivables for financial instruments other than trade and other receivables (12-month expected credit loss)	Allowance for doubtful receivables for trade and other receivables (Lifetime expected credit loss)	Allowance for doubtful receivables for financial instruments for which credit risk has increased significantly (Lifetime expected credit loss)	Allowance for doubtful receivables for financial instruments that are credit-impaired (Lifetime expected credit loss)
Beginning balance	**¥ —**	**¥ 1,405**	**¥ 662**	**¥ 1,436**	¥ —	¥ 479	¥ 540	¥ 1,443
Provision (Note)	**—**	**84**	**110**	**59**	—	177	19	66
Utilization through write-off	**—**	**(18)**	**—**	**—**	—	(15)	—	(16)
Reversal (Note)	**—**	**(157)**	**(35)**	**(57)**	—	(130)	(23)	(79)
Other	**—**	**51**	**(28)**	**(280)**	—	894	125	23
Ending balance	**¥ —**	**¥ 1,365**	**¥ 710**	**¥ 1,158**	¥ —	¥ 1,405	¥ 662	¥ 1,436

	Thousands of U.S. Dollars			
	2018 (From January 1, 2018 to December 31, 2018)			
	Allowance for doubtful receivables for financial instruments other than trade and other receivables (12-month expected credit loss)	Allowance for doubtful receivables for trade and other receivables (Lifetime expected credit loss)	Allowance for doubtful receivables for financial instruments for which credit risk has increased significantly (Lifetime expected credit loss)	Allowance for doubtful receivables for financial instruments that are credit-impaired (Lifetime expected credit loss)
Beginning balance	**$ —**	**$ 12,660**	**$ 5,967**	**$ 12,938**
Provision (Note)	**—**	**753**	**988**	**528**
Utilization through write-off	**—**	**(158)**	**—**	**—**
Reversal (Note)	**—**	**(1,414)**	**(314)**	**(514)**
Other	**—**	**460**	**(249)**	**(2,524)**
Ending balance	**$ —**	**$ 12,300**	**$ 6,392**	**$ 10,429**

Note:
Provision and reversal of allowance for doubtful receivables for trade and other receivables (lifetime expected credit loss) are due to an increase or decrease in trade and other receivables mainly as a result of sale and collection of those assets.

(4) Carrying Amount of Financial Instruments related to Allowance for Doubtful Receivables
The carrying amount (before allowance for doubtful receivables) of financial instruments related to allowance for doubtful receivables is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Financial instruments other than trade and other receivables (12-month expected credit loss)	**¥ 7,500**	¥ 11,069	**$ 67,568**
Trade and other receivables (Lifetime expected credit loss)	**170,945**	182,533	**1,540,048**
Financial instruments for which credit risk has increased significantly (Lifetime expected credit loss)	**1,184**	1,255	**10,664**
Credit-impaired financial instruments (Lifetime expected credit loss)	**1,176**	1,490	**10,591**

(5) Analysis of Credit Risk
Below is the aged analysis of trade and other receivables.

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
30 days or less past due	**¥ 10,703**	¥ 7,495	**$ 96,428**
Over 30 days to 60 days or less past due	**2,671**	1,151	**24,060**
Over 60 days to 90 days or less past due	**808**	558	**7,280**
Over 90 days past due	**2,657**	3,213	**23,936**
Total	**¥ 16,839**	¥ 12,417	**$ 151,704**

With regard to financial instruments related to allowance for doubtful receivables other than trade and other receivables, there is no concentration of credit risk on any particular rating.

4. Liquidity Risk

(1) Liquidity Risk Management

The Group raises funds mainly through borrowings from banks and issuance of bonds. Therefore, the Group is exposed to liquidity risk, where the deterioration in the financing environment and other reasons may hinder the Group from fulfilling its obligations to make payments by the due date.

To manage liquidity risk within the Group, the Company's finance department creates and updates cash plans as necessary, based on information obtained from the departments and major consolidated subsidiaries of the Company. At the same time, the Company constantly monitors the operating environment to maintain and ensure appropriate liquidity in hand in response to changing conditions.

(2) Balance of Financial Liabilities (including Derivative Financial Instruments) by Settlement Date

The balance of financial liabilities (including derivative financial instruments) by settlement date is as follows:

Fiscal Year Ended December 31, 2017 (December 31, 2017)

	Millions of Yen							
	Carrying amount	Contractual cash flows	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	¥ 82,260	¥ 82,260	¥ 82,260	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds and borrowings	315,554	321,359	64,851	66,045	46,103	41,658	30,851	71,852
Lease obligations	5,936	6,582	1,790	1,507	1,208	582	215	1,280
Subtotal	403,750	410,202	148,901	67,552	47,310	42,240	31,066	73,132
Derivative financial liabilities	1,094	1,094	707	178	157	53	—	—
Total	¥ 404,844	¥ 411,296	¥ 149,608	¥ 67,729	¥ 47,467	¥ 42,293	¥ 31,066	¥ 73,132

Fiscal Year Ended December 31, 2018 (December 31, 2018)

	Millions of Yen							
	Carrying amount	Contractual cash flows	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	**¥ 83,876**	**¥ 83,876**	**¥ 83,876**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Bonds and borrowings	**260,387**	**263,559**	**92,823**	**33,928**	**40,588**	**27,332**	**23,288**	**45,600**
Lease obligations	**4,816**	**5,846**	**1,734**	**1,414**	**772**	**393**	**257**	**1,277**
Subtotal	**349,079**	**353,281**	**178,433**	**35,342**	**41,360**	**27,724**	**23,545**	**46,877**
Derivative financial liabilities	**1,518**	**1,518**	**404**	**221**	**172**	**144**	**144**	**432**
Total	**¥ 350,597**	**¥ 354,799**	**¥ 178,837**	**¥ 35,564**	**¥ 41,532**	**¥ 27,868**	**¥ 23,689**	**¥ 47,309**

	Thousands of U.S. Dollars							
	Carrying amount	Contractual cash flows	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	**$ 755,639**	**$ 755,639**	**$ 755,639**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Bonds and borrowings	**2,345,829**	**2,374,408**	**836,241**	**305,660**	**365,658**	**246,231**	**209,804**	**410,814**
Lease obligations	**43,386**	**52,668**	**15,621**	**12,738**	**6,952**	**3,539**	**2,313**	**11,505**
Subtotal	**3,144,854**	**3,182,715**	**1,607,501**	**318,399**	**372,610**	**249,770**	**212,116**	**422,319**
Derivative financial liabilities	**13,673**	**13,673**	**3,642**	**1,994**	**1,551**	**1,297**	**1,297**	**3,892**
Total	**$ 3,158,528**	**$ 3,196,389**	**$ 1,611,144**	**$ 320,392**	**$ 374,160**	**$ 251,067**	**$ 213,413**	**$ 426,211**

5. Foreign Exchange Risk

(1) Foreign Exchange Risk Management

The Group operates businesses globally and therefore is involved in foreign currency transactions. Foreign currency receivables and payables arising from those transactions are exposed to foreign exchange fluctuation risk.

The Group's foreign exchange risk arises mainly from the fluctuation of the U.S. Dollar and the Euro. The Company and its certain consolidated subsidiaries assess foreign exchange fluctuation risk of trade receivables and payables denominated in foreign currencies for each currency every month, and hedge part of the risk by using forward foreign exchange contracts and currency options.

(2) Foreign Exchange Sensitivity Analysis

For financial instruments held by the Group at the end of each fiscal year, the effects of a 1% increase in Japanese yen against the U.S. Dollar and the Euro on profit before tax are as follows. All other variables are assumed to be constant.

		Millions of Yen		Thousands of U.S. Dollars
	Currency	**2018** (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Effects on profit before tax	U.S. Dollar	**¥ 2**	¥ 77	**$ 14**
	Euro	**(80)**	(41)	**(720)**

6. Interest Rate Risk

(1) Interest Rate Risk Management

The Group is exposed to interest rate risk from variable interest rates on some of the interest-bearing liabilities assumed by the Group.

The Group uses interest rate swaps to reduce the risk of fluctuation in the interest rates on borrowings.

(2) Interest Rate Sensitivity Analysis

For interest-bearing liabilities with variable interest rates assumed by the Group at the end of each fiscal year, the effects of a 1% increase in the interest rate on profit before tax are as follows. All other variables are assumed to be constant.

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Effects on profit before tax	**¥ (480)**	¥ (829)	**$ (4,328)**

7. Share Price Fluctuation Risk

(1) Share Price Fluctuation Risk Management

The Group holds shares in other listed companies with which the Group has business relationships for certain purposes, such as reinforcing sales foundations. Thus, the Group is exposed to the share price fluctuation risk of equity financial instruments.

For these equity financial instruments, the Group monitors the share prices and financial position of issuers on a regular basis and reviews its shareholdings on an ongoing basis by considering the relationship with the issuer of the equity instruments.

(2) Share Price Fluctuation Sensitivity Analysis

For equity financial assets (shares) in active markets held by the Group at the end of each fiscal year, if all quoted prices are assumed to decrease by 1% at the end of the fiscal year, the effects on other comprehensive income (before tax) are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Effects on other comprehensive income (before tax)	**¥ (791)**	¥ (1,057)	**$ (7,123)**

8. Carrying Amount and Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments are as follows.

Financial assets and financial liabilities measured at amortized cost other than bonds and long-term borrowings are not included below as their fair value approximates their carrying amount.

Financial instruments measured at fair value on a recurring basis are also not included below as their fair value is equivalent to their carrying amount.

Financial liabilities measured at amortized cost are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2018 (December 31, 2018)		2017 (December 31, 2017)		**2018** (December 31, 2018)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	**¥ 179,654**	**¥ 179,351**	¥ 224,167	¥ 213,573	**$ 1,618,501**	**$ 1,615,772**
Bonds (Note)	**49,893**	**49,811**	49,851	49,370	**449,484**	**448,752**

Note:
The balance due within one year is included.

The fair value of long-term borrowings and bonds is determined by discounting each obligation classified by term using a rate that takes into account time to maturity and credit risk.

The fair value hierarchy of long-term borrowings and bonds is categorized within Level 3.

9. Fair Value Hierarchy of Financial Instruments

Financial instruments measured at fair value on a recurring basis after the initial recognition are categorized into three levels of the fair value hierarchy depending on the observability and significance of inputs used for the fair value measurement.

Each level of fair value hierarchy is defined as follows:

Level 1: Fair values measured at quoted prices in active markets
Level 2: Fair values measured using direct or indirect observable inputs other than those of Level 1
Level 3: Fair values measured using unobservable inputs

When two or more inputs are used for the measurement of fair value, the level of fair value is determined based on the lowest level input that is significant to the entire measurement.

Transfers between the levels of the fair value hierarchy are recognized as if they have occurred at the beginning of each quarterly period.

There were no transfers between Level 1, Level 2 and Level 3 during the fiscal years ended December 31, 2017 and 2018.

Assets measured at fair value on a recurring basis are follows:

2017 (December 31, 2017)

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Non-derivative financial assets measured at fair value through profit or loss				
Other	¥ —	¥ 256	¥ —	¥ 256
Non-derivative financial assets measured at fair value through other comprehensive income				
Shares	105,710	—	3,595	109,305
Other	—	—	623	623
Derivative assets	2	853	—	855
Total	¥ 105,712	¥ 1,108	¥ 4,218	¥ 111,039
Financial liabilities				
Derivative liabilities	—	1,094	—	1,094
Total	¥ —	¥ 1,094	¥ —	¥ 1,094

2018 (December 31, 2018)

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Non-derivative financial assets measured at fair value through profit or loss				
Other	¥	¥ 257	¥	¥ 257
Non-derivative financial assets measured at fair value through other comprehensive income				
Shares	79,063	—	3,490	82,553
Other	—	—	892	892
Derivative assets	39	2,113	—	2,152
Total	¥ 79,102	¥ 2,370	¥ 4,382	¥ 85,853
Financial liabilities				
Derivative liabilities	1	1,517	—	1,518
Total	¥ 1	¥ 1,517	¥ —	¥ 1,518

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Financial assets				
Non-derivative financial assets measured at fair value through profit or loss				
Other	$	$ 2,313	$	$ 2,313
Non-derivative financial assets measured at fair value through other comprehensive income				
Shares	712,279	—	31,444	743,723
Other	—	—	8,032	8,032
Derivative assets	348	19,037	—	19,385
Total	$ 712,627	$ 21,350	$ 39,476	$ 773,453
Financial liabilities				
Derivative liabilities	9	13,664	—	13,673
Total	$ 9	$ 13,664	$ —	$ 13,673

The fair value of shares that have an active market is determined based on market prices, and therefore is categorized within Level 1. When the fair value of shares that do not have an active market is measured at the amount which is determined using significant unobservable inputs through methods including the comparable peer company analysis, it is categorized within Level 3.

Certain derivative assets and derivative liabilities including forward foreign exchange contracts and interest rate swaps are not traded in an active market. Their fair value is determined by making the best use of observable market data to the extent available and does not depend on the Group's own estimation to the extent possible. If all significant inputs are observable, it is categorized within Level 2.

The fair value of non-derivative financial assets categorized within Level 3 is evaluated using price book-value ratio (PBR) under the comparable peer company analysis.

In accordance with the Group's policies and procedures on the valuation of the fair value measurement, the finance department decides the method of evaluating financial instruments under review and measures their fair value.

The results of the fair value measurement are approved by an appropriate person responsible for valuation.

Changes in financial instruments measured at fair value on a recurring basis that are categorized within Level 3 are as follows:

	Millions of Yen	
	Financial assets	Financial liabilities
Balance at January 1, 2017	¥ 7,118	¥ —
Total gains and losses		
Profit or loss (Note 1)	—	—
Other comprehensive income (Note 2)	(254)	—
Purchase	3	—
Sale	(17)	—
Settlement	(10)	—
Transfer to Level 3	—	—
Transfer from Level 3	—	—
Other	(2,622)	—
Balance at December 31, 2017	¥ 4,218	¥ —
Total gains and losses		
Profit or loss (Note 1)	—	—
Other comprehensive income (Note 2)	(369)	—
Purchase	550	—
Sale	(18)	—
Settlement	—	—
Transfer to Level 3	—	—
Transfer from Level 3	—	—
Other	(0)	—
Balance at December 31, 2018	¥ 4,382	¥ —

	Thousands of U.S. Dollars	
	Financial assets	Financial liabilities
Balance at December 31, 2017	$ 37,999	$ —
Total gains and losses		
Profit or loss (Note 1)	—	—
Other comprehensive income (Note 2)	(3,321)	—
Purchase	4,959	—
Sale	(161)	—
Settlement	—	—
Transfer to Level 3	—	—
Transfer from Level 3	—	—
Other	(0)	—
Balance at December 31, 2018	$ 39,476	$ —

Notes:

1. Profit or loss related to financial assets measured at fair value through profit or loss, which is included in finance income and finance costs.
2. Other comprehensive income related to financial assets measured at fair value through other comprehensive income, which is included in "Gains (losses) on financial assets measured at fair value through other comprehensive income."

10. Derivative Transactions and Hedging Activities

Cash flow hedges

The Group primarily designates the following as cash flow hedges: forward foreign exchange contracts and options to fix cash flows of forecast transactions denominated in foreign currencies, interest rate swaps to fix variable interest rates on long-term borrowings, and commodity future contracts and commodity swaps to offset price fluctuations of raw material purchase prices.

The amounts recognized in profit or loss for hedge ineffectiveness and the portion excluded from the assessment of hedge effectiveness are not material for the fiscal years ended December 31, 2017 and 2018.

Changes in the fair value of hedging instruments that are used as a basis for the calculation of hedge ineffectiveness are not material for the fiscal years ended December 31, 2017 and 2018.

(1) Fair Value of Hedging Instruments under Hedge Accounting

The fair value of hedging instruments under hedge accounting by type of hedge is as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2018 (December 31, 2018)		2017 (December 31, 2017)		**2018** (December 31, 2018)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash flow hedges						
Interest rate swaps	**¥ 518**	**¥ 34**	¥ 603	¥ 84	**$ 4,663**	**$ 303**
Forward foreign exchange contracts	**949**	**191**	214	717	**8,546**	**1,717**
Options	**507**	**—**	14	5	**4,565**	**—**
Commodity future contracts	**39**	**1**	2	—	**348**	**9**
Commodity swaps	**3**	**0**	—	—	**23**	**1**
Subtotal	**2,014**	**225**	833	806	**18,146**	**2,030**
Total	**¥ 2,014**	**¥ 225**	¥ 833	¥ 806	**$ 18,146**	**$ 2,030**

In the consolidated statement of financial position, the fair value of assets as hedging instruments is included in "Other financial assets (Current assets)" and "Other financial assets (Non-current assets)," and the fair value of liabilities as hedging instruments is included in "Other financial liabilities (Current liabilities)" and "Other financial liabilities (Non-current liabilities)."

(2) Notional Amount and Average Price of Hedging Instruments under Hedge Accounting

The notional amount and average price of hedging instruments under hedge accounting are as follows:

Type of risk	Type of hedge	Hedging instrument	Notional amount and average price	Millions of Yen **2018** (December 31, 2018) Within 1 year	Over 1 year	2017 (December 31, 2017) Within 1 year	Over 1 year	Thousands of U.S. Dollars **2018** (December 31, 2018) Within 1 year	Over 1 year
Interest rate risk	Cash flow hedge	Pay fixed, receive variable Interest rate swaps	Notional amount	**¥ 7,992**	**¥ 62,944**	¥ 8,136	¥ 78,311	**$ 72,000**	**$ 567,063**
Foreign exchange risk	Cash flow hedge	Short EUR Forward foreign exchange contracts	Notional amount	**4,533**	**—**	18,114	—	**40,840**	**—**
			Average price (USD/EUR)	**1.3**	**—**	1.2	—	**0.01**	**—**
		Long USD Forward foreign exchange contracts	Notional amount	**2,359**	**1,181**	2,312	3,540	**21,254**	**10,636**
			Average price (JPY/USD)	**114.7**	**112.1**	118.1	113.8	**1.03**	**1.01**
		Long ILS Forward foreign exchange contracts	Notional amount	**1,676**	**—**	5,663	—	**15,096**	**—**
			Average price (USD/ILS)	**3.61**	**—**	3.45 - 3.61	—	**0.03**	**—**
		Long INR Forward foreign exchange contracts	Notional amount	**10,525**	**7,992**	5,189	—	**94,820**	**72,000**
			Average price (USD/INR)	**73.0**	**75.7**	67.4	—	**0.66**	**0.68**
		Short EUR call option	Notional amount	**7,542**	**—**	704	—	**67,943**	**—**
		Long ILS put option	Notional amount	**—**	**—**	1,580	—	**—**	**—**
Commodity price risk	Cash flow hedge	Long Natural rubber Commodity future contract	Notional amount	**1,511**	**—**	1,022	—	**13,615**	**—**
			Average price (USD/ton)	**1,274.0**	**—**	1,446.0	—	**11.48**	**—**
		Long Natural rubber Commodity swaps	Notional amount	**1,683**	**—**	—	—	**15,162**	**—**
			Average price (USD/ton)	**1,294.2**	**—**	—	—	**11.66**	**—**

The interest rate swaps that were entered into to fix variable interest payments against interest rate fluctuation risk bear variable interest of 3-month JPY TIBOR and 6-month USD LIBOR, with a fixed payment rate ranging from negative 0.011% to positive 0.54%.

Average prices of the major options are 1.23 to 1.36 USD/EUR.

(3) Changes in Other Components of Equity (Changes in Fair Value of Hedging Instruments)

(i) Interest rate fluctuation risk

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Beginning of the year	**¥ 32**	¥ (479)	**$ 289**
Amount recognized	**1,791**	1,457	**16,137**
Amount reclassified to profit for the year (Note)	**(1,936)**	(946)	**(17,441)**
End of the year	**(113)**	32	**(1,014)**

Note:

The amounts before tax effects are ¥(1,347) million and ¥(1,988) million ($(17,914) thousand) for the fiscal years ended December 31, 2017 and 2018, respectively, and are included in "Finance costs" in the consolidated statement of profit or loss.

(ii) Foreign exchange fluctuation risk

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Beginning of the year	**¥ (488)**	¥ 329	**$ (4,394)**
Amount recognized	**1,367**	(711)	**12,317**
Amount reclassified to profit for the year (Note)	**(3)**	(105)	**(23)**
End of the year	**877**	(488)	**7,900**

Note:

The amounts before tax effects are ¥(122) million and ¥(50) million ($(447) thousand) for the fiscal years ended December 31, 2017 and 2018, respectively, and are included in "Revenue" and "Selling, general, and administrative expenses" in the consolidated statement of profit or loss.

(iii) Commodity price fluctuation risk

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Beginning of the year	**¥ 22**	¥ 754	**$ 200**
Amount recognized	**(40)**	(1,235)	**(359)**
Amount reclassified to profit for the year (Note)	**52**	503	**472**
End of the year	**35**	22	**312**

Note:

The amounts before tax effects are ¥651 million and ¥83 million ($745 thousand) for the fiscal years ended December 31, 2017 and 2018, respectively, and are included in "Cost of sales" in the consolidated statement of profit or loss.

32. BUSINESS COMBINATIONS

Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)
(Organizational restructuring, etc.)

At the December 26, 2017 Board of Directors meeting, the Company resolved to restructure its organization for the purpose of organizing and consolidating Alliance Tire Group's equity relationship by establishing Alliance Tire Group K.K., a subsidiary intended to hold and manage shares of subsidiaries in the ATG segment. The establishment was part of the integration process after the acquisition of Alliance Tire Group in 2016 to ensure the smooth business operation and profitability improvement of group companies.

In the above restructuring, the Company established Alliance Tire Group K.K., a holding company that will replace the previous holding company, Alliance Tire Group B.V. The shares of four business companies, Alliance Tire Company Ltd., ATC Tires Private Ltd., Alliance Tire Europe B.V., and Alliance Tire Americas Inc., all of which were held through Alliance Tire Group's intermediate holding companies, Alliance Tire Holding Ltd. and Turgco Ltd., will be transferred to the new holding company, Alliance Tire Group K.K. The four companies will then be placed under the umbrella of the new holding company to enable integrated management of the subsidiaries.

Moreover, in line with the above restructuring, the Company resolved at its Board of Directors meeting to liquidate four companies, including the previous holding company Alliance Tire Group B.V., the intermediate holding companies, and other companies. Accordingly, the Company's shareholdings in Alliance Tire Group B.V. will be liquidated at the completion of relevant procedures.

Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)
Not applicable.

33. SUBSIDIARIES

1. Major Subsidiaries

The Company's major subsidiaries are as follows:

Name	Location	Ownership percentage of voting rights
Yokohama Tire Japan Co., Ltd.	Tokyo, Japan	90.8 %
Ibaraki Yokohama Tire Sales Co., Ltd.	Mito, Japan	45.0
Niigata Yokohama Tire Co., Ltd.	Niigata, Japan	50.0
Kagoshima Yokohama Tire Co., Ltd.	Kagoshima, Japan	50.0
Okinawa Yokohama Tire Co., Ltd.	Naha, Japan	40.0
Sasson Yokohama Tire Co., Ltd.	Otaru, Japan	50.0
YFC Co., Ltd.	Tokyo, Japan	100.0
Yokohama Tire Retread Co., Ltd.	Onomichi, Japan	100.0
Kameyama Bead Co., Ltd.	Kameyama, Japan	100.0
Aichi Tire Industry Co., Ltd.	Komaki, Japan	100.0
Yokohama Industrial Products Japan Co., Ltd.	Tokyo, Japan	100.0
Yokohama Tire Corporation	California, United States of America	100.0
Yokohama Tire (Canada) Inc.	British Columbia, Canada	100.0
Yokohama Tyre Australia Pty., Ltd.	New South Wales, Australia	100.0
Yokohama Tire Corporation of America	California, United States of America	100.0
Yokohama Tire Corporation of North America	California, United States of America	100.0
Friend Tire Company	Missouri, United States of America	100.0
Yokohama Tire Manufacturing Mississippi, LLC.	Mississippi, United States of America	100.0
Yokohama Tire Manufacturing Virginia LLC.	Virginia, United States of America	100.0
Yokohama Tire Mexico S. de R.L. de C.V.	Guanajuato, Mexico	100.0
Yokohama Reifen GmbH	Düsseldorf, Germany	75.0
Yokohama Europe GmbH	Düsseldorf, Germany	100.0
Yokohama Suisse SA	Payerne, Switzerland	93.8
Yokohama Scandinavia AB	Stockholm, Sweden	51.0
Yokohama Austria GmbH	Vienna, Austria	68.4
Yokohama Denmark A/S	Copenhagen, Denmark	93.8
N.V. Yokohama Belgium S.A.	Lummen, Belgium	66.6
Yokohama H.P.T. Ltd.	Milton Keynes, the United Kingdom	89.0
Yokohama Iberia, S.A.	Madrid, Spain	51.0
Yokohama Tire Sales Philippines, Inc.	Makati City, Philippines	100.0
Yokohama Tire Sales (Thailand) Co., Ltd.	Bangkok, Thailand	100.0
Yokohama Tire Philippines, Inc.	Clark Freeport Zone, Philippines	100.0
Yokohama Tire Taiwan Co., Ltd.	Taipei, Taiwan	70.0
Hangzhou Yokohama Tire Co., Ltd.	Zhejiang, China	100.0
Suzhou Yokohama Tire Co., Ltd.	Jiangsu, China	100.0
Yokohama Tire Manufacturing (Thailand) Co., Ltd.	Rayong, Thailand	100.0
Yokohama Rubber (China) Co., Ltd.	Shanghai, China	100.0
Yokohama Tire Sales (Shanghai) Co., Ltd.	Shanghai, China	100.0
Yokohama Russia L.L.C.	Moscow, Russia	95.9
LLC Yokohama R.P.Z.	Lipetsk, Russia	86.8
Yokohama Tyre Vietnam Inc.	Binh Duong, Vietnam	100.0
Yokohama India Pvt. Ltd.	Haryana, India	100.0
Yokohama Asia Co., Ltd.	Bangkok, Thailand	100.0
Alliance Tire Group K.K.	Tokyo, Japan	100.0
Alliance Tire Company Ltd.	Haifa, Israel	100.0
ATC Tires Private Ltd.	Maharashtra, India	100.0
Alliance Tire Europe B.V.	North Holland, Netherlands	100.0
Alliance Tire Americas Inc.	Massachusetts, United States of America	100.0
Yokohama Industries Americas Ohio Inc.	Ohio, United States of America	100.0
Yokohama Industries Americas Inc.	Kentucky, United States of America	100.0
SC Kingflex Corporation	Taoyuan, Taiwan	49.0
Yokohama Rubber (Thailand) Co., Ltd.	Rayong, Thailand	79.8
Shandong Yokohama Rubber Industrial Products Co., Ltd.	Shandong, China	77.0
Yokohama Aerospace America, Inc.	Washington, United States of America	80.0
Yokohama Industrial Products Europe, GmbH	Düsseldorf, Germany	100.0
Yokohama Industrial Products Sales-Shanghai Co., Ltd.	Shanghai, China	100.0

Name	Location	Ownership percentage of voting rights
Yokohama Industrial Products Asia-Pacific Pte. Ltd.	Singapore	100.0 %
Yokohama Industrial Products-Hangzhou Co., Ltd.	Zhejiang, China	100.0
PT Yokohama Industrial Products Manufacturing Indonesia	Batam, Indonesia	100.0
Yokohama Industrial Products Italy S.r.l.	Abruzzo, Italy	100.0
Yokohama Industries Americas Mexico S. de R.L de C.V.	Aguascalientes, Mexico	100.0
Yokohama Rubber Marine & Aerospace Co., Ltd.	Tokyo, Japan	100.0
Hamagomu Fudousan Co., Ltd.	Tokyo, Japan	100.0
HAMAGOMU AICOM INC.	Yokohama, Japan	100.0
Hamagomu Engineering Co., Ltd.	Hiratsuka, Japan	100.0
PRGR Co., Ltd.	Tokyo, Japan	100.0
Yokohamagomu Finance Co., Ltd.	Tokyo, Japan	100.0
Hamagomu Logistics Co., Ltd.	Tokyo, Japan	100.0
Y.T. Rubber Co., Ltd.	Suratthani, Thailand	90.0
Yokohama Mold Co., Ltd.	Omitama, Japan	100.0
Yokohama Rubber Singapore Pte. Ltd.	Singapore	100.0

2. Subsidiaries with Material Non-controlling Interests

The Group has no subsidiaries with material non-controlling interests or individually material associates.

34. RELATED PARTIES

Remunerations for major executives

Remunerations for major executives of the Group were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (From January 1, 2018 to December 31, 2018)	2017 (From January 1, 2017 to December 31, 2017)	**2018** (From January 1, 2018 to December 31, 2018)
Remunerations and bonuses	**¥ 481**	¥ 645	**$ 4,331**
Retirement benefits	**—**	13	**—**
Share-based payment	**160**	—	**1,441**
Total	**¥ 641**	¥ 657	**$ 5,773**

35. COMMITMENTS

Commitments related to the acquisition of assets at or after the end of each fiscal year are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018 (December 31, 2018)	2017 (December 31, 2017)	**2018** (December 31, 2018)
Agreements on the acquisition of property, plant and equipment and intangible assets	**¥ 9,044**	¥ 5,745	**$ 81,475**

(2) Other

Quarterly information for the fiscal year ended December 31, 2018

	Millions of Yen			
	First three months	First six months	First nine months	Full year
Revenue	¥ 149,157	¥ 309,677	¥ 460,835	¥ 650,239
Profit before tax	12,929	24,575	24,325	49,941
Profit attributable to owners of parent	9,335	17,832	16,265	35,623
Basic earnings per share (Yen)	58.22	111.20	101.42	222.12

	Thousands of U.S. Dollars			
	First three months	First six months	First nine months	Full year
Revenue	$ 1,343,753	$ 2,789,879	$ 4,151,665	$ 5,858,006
Profit before tax	116,474	221,396	219,148	449,917
Profit attributable to owners of parent	84,102	160,648	146,528	320,929
Basic earnings per share (U.S. Dollars)	0.52	1.00	0.91	2.00

	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	¥ 58.22	¥ 52.98	¥ (9.77)	¥ 120.69

	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (U.S. Dollars)	$ 0.52	$ 0.48	$ (0.09)	$ 1.09

REPORT OF INDEPENDENT AUDITORS

Ernst & Young ShinNihon LLC
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Building a better working world

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 statement of financial position at December 31, 2018, and the consolidated statements of profit or loss, comprehensive income, changes in equity, 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 International Financial Reporting Standards, 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, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

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 2.

Ernst & Young ShinNihon LLC

March 28, 2019
Tokyo, Japan

A member firm of Ernst & Young Global Limited

INVESTOR INFORMATION

As of December 31, 2018

Company Name:
The Yokohama Rubber Co., Ltd.

Head Office:
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan

Established:
October 13, 1917

Paid-in Capital:
¥38,909 million

Fiscal Year-End:
December 31 (changed in 2011 from March 31)

General Meeting of Shareholders:
March (changed in 2012 from June)

Transfer Agent:
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

Stock Exchange Listings:
Tokyo, Nagoya

Contact Point for Investors:
Corporate Communications Section, Corporate Planning Department
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan
Phone: 81-(0)3-5400-4531 Facsimile: 81-(0)3-5400-4570

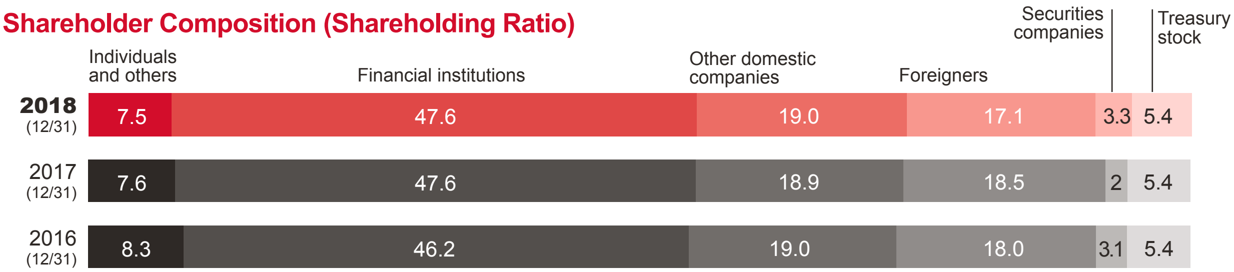
Investor Relations Website:
https://www.y-yokohama.com/global/ir/

STOCK INFORMATION

As of December 31, 2018

Authorized number of shares:	400,000,000
Number of shares issued and outstanding:	169,549,081
Number of shareholders:	12,240, up 47 from December 31, 2017

Shareholder Composition (Shareholding Ratio)



Major Shareholders

Name	Number of shares (hundreds)	Percentage of total shares (%)
The Master Trust Bank of Japan, Ltd. (trust account)	165,955	9.7
ZEON CORPORATION	162,765	9.5
ASAHI MUTUAL LIFE INSURANCE COMPANY	109,055	6.4
Japan Trustee Services Bank, Ltd. (trust account)	105,251	6.2
Mizuho Bank, Ltd.	61,300	3.6

Note: Treasury stock of 91,504 hundred shares has been excluded in preparing the list of major shareholders.

Common Stock Price Trends

	2018	2017	2016	2015	2014
Stock Price (Yen):					
High	¥ 2,899	¥ 2,834	¥ 2,233	¥ 2,640	¥ 1,185
Low	¥ 1,906	¥ 1,939	¥ 1,170	¥ 1,837	¥ 829
Fiscal Year-End	¥ 2,065	¥ 2,763	¥ 2,096	¥ 1,871	¥ 1,105
Shares of Common Stock Issued and Outstanding	169,549,081	169,549,081	169,549,081	169,549,081	342,598,162

Note: A one-for-two share merger conducted on July 1, 2015, halved the number of Yokohama shares outstanding.