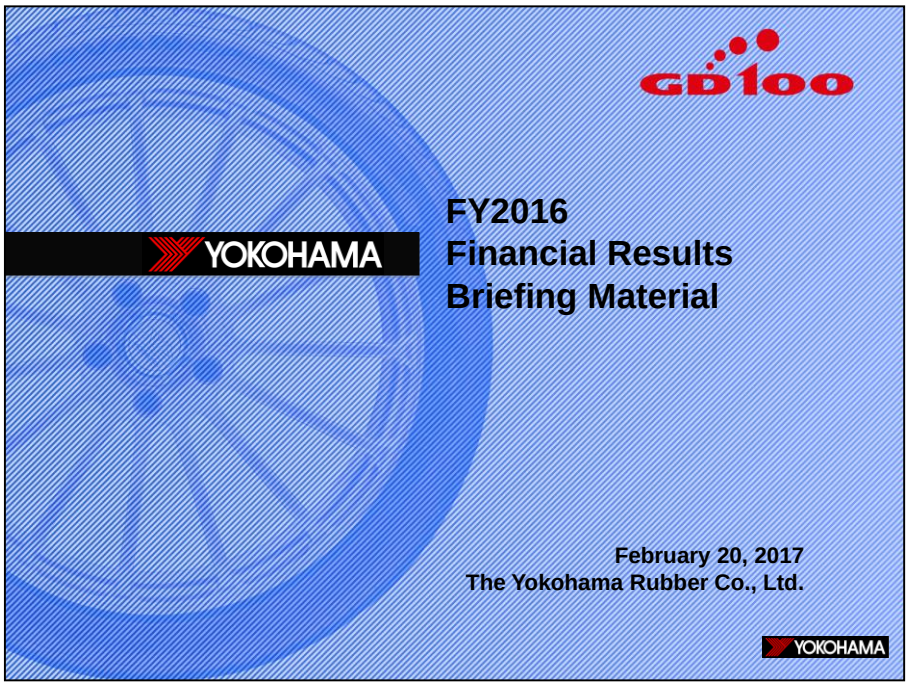


As introduced, I am Gota Matsuo, Head of the Corporate Finance & Accounting Department.
I would like to provide a summary of the full-year consolidated financial results for FY2016.

Scope of Consolidation, etc.

YOKOHAMA

■ Scope of consolidation

Consolidated subsidiaries135 companies (+13 year-on-year)	Equity-method subsidiaries 0 (-1 company year-on-year)
(Breakdown of change) Japan: -2 companies (Tire) Asia: +3 companies (MB) Europe: +2 companies (MB) ATG: +10 companies	(Breakdown of change) Japan: -1 company (Tire)

■ Breakdown of transfers

(Tire +1 new company) Kameyama Bead Co., Ltd. (Japan/manufacturer of tire beads) (Tire -3 companies) (Japan/second-tier domestic tire sales company) (MB +5 new companies) Yokohama Industrial Products Sales-Shanghai Co., Ltd. (China/MB sales company) Yokohama Industrial Products Asia-Pacific Pte. Ltd. (Singapore/MB sales company) PT. Yokohama Industrial Products Manufacturing Indonesia (Indonesia/MB production and sales company) Yokohama Industrial Products Europe GmbH (Germany/MB sales company) Yokohama Industrial Products Italy S.R.L. (Italy/MB production and sales company) (ATG +10 new companies) Alliance Tire Group B.V. (Netherlands/holding company, etc.) Alliance Tire Holding Ltd. (Israel/holding company, etc.) Alliance Tire Company Ltd. (Israel/business company) Alliance Tire Europe B.V. (Netherlands/business company) Alliance Tire Americas Inc. (United States/business company) Alliance Tire Africa (Pty) Ltd. (South Africa/business company) Turgco Ltd. (Cyprus/holding company, etc.) ATC Tires Private Ltd. (India/business company) Qingdao Alliance Tire Co., Ltd. (China/business company) ATG Holdings B.V. (Netherlands/holding company, etc.)	(Tire -1 company) Yokohama Continental Tire Co., Ltd. (Japan/domestic tire sales company)

2

I would like to start by explaining the scope of consolidation.

At end-December 2016, Yokohama Rubber had 135 consolidated subsidiaries, 13 more than at the end of the previous fiscal year.

The ten companies of the Alliance Tires Group, or ATG, were added to the scope of consolidation from the third quarter of FY2016. In addition, three companies in Asia and two in Europe were consolidated, while two companies in Japan were removed from consolidation. The breakdown is as listed here.

The equity-method affiliate Yokohama Continental Tires was dissolved in August 2016 when the operational tie-up with Continental AG was terminated.

FY2016 Consolidated Results

Next, let’s look at consolidated results for FY2016.

Profit and Loss (Full Year)

Exchange rates	US$ 109 yen	121 yen (previous year)	▲12 yen
	EUR 120 yen	134 yen (previous year)	▲14 yen
	RUB 1.6 yen	2.0 yen (previous year)	▲0.4 yen
TSR20*	138 cents	137 cents (previous year)	+1 cent
WTI	43 dollars	49 dollars (previous year)	▲5 dollars

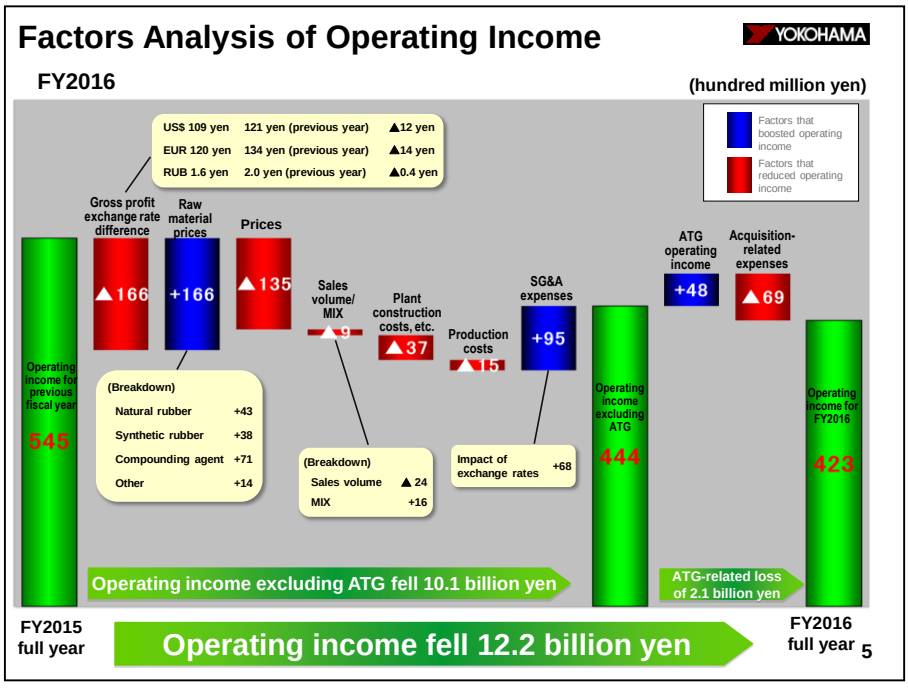
*SICOM TSR20 1M

(hundred million yen)

	2016 Jan.–Dec.	2015 Jan.–Dec.	Change	Change (%)	Exchange rate impact	Change excluding impact of exchange rates
Net sales	5,962	6,299	▲337	▲5.3%	▲351	+14
Gross profit	2,124	2,247	▲123	▲5.5%	▲166	+43
(gross profit margin)	(35.6%)	(35.7%)	(▲0.1%)			
SG&A expenses	1,701	1,702	▲1	▲0.0%	▲68	+67
(SG&A expense ratio)	(28.5%)	(27.0%)	(+1.5%)			
Operating income	423	545	▲122	▲22.4%	▲98	▲24
(Operating income margin)	(7.1%)	(8.7%)	(▲1.6%)			
Non-operating expenses and revenue	▲32	▲52	+20	-	+20	+0
Ordinary income	391	493	▲102	▲20.7%	▲78	▲24
Income before taxes	320	543	▲222	▲41.0%		
Profit attributable to owners of parent	188	363	▲175	▲48.3%		4

For starters, let's examine the impact of exchange rates and material costs.
Our average forex rates in 2016 were ¥109/USD, ¥12 stronger than in 2015; ¥120/EUR, ¥14 stronger; and ¥1.6/RUB, ¥0.4 stronger. The negative impact from this yen appreciation on earnings, as shown in the second row from the right in the table, reduced net sales ¥35.1 billion, operating income ¥9.8 billion, and ordinary income ¥7.8 billion. Turning to raw material costs, the average price of natural rubber (TSR20) in 2016 was 138 cents, a year-on-year increase of 1 cent. The average price of crude oil was $43, $5 less than in 2015.The impact of changes in raw material prices was positive, boosting profits by ¥16.6 billion.

Next, let's look at the main income statement items. Net sales fell ¥33.7 billion to ¥596.2 billion, a 5.3% year-on-year decrease. Gross profit declined ¥12.3 billion to ¥212.4 billion, a 5.5% year-on-year decrease, but the gross profit margin was almost unchanged from the previous year at 35.6%. I will explain the details using a waterfall chart on the next slide. Although SG&A expenses were basically unchanged from the previous year at ¥170.1 billion, that positive results was due to the stronger yen reducing expenses by ¥6.8 billion. Excluding this forex impact, SG&A expenses rose ¥6.7 billion. Inclusion of ATG into the consolidated accounts from the third quarter added ¥9.4 billion to SG&A expenses, including the amortization of goodwill and other acquisition-related expenses. This increase, however, was partially offset by cost reductions in other areas, mainly sales commissions and logistics costs. Operating income fell 22.4%, or ¥12.2 billion, to ¥42.3 billion. Non-operating expenses and revenues resulted in a net expense of ¥3.2 billion, an improvement of ¥2.0 billion, reflecting the forex impact. Ordinary income declined ¥10.2 billion to ¥39.1 billion, and net income fell ¥17.5 billion to ¥18.8 billion owing to an impairment loss of ¥6.4 billion, which mainly reflects the disposal of business assets of overseas operations where profitability had deteriorated.



Next, let's look at the factors that affected operating income.
FY2016 operating income came to ¥42.3 billion, a decline of ¥12.2 billion from ¥54.5 billion in FY2015. The ATG acquisition accounts for ¥2.1 billion of that decline. Excluding that impact, pro-forma operating income was ¥44.4 billion, down ¥10.1 billion year on year. Let's break down that decline. The forex impact reduced gross profit by ¥16.6 billion, but that negative impact was completely eliminated by lower raw material prices. The lower cost of natural rubber boosted profits by ¥4.3 billion, lower synthetic rubber prices added another ¥3.8 billion, and lower costs for compounding agents and other materials boosted profits by a combined ¥8.5 billion.

Lower product prices, however, had a negative ¥13.5 billion impact. Lower prices of OE tires for new cars in Japan reduced operating income by ¥2.3 billion, while lower domestic prices for replacement tires cut ¥2.2 billion from profits. Price cuts in overseas markets also reduced profits, with negative impacts of ¥2.7 billion from China, ¥3.5 billion from North America, and ¥2.8 billion from other regions combined. The net impact from sales volume and product mix was a negative ¥0.9 billion, as a positive ¥1.6 billion contribution from improvement in our tire product mix and other factors was outweighed by lower sales volumes, which reduced operating income by ¥2.4 billion (¥1.3 billion at the Tires Segment and ¥1.1 billion at the MB Segment).

Plant construction costs, etc., reduced operating income ¥3.7 billion, and as discussed when we announced second quarter results, construction costs for the production plant in Mississippi had a negative impact on operating income of ¥2.7 billion. In the previous year, an overseas subsidiary received a large order for commercial tires, but the absence of this order in FY2016 reduced operating income by ¥1.0 billion. An increase in production costs reduced operating income by ¥1.5 billion, but lower SG&A expenses boosted operating income by ¥9.5 billion. The reduction in SG&A expenses, however, reflects a ¥6.8 billion positive impact from exchange rates, as noted earlier, with the remaining ¥2.7 billion reflecting declines in various costs, including sales commissions and logistics. As for ATG, the Segment recorded ¥4.8 billion in operating income in second half of the year (i.e., after its inclusion in consolidated accounts), but this was offset by the posting of ¥6.9 billion in acquisition-related expenses, consisting of goodwill amortization of ¥2.1 billion, inventory and fixed asset valuation losses totaling ¥3.2 billion, and purchase-related expenses (advisory fees, etc.) of ¥1.6 billion.

Business Segment (Full Year)

YOKOHAMA

(hundred million yen)

		2016 Jan.–Dec.	2015 Jan.–Dec.	Change	Change (%)	Exchange rate impact	Change excluding impact of exchange rates
Net sales	Tires	4,506	5,006	▲501	▲10.0%	▲306	▲195
	MB	1,121	1,217	▲96	▲7.9%	▲45	▲51
	High-pressure hoses	423	460	▲37	▲8.0%		
	Industrial materials	272	284	▲13	▲4.5%		
	Hamatite	248	268	▲20	▲7.4%		
	Aircraft fixtures and components	178	205	▲26	▲12.9%		
	ATG	255	—	+255	—	—	+255
	Other	80	75	+5	+6.7%	—	+5
	Total	5,962	6,299	▲337	▲5.3%	▲351	+14
Operating income	Tires	363	430	▲67	▲15.6%	▲81	+14
	MB	75	105	▲30	▲28.9%	▲17	▲13
	ATG	▲21	—	▲21	—	—	▲21
	Other	7	10	▲3	▲28.4%	—	▲3
	Intersegment eliminations	▲1	▲0	▲1	—	—	▲1

*The Alliance Tires Group was added to the scope of consolidation starting this fiscal year 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 Tires's traditional reporting segments - and ATG.

6

Let's now look at the various business segments.
At the Tires Segment, income fell 10.0%, or ¥50.1 billion year-on-year, to ¥450.6 billion. In Japan, sales of OE tires for new cars fell ¥5.8 billion, of which ¥2.3 billion was due to lower prices; sales of replacement tires declined ¥6.4 billion, of which ¥2.2 billion was due to lower prices. Overseas sales contracted ¥37.9 billion, of which ¥9.0 billion can be attributed to lower prices and ¥30.6 billion to exchange rates. OE sales in Japan fell as new car sales were depressed by an increase in the tax on minicars and scandals related to falsification of fuel-efficiency data. As for sales of replacement tires, we endeavored to increase profitability by curtailing sales of products with thin margins while strengthening sales of high-value-added products. Although sales volume fell 5%, operating income improved dramatically. In overseas markets, OE tire sales in China expanded steadily, up 21%. Sales in Europe were also strong, rising 11% as we increased the number of stores handling our products and realized advertising benefits from our partnership with the Chelsea Football Club. In North America, sales growth was essentially flat, as a 5% increase in sales of OE tires for new cars was countered by softening demand for truck and bus tires. In raw material-developing countries and regions, such as Russia, the Near and Middle East, and Latin America, sales reflected the continuing decline in demand.

At the MB Segment, sales fell ¥9.6 billion to ¥112.1 billion, a 7.9% year-on-year decline. High-pressure hose sales fell ¥3.7 billion owing to a decline in demand for hoses used in cars due to the introduction of electronic power steering systems and a fall in demand for construction machinery. Industrial material sales fell ¥1.3 billion, with the decline mainly reflecting the forex impact, lower crude steel production in Japan, and weak demand for raw material-related products.
Hamatite-brand product sales decline ¥2.0 billion, mainly owing to weak sales of construction-use sealants amid stagnant growth in Japan's construction market. Lastly, sales of aircraft fixtures and components contracted ¥2.6 billion on account of a decline in production of mass-produced commercial aircraft.

ATG posted sales of ¥25.5 billion as a new Segment member in the second half of 2016. On an annualized basis, sales volume reached an all-time high, even though sales of truck and bus tires were negatively affected by anti-dumping and countervailing duties being imposed in North America and demand for agricultural machinery tires declined.

Operating income at the Tires Segment fell ¥6.7 billion year-on-year to ¥36.3 billion. I would like to provide a brief analysis of the factors behind this. The stronger yen trimmed ¥14.6 billion off of gross income, but lower raw material prices boosted operating income ¥16.1 billion, and the sales volume and mix factor added another ¥0.4 billion (sales volume's negative ¥1.3 billion impact offset by a ¥1.7 billion boost from improved mix and other factors). Operating income was also weighed down by the impacts from lower prices, ¥13.5 billion; higher plant construction and other costs, ¥3.7 billion; and higher production costs, ¥1.3 billion. On the other hand, SG&A expenses boosted the Tires Segment's operating income by ¥9.9 billion. Operating income at the MB Segment declined ¥3.0 billion to ¥7.5 billion. Although raw material prices boosted operating income ¥0.5 billion, various other factors had negative impacts, including exchange rates, ¥2.0 billion; sales volume and mix, ¥1.3 billion (¥1.1 billion from sales volume and ¥0.2 billion from mix); production costs ¥0.2 billion; and SG&A expenses, ¥0.1 billion. ATG weighed down operating income ¥2.1 billion, which included goodwill amortization, purchase-related costs, etc. The breakdown is as I explained previously.

Profits and Losses (Oct–Dec)

YOKOHAMA

Exchange rates						
	US$ 109 yen	▲12 yen	US$ 109 yen	▲12 yen	US$ 109 yen	▲12 yen
	EUR 121 yen	▲14 yen	EUR 118 yen	▲15 yen	EUR 120 yen	▲14 yen
	RUB 1.6 yen	▲0.5 yen	RUB 1.7 yen	▲0.1 yen	RUB 1.6 yen	▲0.4 yen
TSR20	129 cents	▲14 cents	167 cents	+47 cents	138 cents	+1 cent
WTI	42 dollars	▲9 dollars	49 dollars	+7 dollars	43 dollars	▲5 dollars

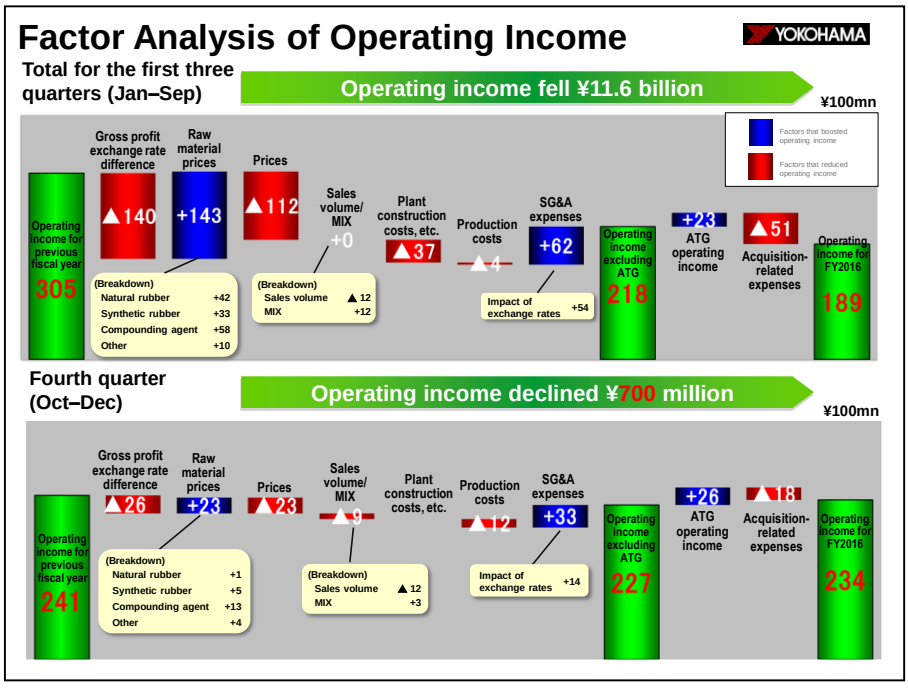
(hundred million yen)

	FY2016 Jan.-Sep.	YoY change	FY2016 Oct.-Dec.	YoY change	FY2016 full year	YoY change
Net sales	4,102	▲335	1,860	▲2	5,962	▲337
Gross profit	1,411	▲122	713	▲1	2,124	▲123
(gross profit margin)	(34.4%)	(▲0.1%)	(38.3%)	(▲0.0%)	(35.6%)	(▲0.1%)
SG&A expenses	1,222	▲6	479	+5	1,701	▲1
(SG&A expense ratio)	(29.8%)	(+2.1%)	(25.8%)	(+0.4%)	(28.5%)	(+1.5%)
Operating income	189	▲116	234	▲7	423	▲122
(Operating profit margin)	(4.6%)	(▲2.3%)	(12.6%)	(▲0.3%)	(7.1%)	(▲1.6%)
Non-operating expenses and revenue	▲46	+0	14	+20	▲32	+20
Ordinary income	143	▲115	249	+13	391	▲102
Income before taxes	138	▲116	182	▲106	320	▲222
Profit attributable to owners of parent	85	▲98	103	▲77	188	▲175

7

Now let's look at the main income statement items on a quarterly basis. I would like to discuss conditions during the fourth quarter of the fiscal year, the Oct–Dec quarter, which are shown in the middle of the table. Let's start with examination of the forex impact. Our average forex rates in the quarter were ¥109/USD, ¥12 stronger than a year earlier; ¥118/EUR, ¥15 stronger; and ¥1.7/RUB, ¥0.1 stronger. The forex impact is not shown in the table, but it reduced net sales ¥9.1 billion and operating income ¥1.2 billion. However, exchange rates had a positive ¥1.5 billion impact on ordinary income owing to advantageous rates on non-operating items. As for raw materials, the cost of natural rubber (TSR20) during the quarter was 167 cents, a year-on-year increase of 47 cents. The price of crude oil was up $7 to $49. The overall impact from material prices, however, was a positive ¥2.3 billion for several reasons, including the difference between purchase and delivery times, which was roughly 2–3 months.

Now let's look at the fourth-quarter results. Net sales totaled ¥186 billion, basically unchanged from the fourth quarter of the previous fiscal year, with net sales from the Tires Segment falling 7.7%, or ¥11.7 billion, and sales from the MB Segment declining 2.4%, or ¥0.8 billion, despite a ¥12.5 billion boost from inclusion of ATG sales. Operating income fell 2.7%, or ¥0.7 billion, to ¥23.4 billion. Tires Segment operating income decreased by ¥1 billion, and MB Segment operating income was ¥0.1 billion less than a year earlier, again despite a ¥0.7 billion contribution from ATG, which reflects the net impact from inclusion of the company's operating income and related goodwill amortization. I will explain in more detail using a waterfall chart in the next slide. Non-operating expenses and revenue improved ¥2 billion to yield net revenue of ¥1.4 billion, with the improvement mainly due to the forex impact. Ordinary income rose ¥1.3 billion to ¥24.9 billion, and profit attributable to owners of parent fell ¥7.7 billion to ¥10.3 billion, primarily due to posting an impairment loss of ¥6.4 billion.



Next I will explain the factors that impacted operating income during the fourth quarter. Please refer to the waterfall chart in the lower part of slide.Operating income fell a ¥0.7 billion from ¥24.1 billion in the fourth quarter of 2015 to ¥23.4 billion in the fourth quarter of 2016. Excluding the ¥0.7 billion fourth-quarter contribution from ATG, pro-forma fourth quarter operating income comes to ¥22.7 billion, down ¥1.4 billion year on year. Exchange rates had a negative impact of ¥2.6 billion, but lower raw material prices boosted profit by ¥2.3 billion. Looking at the impact of changes in prices of specific raw materials, natural rubber added ¥0.1 billion to profit; synthetic rubber, ¥0.5 billion; and compounding agents and other items, ¥1.7 billion. Product prices overall had a negative impact on quarterly operating income of ¥2.3 billion.

By product category, OE tires for new cars in Japan had a negative impact of ¥0.3 billion; replacement tires, ¥0.4 billion; China, ¥0.6 billion; North America, ¥0.5 billion; and other overseas regions, ¥0.5 billion. Sales volume and mix also had a negative impact of ¥0.9 billion with sales volume weighing down operating income ¥1.2 billion (with a ¥1.3 billion negative impact from the Tires Segment partially offset a ¥0.1 billion positive impact from the MB Segment).

Improvements in the product mix and other factors boosted operating income ¥0.3 billion (¥0.2 billion from the Tires Segment, and ¥0.1 billion from the MB Segment). Production costs weighed down operating income ¥1.2 billion, reflecting lower production volumes, especially overseas. Lower SG&A expenses boosted operating income by ¥3.3 billion, with ¥1.4 billion due to the forex impact and the remaining ¥1.9 billion due to declines in logistic costs, sales commissions, and other factors. ATG's net ¥0.7 billion contribution to fourth-quarter operating income reflects inclusion the company's operating income of ¥2.6 billion, offset in part by ¥1.8 billion in acquisition-related expenses, which included ¥1.1 billion in goodwill amortization and ¥0.7 billion in fixed asset depreciation.

Financial Position (Year-on-Year Change)

(hundred million yen)

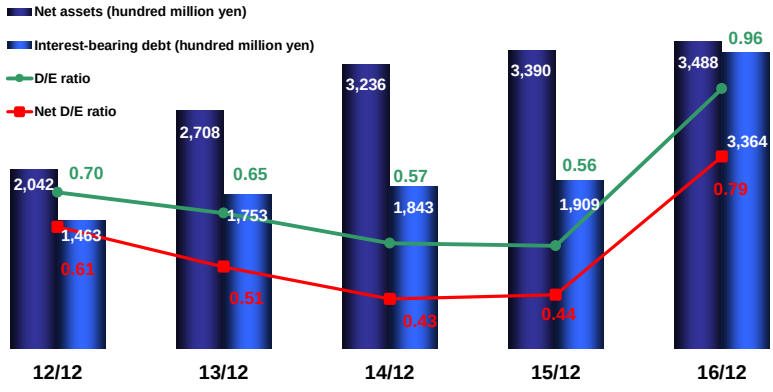
	Dec. 31, 2016	Dec. 31, 2015	Change	ATG-related Dec. 31, 2016	Change excluding ATG
Current assets	3,504	3,245	+259	289	▲30
Fixed assets	5,526	3,862	+1,664	1,795	▲131
Total assets	9,030	7,107	+1,923	2,084	▲161
Liabilities	5,479	3,660	+1,819	2,039	▲220
Net assets	3,550	3,447	+104	+45	+59
Liabilities and net assets total	9,030	7,107	+1,923	2,084	▲161
Interest-bearing debt	3,364	1,909	+1,455	1,617	▲162

9

This slide summarizes our financial position as of December 31, 2016.
The impact of the ATG acquisition, as shown in the second column from the right, increased our total assets by ¥208.4 billion, current assets ¥28.9 billion, and fixed assets ¥179.5 billion, including ¥88.6 billion in goodwill and the market value of fixed assets, ¥59.3 billion. ATG-related liabilities totaled ¥203.9 billion, including ¥161.7 billion in interest-bearing debt, primarily related to the acquisition. ATG's net assets as of end-December 2016 totaled ¥4.5 billion.

Next, I will break down the main changes in our financial position excluding the impact of ATG. Current assets decreased ¥3 billion, as a ¥17.4 billion decline in trade receivables, inventories, etc., was mitigated by a ¥14.4 billion increase in cash and deposits. Fixed assets declined ¥13.1 billion, owing to impairment losses and a decline in investments, etc., caused by new additions to the scope of consolidation. Liabilities fell ¥22.0 billion, which includes a decline in interest-bearing debt of ¥16.2 billion. Net assets increased ¥5.9 billion.

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



*Net assets do not include minority interest.

10

The D/E ratio at the end of FY2016 was 0.96, owing to an increase in loans due to debt financing of the ATG acquisition.

Net D/E ratio, which excludes cash and deposit balance, was 0.79, indicating maintenance of financial soundness.

State of Cash Flows

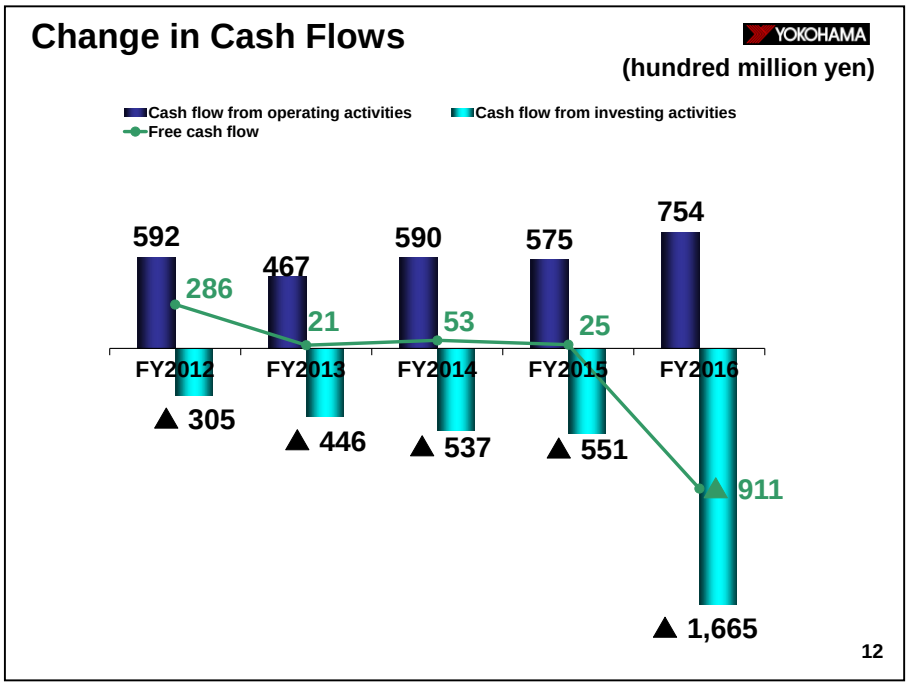
YOKOHAMA

(hundred million yen)

	FY2016	FY2015	Change
CF from operating activities	Record high 754	575	+178
CF from investing activities	▲ 1,665	▲ 551	▲ 1,114
Free CF	▲ 911	25	▲ 936
CF from financing activities	1,002	▲ 64	+1,066
Closing balance of cash and cash equivalents	548	411	+137

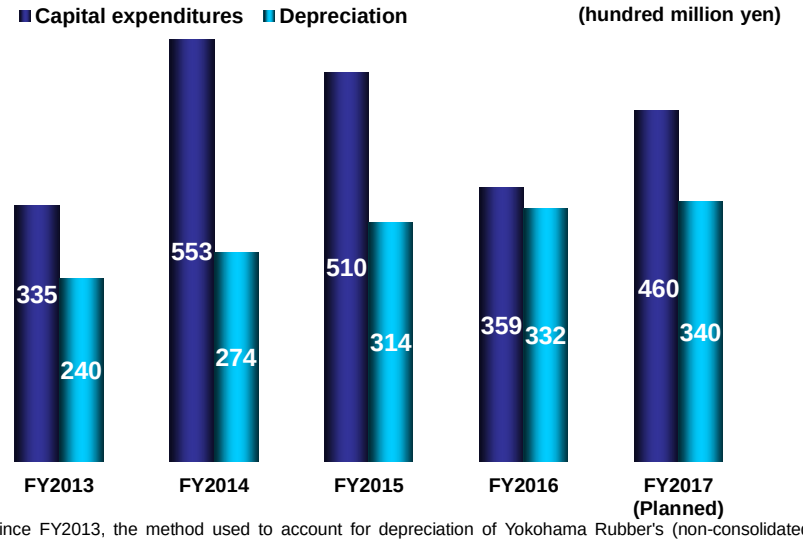
11

Turning to cash flows, cash flows from operating activities reached a record high of ¥75.4 billion, reflecting an increase in working capital on a decline in trade receivables and inventory assets, as well as lower corporate taxes paid, and other factors. Cash used by investing activities totaled ¥166.5 billion, mainly because of the ATG acquisition. The Company therefore had negative free cash flow of ¥91.1 billion. However, cash flows from financing activities totaled ¥100.2 billion, primarily reflecting an increase in borrowings. As a result, cash and cash equivalents at the end of the fiscal year increased to ¥54.8 billion.



Cash flows deteriorated in FY2016 on account of the acquisition of ATG.

Capital Expenditures and Depreciation



*Since FY2013, the method used to account for depreciation of Yokohama Rubber's (non-consolidated) tangible fixed assets was switched to the straight-line method from the declining balance method.

13

Capital expenditures totaled ¥35.9 billion in FY2016 and are expected to expand to ¥46.0 billion in FY2017.

Earnings Forecast for FY2017

I would now like to discuss the full year earnings forecast for FY2017.

FY2017 Profit and Loss Projections (Full Year)

Exchange rates	US$ 110 yen	109 yen (previous year)	+1 yen
	EUR 118 yen	120 yen (previous year)	▲2 yen
	RUB 1.9 yen	1.6 yen (previous year)	+0.2 yen
TSR20	210 cents	138 cents (previous year)	+72 cents
WTI	53 dollars	43 dollars (previous year)	+9 dollars

(hundred million yen)

	2017	2016	Change	Change (%)	Exchange rate impact
Net sales	6,600	5,962	+638	+10.7%	+33
Operating income	475	423	+52	+12.2%	+8
(Operating profit margin)	(7.2%)	(7.1%)	(+0.1%)		
Ordinary income	435	391	+44	+11.2%	+8
Profit attributable to owners of parent	300	188	+112	+59.7%	

15

Our forex assumptions for FY2017 are ¥110/USD, ¥118/EUR, and ¥1.9/RUB. The projected impact of exchange rates on earnings is shown in the far right column. We expect exchange rate fluctuations to have a generally positive impact in FY2017, boosting our net sales by ¥3.3 billion, operating income by ¥0.8 billion, and ordinary income by ¥0.8 billion. As for raw materials, we assume natural rubber (TSR20) will cost 210 cents, 72 cents more than in FY2016. The price of crude oil is forecast to rise $9 to $53. Excluding the ATG impact, we expect the increase in raw material prices to reduce income by ¥24 billion.

Overall, we are projecting net sales to grow ¥63.8 billion to ¥660 billion, a year-on-year increase of 10.7%. This includes a ¥34.5 billion contribution from an increase in ATG sales. We forecast operating income to rise ¥5.2 billion to ¥47.5 billion, a 12.2% increase. Ordinary income is expected to grow ¥4.4 billion to ¥43.5 billion, and profit attributable to owners of parent is forecast to rise ¥11.2 billion to ¥30 billion.

Although not shown here, the Company expects to maintain the annual dividend at ¥52 per share, including an interim dividend of ¥26 per share.

Projections by Business Segment (Full Year)

YOKOHAMA

(hundred million yen)

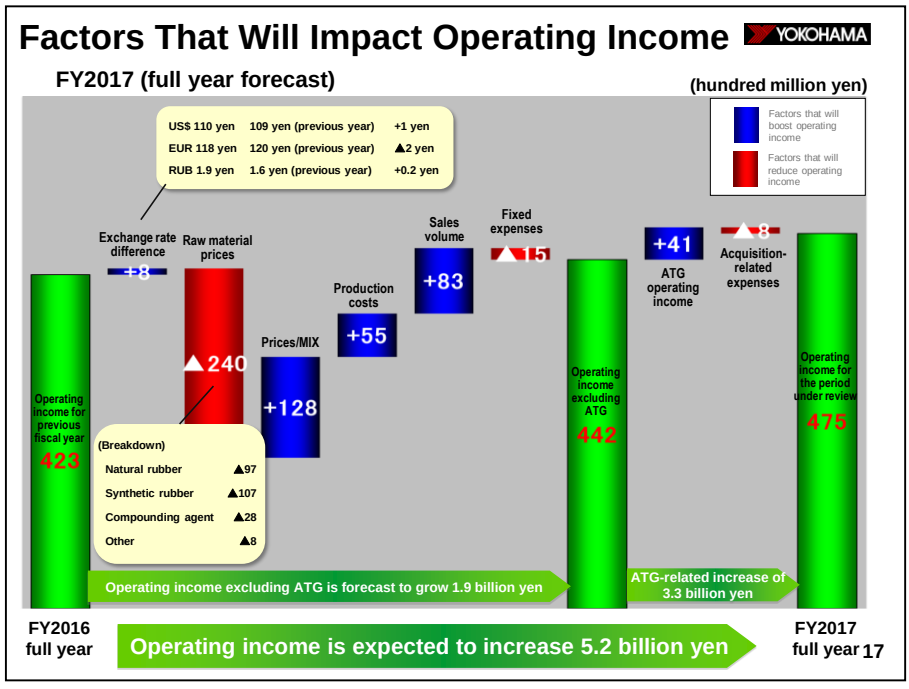
		2017 Jan.–	2016 Jan.–	Change	Change (%)
Net sales	Tires	4,750	4,506	+244	+5.4%
	MB	1,170	1,121	+49	+4.3%
	ATG	600	255	+345	+135.5%
	Other	80	80	▲0	▲0.3%
	Total	6,600	5,962	+638	+10.7%
Operating income	Tires	363	363	0	+0.0%
	MB	90	75	+15	+20.1%
	ATG	12	▲21	+33	—
	Other	10	7	+3	+38.7%
	Intersegment eliminations	—	▲1	—	—
	Total	475	423	+52	+12.2%

16

Here are our projections for each business segment.

Tires Segment sales are projected to increase 5.4%, or ¥24.4 billion year-on-year, to ¥475.0 billion, on a 6% increase in sales volumes. At our Japan business, OE sales of tires for new cars are expected to decrease 5% while sales of replacement tires are forecast to increase 3%. We look for overseas tire sales to increase 10%, with sales in North America up 5% and China sales growing 19%. We expect the MB Segment to increase sales by ¥4.9 billion to ¥117.0 billion, a 4.3% year-on-year increase. Sales of high-pressure hoses are expected to be flat, with sales growth in Japan and Asia expected to offset a decline in sales in North America, where orders have bottomed out, especially for car hoses. Sales of industrial materials are expected to rise, particularly for marine products, such as marine hoses. Hamatite-brand product sales are projected to increase as sales of new construction products grow. Sales of aircraft fixtures and components are expected to fall as a result of a decline in orders for lavatory modules used in mass-produced commercial aircraft. ATG revenues are projected to expand ¥34.5 billion to ¥60 billion. We are expecting an increase of 8%, mainly for agricultural tires, on account of a forecast gradual recovery in demand starting in 2017.

Tires Segment operating income is expected to reach ¥36.3 billion, in line with the FY2016 result. We forecast MB Segment operating income to expand 20.1%, or ¥1.5 billion, to ¥9 billion. We look for ATG to see a ¥3.3 billion profit improvement in FY2017, rebounding from an operating loss to operating income of ¥1.2 billion, even with the inclusion of acquisition-related expenses.



Let's look at the factors that will impact operating income.

We project operating income to increase from ¥42.3 billion in FY2016 to ¥47.5 billion in FY2017, an increase of ¥5.2 billion. Excluding ATG's net contribution of ¥3.3 billion, we forecast operating income will increase ¥1.9 billion to ¥44.2 billion. My factor analysis will focus on the ex-ATG changes in operating income. Exchange rates are projected to boost operating income by ¥0.8 billion, but higher raw material prices are expected to reduce operating income by ¥24.0 billion. Natural rubber is forecast to have a negative impact of ¥9.7 billion; synthetic rubber, ¥10.7 billion; and compounding agents and other products, ¥3.6 billion. Prices and product mix are expected to boost operating income ¥12.8 billion, and we will work to improve the product mix by continuing to introduce high-value-added products that enable us to maintain a price positioning that allows us to reflect raw material price trends and changes in the market environment in our product prices.

In addition, in the North American market, we have announced an average price increase of 7% from this April. Lower production costs are expected to improve operating income by ¥5.5 billion, which reflects the absence of startup costs recorded the previous year for the US truck and bus tire production plant in Mississippi. Sales volume is projected to have a positive impact of ¥8.3 billion on operating income, with ¥7.3 billion expected to come from the Tires Segment and ¥1 billion from the MB Segment. Fixed costs are forecast to increase by ¥1.5 billion. However, if the impact of the previous year's allowances for doubtful receivables in the Russian market is excluded, the figure increases to ¥3 billion, which includes an increase in sales promotion expenses and other strategic costs.

ATG operating income is expected to increase ¥4.1 billion, partially negated by projected acquisition-related expenses of ¥0.8 billion, which consists of goodwill amortization of ¥2.2 billion, partially offset by the absence of ¥1.4 billion in purchase-related expenses, etc., recorded in the previous fiscal year.

(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

(hundred million yen)

	IFRS (trial calculation)	Japanese generally accepted accounting principles	Impact
Net sales	6,350	6,600	▲250
Operating income (Operating profit margin)	510 (8.0%)	475 (7.2%)	+35 (+0.8%)
Profit attributable to owners of parent	340	300	+40

(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.

18

Lastly, the Company has decided to voluntarily adopt International Financial Reporting Standards (IFRS) starting with the end-of-year financial statements for the fiscal year ending December 31, 2017. Based on the IFRS, our FY2017 consolidated earnings projections are net sales of ¥635 billion, operating income of ¥51 billion, and profit attributable to owners of parent of ¥34 billion. We will continue to use using traditional Japanese GAAP when disclosing quarterly results for the first three quarters of the year, but the end-of-the-year financial statements will be based on IFRS.

This concludes the presentation.

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.