As just introduced, I am Goto Matsuo, head of the Corporate Finance & Accounting Dept. Thank you for attending today's results briefing. It is my pleasure to present a summary of our results for the first half of FY2017.

Scope of Consolidation, etc.

YOKOHAMA

Consolidated subsidiaries 138 companies
3 more than at the end of the previous fiscal year

(Breakdown of change)

Japan:	+1 company (Tire), -1 company (Tire)
Asia:	+2 companies (Tire and MB)
North America:	+1 company（MB）

Breakdown of transfers

(Tire +2 new companies)
Aichi Tire Industry Co., Ltd. (Japan/Tire production and sales company)
Yokohama Asia Co., Ltd. (Thailand/Management company)

(Tire -1 company)
(Japan/second-tier domestic tire sales company)

(MB +2 new companies)
Shandong Yokohama Rubber Industrial Products Co., Ltd.
(China/MB production and sales company)
Yokohama Aerospace America Inc. (U.S.A/MB sales company)

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I will start with a simple explanation of our scope of consolidation.

A total of 138 subsidiaries are included in our consolidated accounts for the first half of 2017, 3 more than at the end of the previous fiscal year last December. The details are as shown in this slide.

FY 2017 First-Half Consolidated Results

Next, let’s look at our consolidated results for the first half.

Profit and Loss (First-Half)

Exchange Rates	US$ 112 yen	112 yen (previous year)	+1 yen
	EUR 122 yen	125 yen (previous year)	-3 yen
	RUB 1.9 yen	1.6 yen (previous year)	+0.3 yen
TSR20*	181 cents	127 cents (previous year)	+54 cents
WTI	50 dollars	40 dollars (previous year)	+10 dollars

*SICOM TSR20 1M

(billion yen)

	2017 Jan.–Jun.	2016 Jan.–Jun.	Change	Change (%)	Exchange rate impact	Change excluding impact of exchange rates
Net sales	310.8	268.1	+42.7	+15.9%	+1.1	+41.6
Operating income (Operating income margin)	18.4 (5.9%)	15.7 (5.9%)	+2.6 -	+16.8%	+0.8	+1.8
Ordinary income	19.0	12.4	+6.6	+53.5%	+4.1	+2.5
Profit attributable to owners of parent	11.4	8.2	+3.2	+38.7%		

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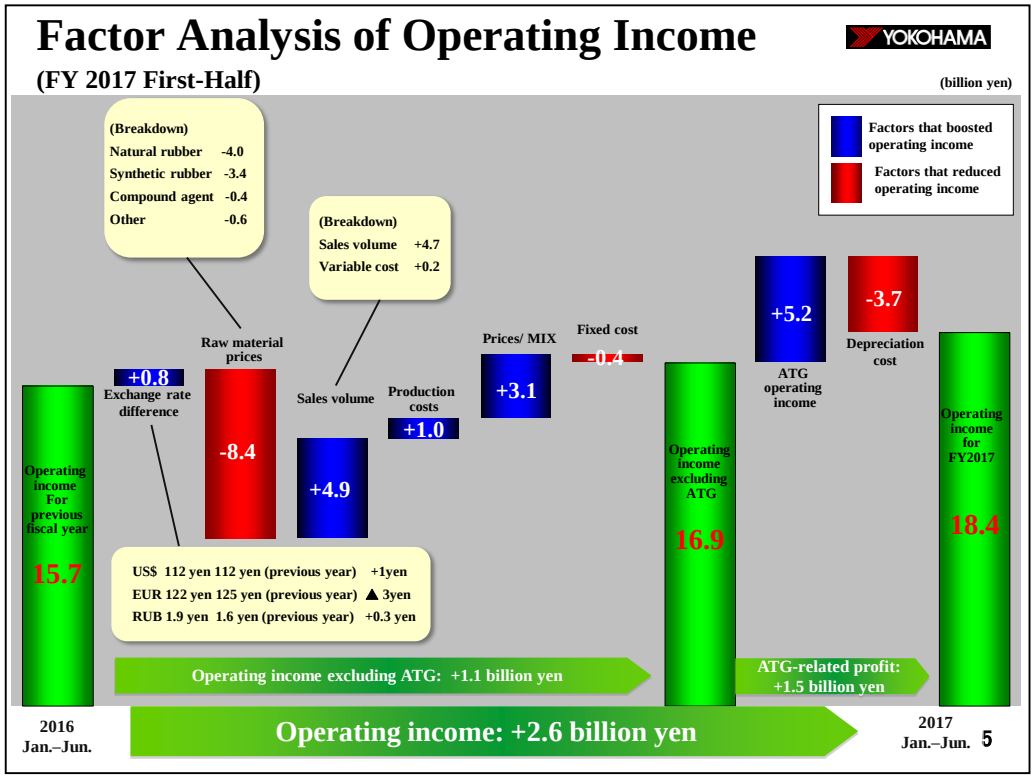
For starters, let's examine the impact of exchange rates and material costs. Our average forex rates in the first half of 2017 were ¥112/USD, a ¥1 depreciation from the first half of 2016; ¥122/EUR, a ¥3 appreciation; and ¥1.9/RUB, a ¥0.3 appreciation. The overall impact of these forex fluctuations, as shown in the second row from the right in the table, was positive, with net sales increased by ¥1.1 billion, operating income by ¥0.8 billion, and ordinary income by ¥4.1 billion. Turning to raw material costs, the average price of natural rubber (TSR20) in the first six months of 2017 was 181 cents, a year-on-year increase of 54 cents. The average crude oil price was $50, $10 more than a year ago. These increases in the prices of key raw materials had an ¥8.4 billion negative impact on profits.

Next, let's look at the main income statement items. Net sales totaled ¥310.8 billion, a year-on-year increase of ¥42.7 billion or 15.9%. I will provide a breakdown a bit later. Operating income came to ¥18.4 billion, up ¥2.6 billion or 16.8%. Ordinary income, at ¥19.0 billion, increased ¥6.6 billion. The main reason for ordinary income being higher than operating income was a ¥3.3 billion increase in nonoperating income as the weaker yen generated foreign currency translation gains. Net income totaled ¥11.4 billion, up ¥3.2 billion despite the posting of a ¥2.2 billion extraordinary loss related to inventory and fixed assets destroyed by the fire that broke out on May 14 at Yokohama Tire Philippines (YTPI).



Next, let's look at the factors that affected operating income. First-half operating income came to ¥18.4 billion, an increase of about ¥2.6 billion from ¥15.7 billion a year ago. Excluding the ¥1.5 billion contribution from ATG, which was consolidated in the second half of last year, pro-forma operating income was up ¥1.1 billion to ¥16.9 billion.

Gains on forex translation boosted profit by ¥0.8 billion, but higher raw material prices shaved ¥8.4 billion from the first-half profits. The higher cost of natural rubber reduced profits by ¥4.0 billion, higher synthetic rubber prices eliminated another ¥3.4 billion, and higher costs for compounding agents and other materials reduced profits by a combined ¥1.0 billion.

Increased sales volumes boosted operating income by ¥4.9 billion, with ¥4.7 billion directly related to higher volumes and another ¥0.2 billion generated by lower freight and other costs.

Lower production costs boosted operating income by ¥1.0 billion. Tire production volume was negatively affected by the fire at YTPI but increased on a rubber-used basis by 5% year on year, but production costs fell as we reduced costs in all areas and increased cost efficiencies.

Product pricing and mix added ¥3.1 billion to profits. We raised product prices during the first half in all regional markets and improved our product mix, especially in Japan's replacement tire market.

Fixed costs had a ¥0.4 billion negative impact, mostly related to an increase in sales promotion expenses.

ATG posted first-half operating income of ¥5.2 billion, but this was partially offset by depreciation and goodwill amortization expenses of ¥3.7 billion, including ¥2.2 billion in goodwill amortization and ¥1.5 billion from depreciation of intangible fixed assets.

Business Segment (First-Half)

YOKOHAMA

(billion yen)

		2017 Jan.–Jun.	2016 Jan.–Jun.	Change	Change (%)	Exchange rate impact	Change excluding impact of exchange rates
Net sales	Tires	221.5	208.2	+13.2	+6.4%	+0.9	+12.3
	MB	55.0	56.3	-1.3	-2.3%	+0.1	-1.4
	High-pressure hoses	22.0	20.8	+1.2	+6.0%		
	Industrial materials	12.9	13.3	-0.4	-2.8%		
	Hamatite	12.3	12.2	+0.1	+0.7%		
	Aircraft fixtures and components	7.8	10.1	-2.2	-22.3%		
	ATG	30.3	–	+30.3	–	–	+30.3
	Other	4.0	3.6	+0.4	+12.1%	–	+0.4
	Total	310.8	268.1	+42.7	+15.9%	+1.1	+41.6
Operating income	Tires	13.1	12.1	+1.1	+8.9%	+0.7	+0.4
	MB	3.2	3.5	-0.3	-7.9%	+0.1	-0.4
	ATG	1.5	–	+1.5	–	–	+1.5
	Other	0.6	0.2	+0.4	+179.5%	–	+0.4
	Intersegment eliminations	-0.1	-0.1	-0	–	–	-0
	Total	18.4	15.7	+2.6	+16.8%	+0.8	+1.8

*The Alliance Tires Group was added to the scope of consolidation starting the three quarters of 2016 (January to September) and ATG was added as a new reporting segment. As a result, there are now three reporting segments—the Tires Segment and the MB Segment - Yokohama Rubber's traditional reporting segments - and ATG.

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Next, let's look at results at each business segment. The Tire Segment increased sales to ¥221.5 billion, a year-on-year gain of ¥13.2 billion, or 6.4%. OE tire sales in Japan fell ¥1.6 billion but domestic sales of replacement tires increased ¥3.2 billion and overseas sales expanded ¥11.6 billion.

The decline in domestic OE tire sales reflects a drop in production volume of cars using our tires, although total domestic vehicle production as a whole was up a solid 13% year on year. The increase in replacement tire sales in Japan reflects a spike in demand ahead of price hikes and sales growth from our higher-value-added brands, such as ADVAN and BluEarth. The strong growth in our overseas sales reflects a rebound in demand in the Russian market, where we expanded sales volume by more than 30%, and continued steady growth in OE sales in China. The MB Segment's sales totaled ¥55.0 billion, ¥1.3 billion or 2.3% less than in the first half last year. High-pressure hose sales increased ¥1.2 billion on a rebound in domestic and overseas demand for hoses used in construction machinery and steady sales of automotive hoses. Sales of our industrial materials slipped ¥0.4 billion, as falling crude oil prices reduced demand for our marine hoses and other marine products. Sales of aircraft fixtures and components declined ¥2.2 billion, with the fall largely due to completion of shipments on a contract for lavatory modules for civilian aircraft. ATG's first-half sales totaled ¥30.3 billion. Although not shown in the slide, as ATG was not yet consolidated in 1H FY2016, the company achieved 2% year-on-year growth in sales despite a decline in demand for its tires used in agricultural machinery, demand for which was in turn curtailed by weak prices of agricultural products.

Turning to operating income, the Tire Segment posted a first-half profit of ¥13.1 billion, a ¥1.1 billion year-on-year gain. The factors boosting Tire Segment profits include a ¥0.7 billion contribution from forex fluctuations, ¥5.1 billion from increased sales volume, ¥2.5 billion from price increases and product mix improvement, and ¥1.1 billion thanks to lower production costs. These positives were partially offset by an ¥8.1 billion increase in costs related to higher material prices and a ¥0.2 billion increase in fixed costs.

The MB Segment reported first-half operating income of ¥3.2 billion, ¥0.3 billion less than a year ago. Forex had a positive impact of ¥0.1 billion while price hikes and product mix improvements pushed up segment profit by ¥0.2 billion. However, these positives were outweighed by the negatives, including a ¥0.3 billion hit from higher raw material prices, ¥0.2 billion from lower sales volumes, and a ¥0.1 billion increase in fixed costs. Although not shown here, ATG achieved more than 10% year-on-year growth in operating income.

Profit and Loss (Quarterly Basis)

YOKOHAMA

Exchange Rates	US$ 114 yen	-2 yen	US$ 111 yen	+3 yen	US$ 112 yen	+1 yen
	EUR 121 yen	-6 yen	EUR 122 yen	+0 yen	EUR 122 yen	-3 yen
	RUB 1.9 yen	+0.4 yen	RUB 1.9 yen	+0.3 yen	RUB 1.9 yen	+0.3 yen
TSR20*	209 cents	+93cents	153 cents	+15 cents	181 cents	+54 cents
WTI	52 dollars	+18 dollars	48 dollars	+3 dollars	50 dollars	+10 dollars

(billion yen)

	2017 Jan.–Mar.	YoY Change	2017 Apr.–Jun.	YoY Change	2017 Jan.–Jun.	YoY Change
Net sales	147.7	+18.4	163.1	+24.3	310.8	+42.7
Operating income (Operating income margin)	9.1 (6.1%)	+2.2 (+0.8%)	9.3 (5.7%)	+0.4 (-0.7%)	18.4 (5.9%)	+2.6 -
Ordinary income	8.8	+3.1	10.2	+3.5	19.0	+6.6
Profit attributable to owners of parent	5.7	+2.0	5.8	+1.1	11.4	+3.2

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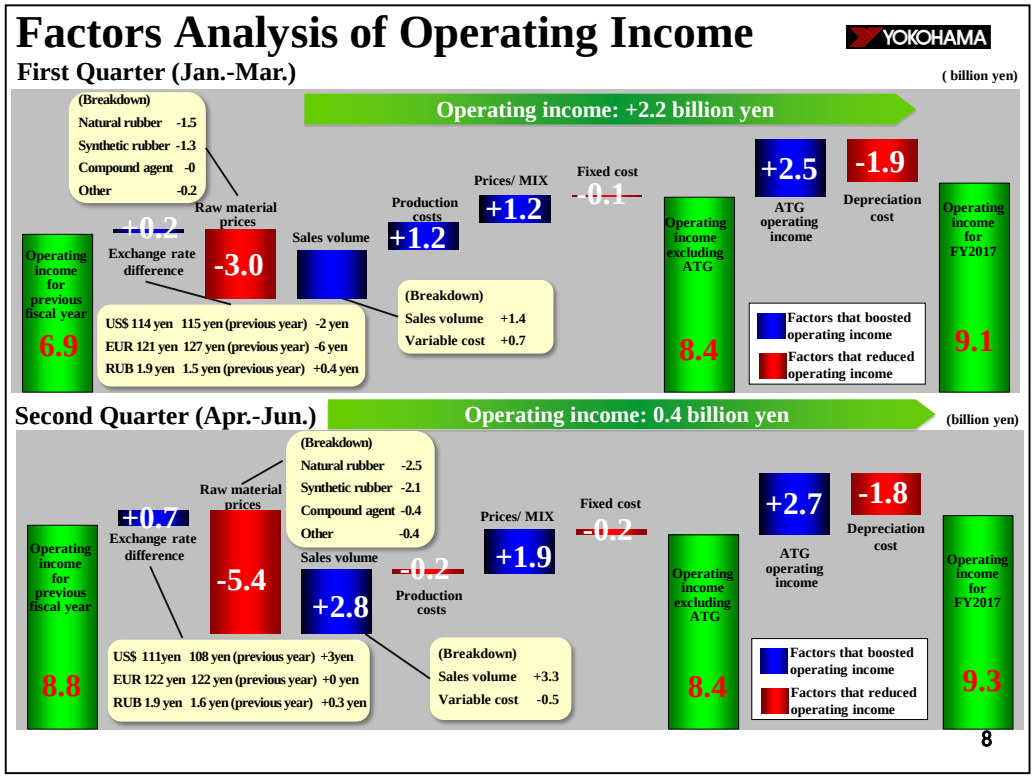
Next let's look at the main income statement items on a quarterly basis. My comments will focus on Apr–Jun data, shown in the middle of the two tables on this slide. Let's look first at the prevailing forex and material price conditions during the quarter.

As shown in the upper table on this slide, the average forex rates for the quarter were ¥111/USD, a ¥3 depreciation from the second quarter of FY2016; ¥122/EUR, largely the same rate that prevailed a year earlier; and ¥1.9/RUB, a ¥0.3 depreciation. Turning to raw material costs, the average price of natural rubber (TSR20) in 2Q 2017 was 153 cents, a year-on-year increase of 15 cents. The average crude oil price was $48, $3 more than a year ago. The increases in raw material prices had a ¥5.4 billion negative impact on 2Q profits.

Now let's look at 2Q results in the lower table on the slide. Net sales totaled ¥163.1 billion, a year-on-year increase of ¥24.3 billion or 17.5%. Operating income came to ¥9.3 billion, up ¥0.4 billion or 4.9%. I'll explain the factors affecting operating income in a moment, using the factor analysis graph on the next slide. Ordinary income for the Apr–Jun totaled ¥10.2 billion, up ¥3.5 billion over the previous year, and net income was ¥5.8 billion, an increase of ¥1.1 billion.



Now let's look at the factors that affected 2Q operating income, as shown in the lower of the two graphs on the slide.

2Q operating income totaled ¥9.3 billion, about a ¥0.4 billion increase from ¥8.8 billion in the same quarter of the previous year. Gross profit was boosted ¥0.7 billion by the weaker yen. Other positive factors include ¥2.8 billion from sales volume and ¥1.9 billion from price hikes and mix improvement. These positives were more than offset by a ¥5.4 billion increase in raw materials costs owing to higher material prices and a ¥0.2 billion increase in fixed costs. ATG contributed ¥2.7 billion to 2Q operating income, with that contribution partially offset by a ¥1.8 billion increase in depreciation and goodwill amortization.

Financial Position

(billion yen)

	Jun. 30, 2017	Dec. 31, 2016	Change
Current assets	340.8	350.4	-9.6
Fixed assets	537.6	552.6	-14.9
Total assets	878.4	903.0	-24.6
Liabilities	525.7	547.9	-22.2
Net assets	352.7	355.0	-2.3
Liabilities and net assets total	878.4	903.0	-24.6
Interest-bearing debt	3.271	336.4	-9.3

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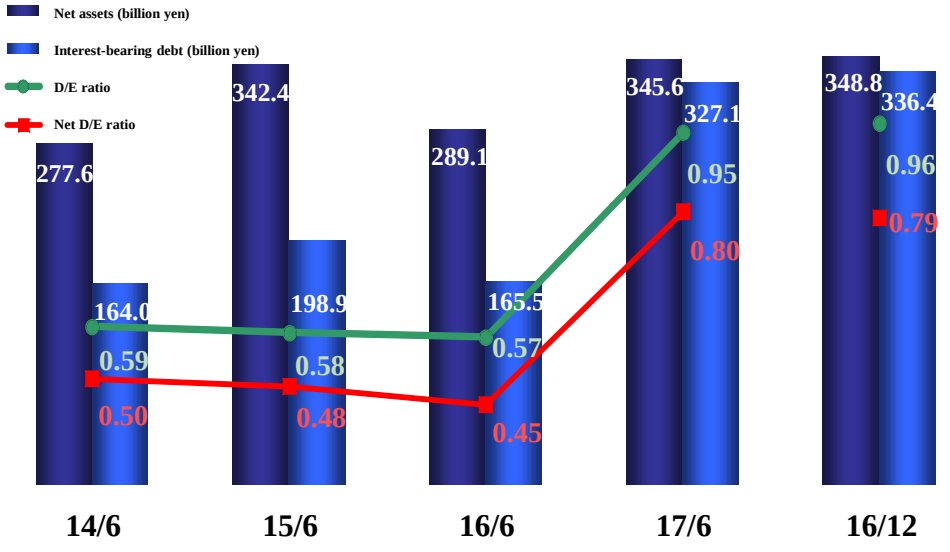
Now let's examine the company's financial condition at the end of June.

Total assets stood at ¥878.4 billion, ¥24.6 billion less than at the end of December, the previous fiscal year. Current assets totaled ¥340.8 billion, down ¥9.6 billion primarily because of a decline in trade receivables following receipt of payment for winter tires from dealers. Fixed assets totaled ¥537.6 billion, down ¥14.9 billion from end-December primarily owing to forex translation valuation losses caused by the yen's appreciation from the level prevailing at end-2016.

Liabilities stood at ¥525.7 billion, down ¥22.2 billion primarily owing to the reduction of interest-bearing debt. Net assets totaled ¥352.7 billion, down ¥2.3 billion owing to shrinkage of the foreign currency translation adjustment account caused by yen appreciation.

Interest-bearing debt amounted to ¥327.1 billion, ¥9.3 billion less than at end-December.

Changes in Interest-bearing Debt, Net Assets, D/E Ratio, and Net D/E Ratio



*Net assets do not include minority interests.

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The D/E ratio at end-June 2017 was 0.95, about a 0.4 point deterioration from June 2016 owing to the increase in interest-bearing debt following the acquisition of ATG. The net D/E ratio, which excludes cash and deposits, was 0.8, indicating continued financial soundness.

Earnings Forecast for FY 2017

I will now present our current earnings forecast for FY2017.

FY2017 Profit and Loss Projections

YOKOHAMA

Exchange Rates	US$ 111 yen	109 yen (previous year)	+2 yen	110 yen (previous forecast)	+1 yen
	EUR 124 yen	120 yen (previous year)	+4 yen	118 yen (previous forecast)	+6 yen
	RUB 1.9 yen	1.6 yen (previous year)	+0.3 yen	1.9 yen (previous forecast)	+0.1 yen
TSR20*	162 cents	138 cents (previous year)	+23 cents	210 cents (previous forecast)	-48 cents
WTI	48 dollars	43 dollars (previous year)	+4 dollars	53 dollars (previous forecast)	-5 dollars

(billion yen)

	Revised forecast	2016 Jan.–Dec.	Change (from previous year)	Change (%)	Previous Forecast (Feb. 20)	Change (from previous forecast)	Change (%)
Net sales	660.0	596.2	+63.8	+10.7%	660.0	-	-
Operating income (Operating income margin)	50.0 (7.6%)	42.3 (7.1%)	+7.7 (+0.5%)	+18.2%	47.5 (7.2%)	+2.5 (+0.4%)	+5.3%
Ordinary income	48.0	39.1	+8.9	+22.7%	43.5	+4.5	+10.3%
Profit attributable to owners of parent	30.0	18.8	+11.2	+59.7%	30.0	-	-

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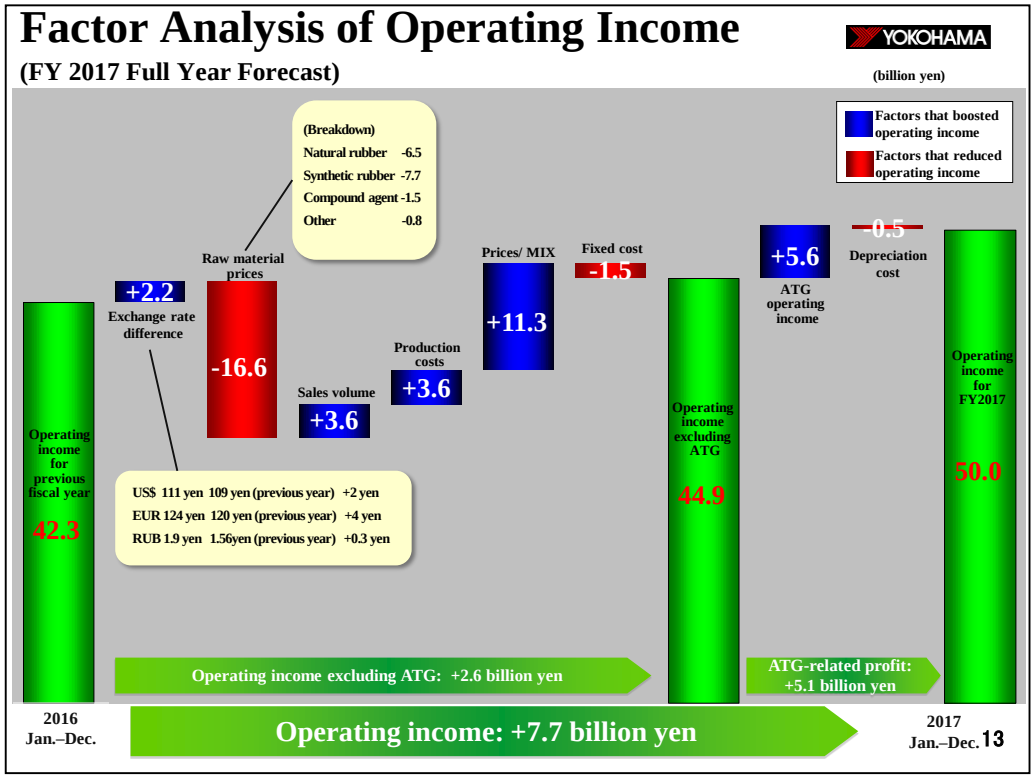
The forex assumptions underlying our full-year forecast are ¥111/USD, ¥124/EUR, and ¥1.9/RUB, with only the JPY/EUR rate changed significantly from our previous announcement. Our forex assumptions for the second half alone ¥110/USD, ¥126/EUR, and ¥1.9/RUB. Our raw material price assumptions are now 162 cents for natural rubber (TSR20) and $48 for crude oil, both more favorable prices than our earlier forecast.

Based on these revised assumptions, we now forecast full-year sales of ¥660.0 billion, operating income of ¥50.0 billion, ordinary income of ¥48.0 billion, and net income of ¥30 billion. Our sales and net income forecasts are unchanged, but we have increased our operating income forecast by ¥2.5billion and our ordinary income forecast by ¥4.5 billion.

The upwardly revised profit forecasts reflect the downward revisions to our raw material price assumptions and the good start we made in the first half. However, we also estimate the fire at YTPI will reduce tire production by about 1.5 million units in FY2017. We are presently taking measures to compensate for the lost output, including transferring production to other plants.

We expect to post losses of about ¥5.0 billion related to fixed assets and inventories destroyed by the fire. However, the nonoperating income/expense balance is looking better than when we made our initial forecast thanks to the strong first half and smaller losses on forex translations. At this point in time, it looks like we will be able to cover the fire-related losses and we therefore have not changed our full-year net income forecast.

We plan to pay a full-year dividend of ¥62 per share, including a ¥10 special dividend commemorating our 100th anniversary year, with equal ¥31 interim and end-of-year distributions.



Next, I will explain the factors behind our full-year operating income forecast.

Our forecast of ¥50.0 billion represents a ¥7.7 billion increase over the FY2016 result of ¥42.3 billion. However, my explanation today will focus on our operating income forecast of ¥44.9 billion after excluding the net ¥5.1 billion positive impact from ATG, which was consolidated in the second half of FY2016.

We expect a positive ¥2.2 billion forex impact but project that higher raw material prices will reduce operating income by ¥16.6 billion. Specifically, we expect to spend ¥6.5 billion more for natural rubber, ¥7.7 billion more for synthetic rubber, and ¥2.3 billion more for compounding agents and other materials. We think greater sales volume will boost income by ¥3.6 billion. Also, we expect our efforts to lower production costs will increase operating income another ¥3.6 billion.

Higher product prices and improved product mix should add another ¥11.3 billion. That projection is based on price hikes and mix improvements made in the first half.

On the negative side, higher fixed costs, including sales promotion expenses, are expected to reduce operating income by ¥1.5 billion.

We expect ATG to contribute ¥5.6 billion to operating income in FY2017, including its 1H profit. ATG-related depreciation expenses, including goodwill amortization, are projected to reduce operating income by ¥0.5 billion, with goodwill amortization of ¥2.2 billion and depreciation of intangible fixed assets of ¥1.5 billion mostly offset by the absence of ¥3.3 billion in acquisition-related expenses recorded in FY2016.

Forecasts for Business Segments (Full-year)

YOKOHAMA

(billion yen)

		Revised forecast	2016 Jan.–Dec.	Change	Change (%)	Previous Forecast (Feb. 20)	Change	Change (%)
Net sales	Tires	475.0	450.6	+24.4	+5.4%	475.0	–	–
	MB	115.0	112.1	+2.9	+2.6%	117.0	-2.0	-1.7%
	ATG	62.0	25.5	+36.5	+143.4%	60.0	+2.0	+3.3%
	Other	8.0	8.0	+0	+0.0%	8.0	–	–
	Total	660.0	596.2	+63.8	+10.7%	660.0	–	–
Operating income	Tires	38.0	36.3	+1.7	+4.6%	36.3	+1.7	+4.7%
	MB	8.0	7.5	+0.5	+6.8%	9.0	-1.0	-11.1%
	ATG	3.0	-2.1	+5.1	–	+1.2	+1.8	+150.0%
	Other	1.0	0.7	+0.3	+42.9%	1.0	–	–
	Intersegment eliminations	-	-0.1	–	–	–	–	–
	Total	50.0	42.3	+7.7	+18.2%	47.5	+2.5	+5.3%

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This slide shows our full-year sales and operating income forecasts for each segment. Our total sales forecast is the same as before. However, we reduced our full-year sales forecast for the MB segment by ¥2.0 billion, mainly owing to a more conservative forecast for sales of marine products at the industrial material business. Meanwhile, we have increased our sales forecast for ATG by the same ¥2.0 billion, reflecting the Segment's strong 1H sales growth.

The ¥2.5 billion upward revision to our full-year operating income forecast includes a ¥1.7 billion increase for the Tire Segment and a ¥1.8 billion increase for ATG, reflecting the increase in our sales forecast. These increases are partially offset by a ¥1.0 billion downward revision to our profit forecast for the MB Segment, again reflecting the change in our sales forecast for the Segment.

(Planned) Voluntary Adoption of IFRS

YOKOHAMA

Voluntary adoption of IFRS for the end-of-year financial statements starting with the fiscal year ending December 31, 2017

- Adoption of IFRS aims to unify accounting practices of group companies throughout the world and standardize financial information.
- This will increase the international comparability of financial information in capital markets.

Impact of the switch on FY2017 consolidated earnings projections
(Same as the figures announced in February 2017)

(billion yen)

	IFRS (trial calculation)	Japanese generally accepted accounting principles	Impact
Net sales	**635.0**	660.0	-25.0
Operating income (Operating profit margin)	**51.0** (8.0%)	50.0 (7.6%)	+1.0 (+0.5%)
Profit attributable to owners of parent	**34.0**	30.0	+4.0

(Planned) disclosure schedule

2017 Q1–Q3: Japanese generally accepted accounting principles
IFRS to be used starting with the end-of-year kessan tanshin (unaudited financial reports) for the fiscal year ending December 31, 2017.

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Lastly, we plan to apply International Financial Reporting Standards (IFRS) starting with the end-of-year financial statements for this fiscal year. Our IFRS-basis forecasts include a ¥5.0 billion charge for losses caused by the fire at YTPI, but this charge is covered by the ¥2.5 billion upward revision to our operating income forecast and improvements in the nonoperating and extraordinary income/expense categories. As a result, our IFRS-basis forecast is unchanged from the start-of-year guidance.

That wraps up my presentation. Thank you for your kind attention.

Cautionary Notes Regarding Forecasts

Forecasts and outlooks included in this material are based on the judgment of the Company's management using currently available information. Actual results and earnings may differ from the forecasts and outlooks included in the material due to various risks and uncertainties.