Fiscal 2016 Results Briefing

The Yokohama Rubber Co., Ltd.
February 20, 2017
Today, I will update you on the main issues we are addressing during Phase IV of our “GD100” Medium-term Management Plan, which we implemented in 2015.
GD100 is an abbreviation for Grand Design 100, the Yokohama Rubber Group's growth strategy that was first implemented in 2006.

The plan set forth our vision for evoking a distinctive global identity in building corporate value and in building a strong market presence by our centennial in 2017. It also established three key financial targets to be achieved by 2017: net sales of ¥1 trillion, operating income of ¥100 billion, and an operating profit margin of 10%.
GD100 is divided into four 3-year phases, and we implemented specific strategies for each phase. We completed Phase III at the end of 2014 and are now implementing strategies for Phase IV, which covers the three-year period from 2015 to the end of 2017.

During the nine years that covered the first three phases of the plan, we steadily worked toward achievement of the plan’s goals. However, changes in economic and social conditions have led us to push back our target for reaching plan’s financial targets, including ¥1 trillion in net sales, to 2020 at the earliest.
Phase IV is the culminating phase of GD100, during which we will set the stage for the next 100 years of growth. Therefore, one of the key goals in Phase IV is to resolve issues that have arisen over the first three phases of GD100.

For that purpose, we established the theme of “All for Growth - Focusing Our Energy on Growth”. We started Phase IV with financial targets including net sales of ¥770 billion, operating income of ¥80 billion, and an operating profit margin of 10.4%. However, those targets now look unattainable in 2017.
Our basic approach during Phase IV is to “Maximize Customer Value and Expand Our Global Scope to Remain a Leader in the Tire and Rubber Industry for Another 100 Years.”

Toward that end, we are channeling all our activity companywide into maximizing customer satisfaction and are implementing specific strategies in each business segment, including the Tire Segment and the Multiple Business Segment.
Let’s start with our Tire Business strategy.

To win the competition in today’s global market, a tire maker must deliver products that demonstrate its unique capabilities and strengths and help it establish a stronger presence in the global market.

YOKOHAMA’s unique capabilities and strengths are rooted in its superior technological capabilities. We possess world-leading technologies that contribute to the performance of our tires in many areas, including their contribution to vehicle fuel efficiency, excellent handling performance at high speeds, and superior wet-grip performance and durability.

Our superior technologies are perhaps best evidenced by our track record as supplier of original equipment tires to the world’s leading automakers, especially makers in Japan and Europe, as well as by our successful commercial tire business. Our tires’ technological strengths have also been demonstrated through our continued participation in motor sports.

By clearly demonstrating the distinct qualities that underscore the value of the YOKOHAMA brand, we will differentiate our products from the low-priced commodity tires being marketed by emerging tire makers, thereby avoiding price competition and continuing to strengthen our business in our principal markets.
Based on the previously stated assumptions, we have formulated the three strategies shown here for our Tire Business.
The first initiative in our Tire Strategy is to allocate more resources to winning business with automakers worldwide. By 2020, we plan to quadruple overseas factory fitments of our tires for use as original equipment from the 2014 level.

In March 2016, we dissolved the joint venture we had established with Germany’s Continental AG to market tires for new cars made overseas by Japanese automakers. The joint venture’s dissolution enables us to strengthen our business going forward.

During 2016 we made steady progress in expanding original equipment sales, with our tires being adopted for use on many new models of premium cars by the world’s leading automakers, including Porsche.
The second initiative in our Tire Strategy is to strengthen our presence in principal markets.

Our sponsorship of the English Premier League’s Chelsea Football Club since 2015 is part of a long-term strategy to expand sales of YOKOHAMA brand tires. Sponsorship of the Chelsea FC is helping spread recognition of the YOKOHAMA brand name. Meanwhile, our participation in motor sports is transmits a clear message of the “YOKOHAMA-like” quality and performance. At the same time, adoption of our tires as original equipment on world-class premium cars from Porsche and Mercedes-Benz further enhances the high-performance image of our tires. Through such promotions and activities, we aim to expand sales by making YOKOHAMA tires the replacement tire selected by car owners around the world.

We are already seeing the “Chelsea effect” on our sales in Europe and Asia and going forward we will leverage the power of the brand recognition generated by our Chelsea sponsorship to strengthen sales in principal markets, including the large demand regional markets of North America, Europe and China as well in Japan and Russia, two countries where we have already established market leadership.
Tire Strategy

Strengthen our presence in our principal markets

Preparing for post-GD100 era by investing in expansion of our global tire production network

In addition, we are expanding tire production capacity at our plants around the world, including the Shinshiro Plant in Japan, Suzhou Yokohama Tire in China, Yokohama Tire Philippines, and Yokohama Tire Manufacturing Mississippi in the United States.
Tire Strategy

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<td>Overseas capacity as % of total capacity</td>
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<td>48%</td>
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This table shows our plans for tire production capacity in each country up to 2019.

During GD100 Phase IV, we plan to invest ¥120 billion in production facilities and expand total annual capacity from just under 68 million tires in 2014 to almost 75 million in 2018.
The third initiative in our Tire Strategy is expansion of our commercial tire business. We are aggressively pursuing this goal, as can be seen by the acquisition last July of the Alliance Tire Group (ATG), a specialist maker of off-highway tires, and the announcement this January of our plan to purchase Aichi Tire Industry.

These two acquisitions greatly expand our commercial tire lineup. Previously, Yokohama Rubber’s commercial tire offerings were limited to tires for trucks and buses, light trucks, and some industrial machinery. The purchase of ATG expanded our lineup to include tires for agricultural and forestry machinery. The acquisition of Aichi Tire will further broaden our lineup of tires for industrial machinery.
Allow me now to give you a simple overview of Aichi Tire Industry.

Aichi Tire is a specialist in forklift tires, a product segment in which it commands the top share in the Japanese market. The company’s products are used by many Japanese makers of industrial machinery and Aichi Tire is widely regarded as a top brand name. The company has two tire manufacturing plants, both in Aichi Prefecture. It recorded annual sales of ¥7.4 billion in the year ended March 31, 2016. We expect to finalize the acquisition of Aichi Tire this March.
Next, I will briefly explain our Multiple Business strategy.

We are accelerating the global expansion of our automotive components business and our marine products business, where we already are the market leader.

In our automotive hose business, our Thai plant has begun shipping hoses for diesel engines to a local Toyota plant. Meanwhile, at the marine products business, our plant in Italy has begun manufacturing and full-fledged marketing of YOKOHAMA brand marine hoses. In addition, we have started production of pneumatic fenders at our plant in Indonesia.
Another initiative in our Multiple Business Strategy is the strengthening of our position in the mining and construction sectors worldwide. Toward that end, we are developing highly functional specialized products, such as Tuftex α, a conveyor belt with superior abrasion resistance that facilitates the transport of large-sized natural resources at mining sites in resource-producing nations.

We are also fostering new ventures based on innovative products developed using our proprietary technologies. A good example is ibar HG82, a hydrogen gas hose with a dispensing pressure of 82 megapascals. We launched sales of this product in 2016. Another newly developed product Hyper Sealant, an adhesive for automobile window glass targeted for use primarily on racing cars. Hyper Sealant increased the car’s rigidity by reinforcing the window glass, thus enhancing the vehicle’s stability and steering performance.
Next, let’s look at our Golf Equipment business.

Last August, our PRGR brand launched the RS Series, including drivers, fairway woods, utility clubs and irons. The RS driver features a "W Crown structure". This structure’s excellent distance performance has led to strong sales of the new club. Last September, we unveiled the RED Series, which also uses the W Crown structure but is targeted at senior golfers, with whom the series has proved quite popular.

PRGR-sponsored pro Satoshi Kodaira had a good year on the Japan tour in 2016, winning the Bridgestone Open in October and finishing sixth in the prize money ranking.
That brings us to our Technology Strategy.

We have been expanding our global network of tire research and development centers and tire test courses.

The latest addition to this network is the tire R&D center we opened in September last year in the United States in North Carolina. We previously conducted tire R&D at our center in Japan and several locations in the United States, but we have now consolidated our development of tires for the North American market at the North Carolina R&D center, thus strengthening our business framework enabling local production for local consumption. The opening of the North Carolina tire R&D center gives us centers in four countries—Japan, China, Thailand and now the United States.

We also strengthened our tire test course network when we opened a winter tire test course in Hokkaido’s Asahikawa City in December 2015. The Tire Test Center of Hokkaido is located on a site 19 times the size of the Tokyo Dome and four times larger than our previous T*MARY site, which was also located in Hokkaido.
Motor sports activities are indispensable to the development of the ultimate tire technologies. In 2016 we began supplying the control tires for the Japanese SUPER FORMULA Championship series, Asia’s ultimate formula racing car series.

We also sponsored teams competing in Japan’s popular SUPER GT series, which is run on cars specially modified from those commercially available. Cars running on YOKOHAMA tires achieved victories in three races in the GT500 class during 2016, tying us for the most wins by a tire maker. We plan to supply our ADVAN racing tires for the HONDA NSX-GT that will be run by the famous MUGEN racing team on the 2017 SUPER GT circuit.

In addition to further raising our tires’ performance through our participation in motor sports, we look forward to many victories by cars running on YOKOHAMA tires in many racing categories, including formula, GT, and rally races, during 2017.
Our companywide strategy is implemented by all units of the company and includes our “Mudadori cost-cutting” activities, which were started in 2006 and continue in Phase IV of GD100. Through these activities, we are aiming to reduce total costs by ¥30 billion during the three years of Phase IV.

In addition, we will apply International Financial Reporting Standards (IFRS) from our accounts for the current fiscal year, ending on December 31, 2017.
That brings me to our corporate social responsibility activities, which we have divided into six core areas based on our core stakeholders and constituencies.

In 2016, our efforts on behalf of the global environment were recognized by CDP, a global NGO that evaluates corporate responses to climate change, by inclusion in NGO’s Climate A List. Yokohama Rubber was one of 22 Japanese companies to make the A List last year.

Meanwhile, we are also committed to supporting our local communities. We thus entered into a new partnership during 2016 with Prop Station, a social welfare organization, to support the independence and promote the social participation of people with disabilities.

In addition, we continued to carry out a wide range of CSR activities, such as tree-planting, support disaster-stricken areas, and community revitalization efforts, together with the employees of our group companies around the world.
In October this year, we will mark the 100th anniversary of the founding of Yokohama Rubber back in 1917. In addition to making this, our 100th year, a fruitful and profitable one, we have renewed our resolve to complete the preparations for a great leap forward into the next 100 years.