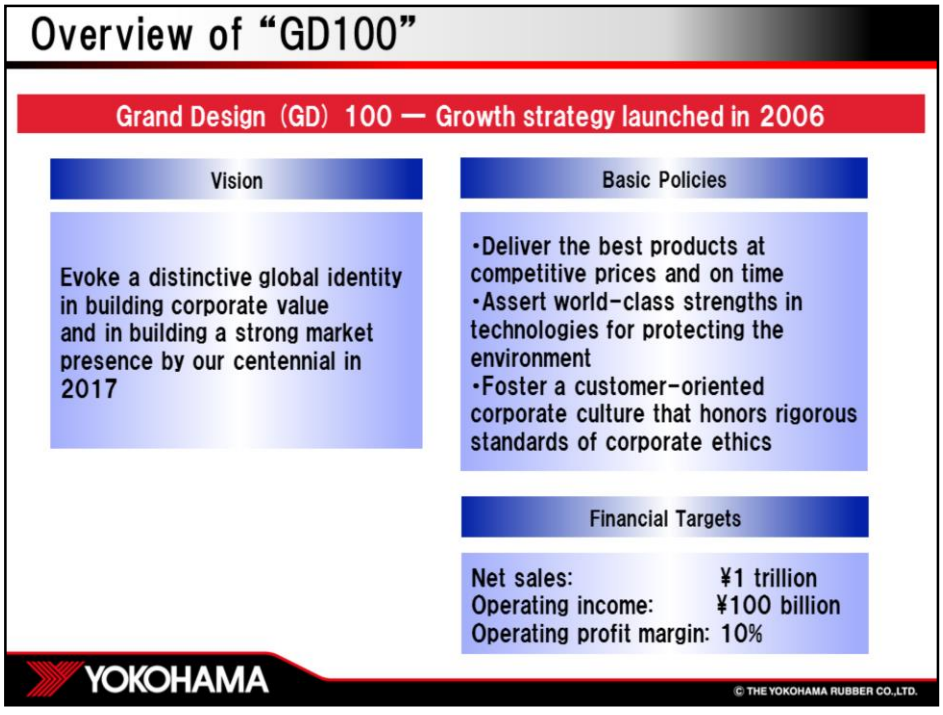
2016 Interim Results Briefing

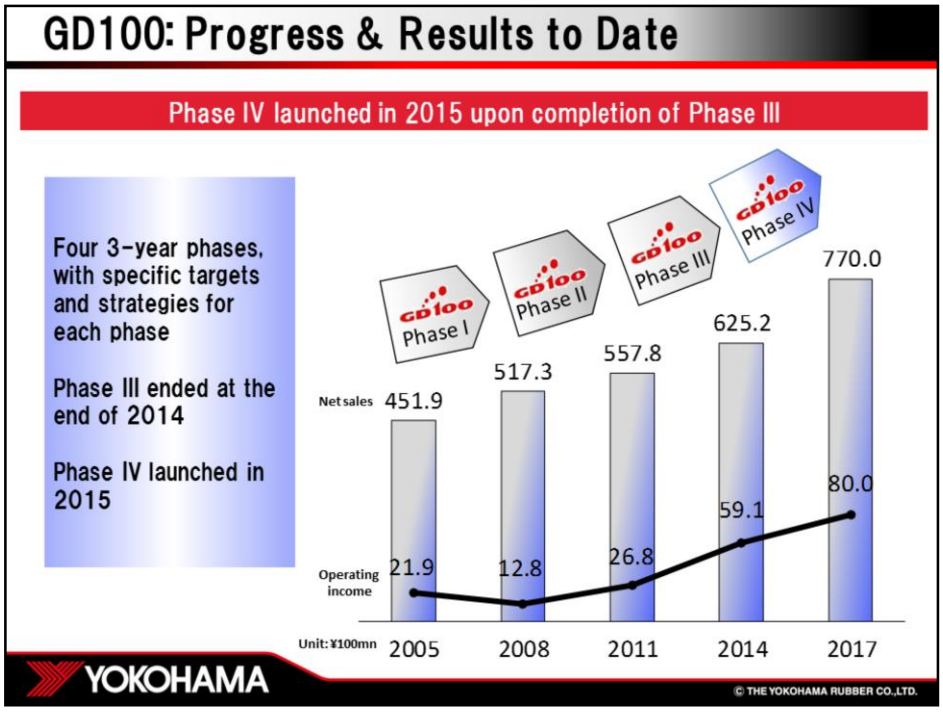
The Yokohama Rubber Co., Ltd.
August 10, 2016

Today, I will briefly explain the main issues we are addressing during Phase IV of our "GD100" Medium-term Management Plan, which began in 2015.



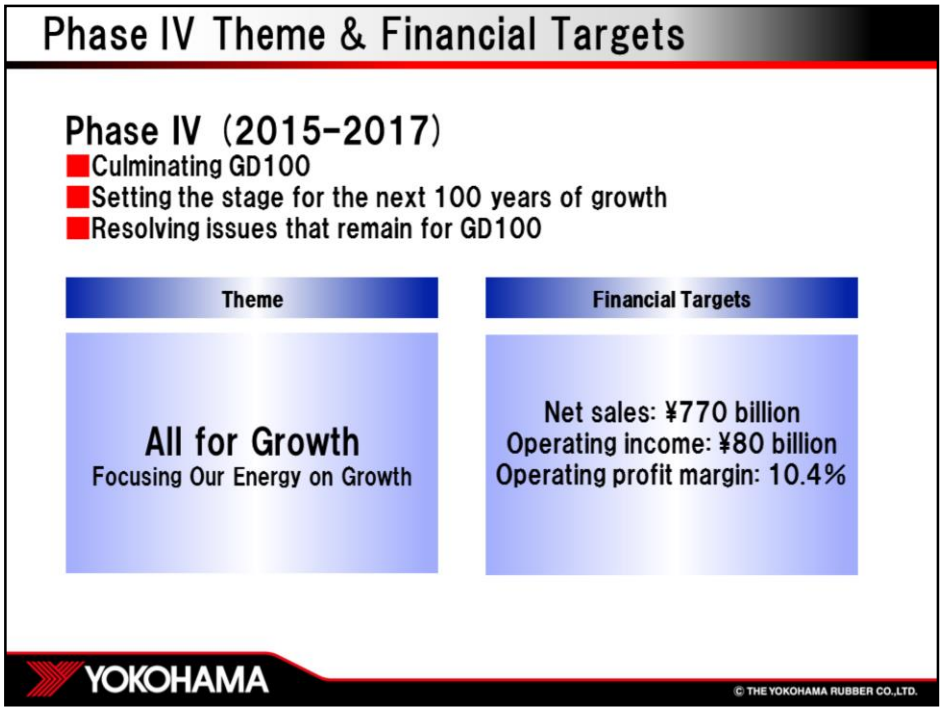
GD100 is an abbreviation for Grand Design 100, the Yokohama Rubber Group's growth strategy that was first implemented in 2006.

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.

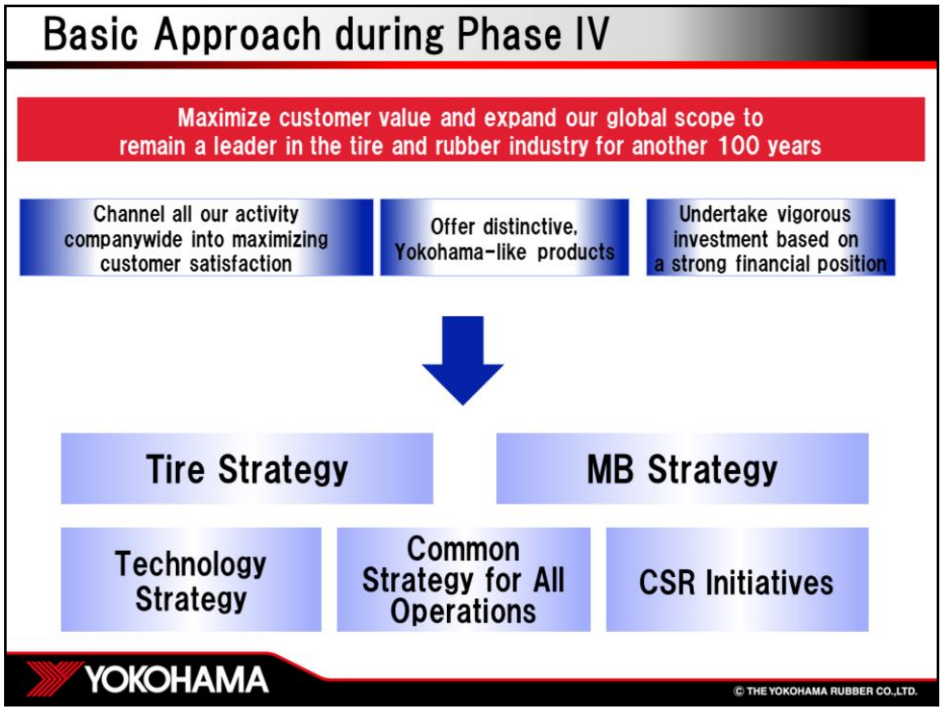
Although we have achieved steady growth over the past nine years, we now expect to achieve the plan's original financial targets, including ¥1 trillion in net sales, in 2020 at the earliest, with the delay reflecting the impact of changes in economic and social conditions.



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.

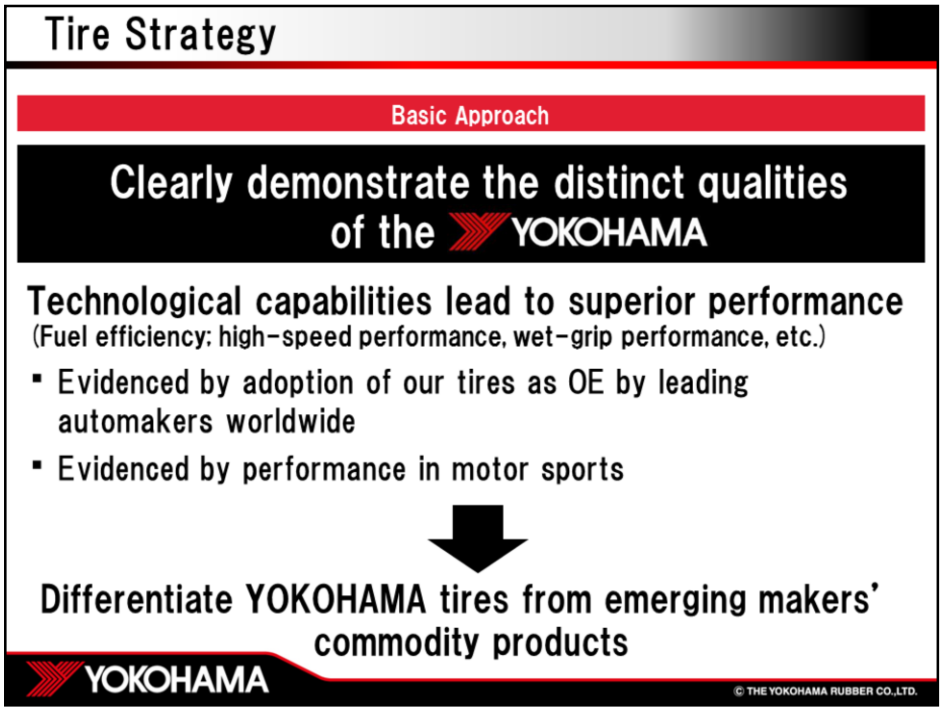
For that purpose, we established the theme of “All for Growth - Focusing Our Energy on Growth-”.

Phase IV’s financial targets include net sales of ¥770 billion, operating income of ¥80 billion and an operating profit margin of 10.4%.



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.

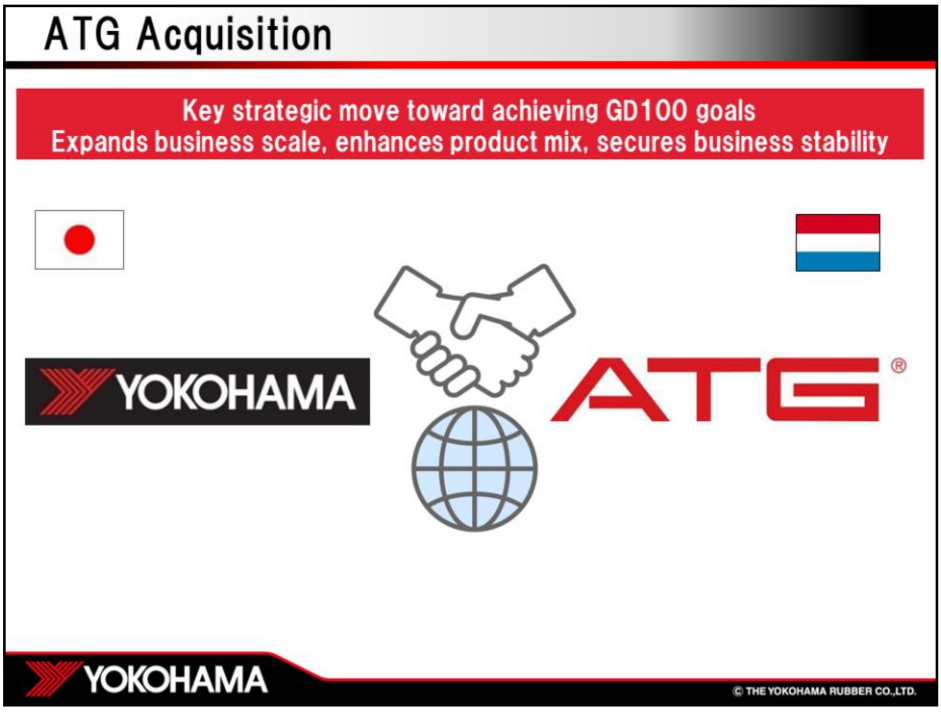
Our superior technologies are perhaps best evidenced by our track record as supplier of original equipment tires to many of the world's leading automakers, especially makers in Japan and Europe, and the success of our commercial tire business. Our tires' technological strengths have also been demonstrated 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 that are the strength of emerging tire makers, avoid falling into price competition, and continue to strengthen our business in our principal markets.

Next I would like to present our Tire Business strategy in more detail.

The strategy comprises the three specific measures shown on this slide.

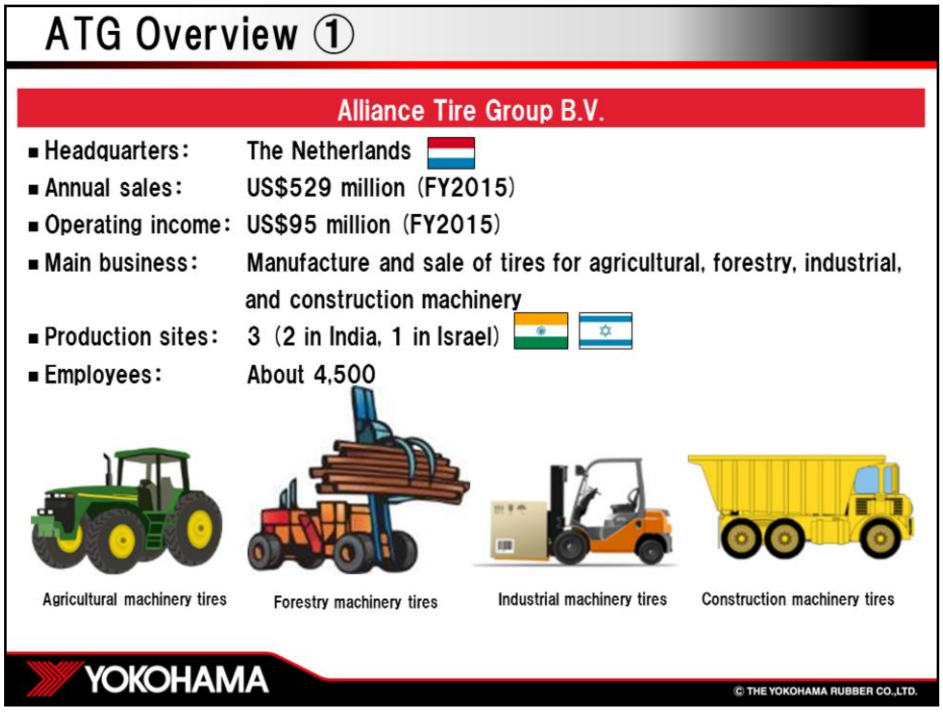
For starters, I would like to explain in detail about a recent key development related to the third measure, expansion in commercial tire business. In July, we completed the acquisition of the Alliance Tire Group B.V., or ATG.



The acquisition of ATG is a key strategic move in our effort to achieve the goals of our GD100 growth strategy.

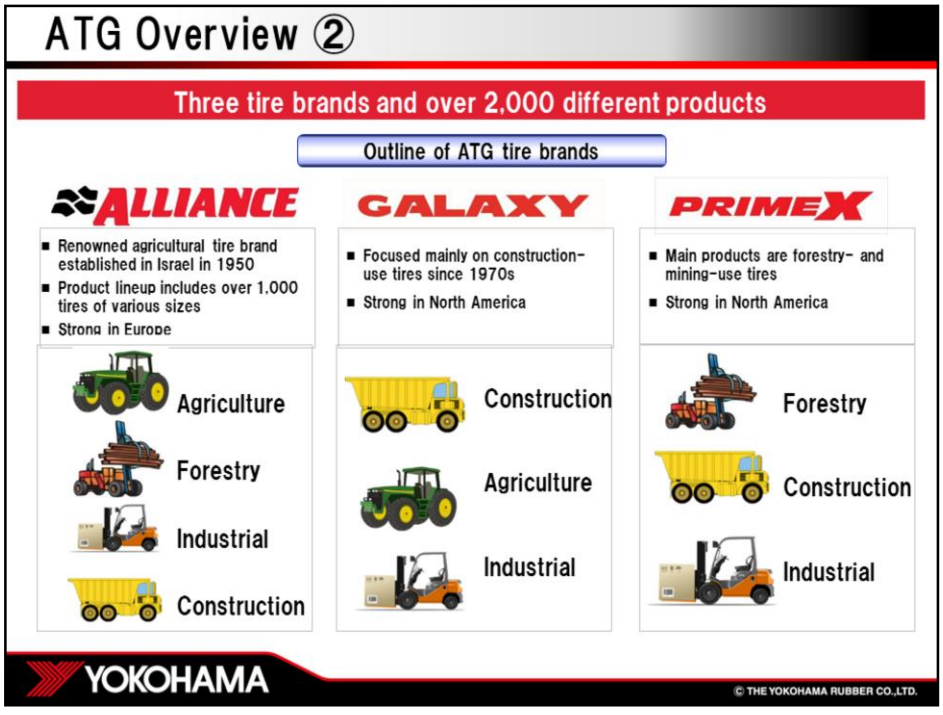
Put simply, the ATG acquisition will expands our business scale in terms of both sales and profits and also improves our product portfolio in the consumer tires and commercial tire market segments. The acquisition brings us a stable business that is little influenced by economic fluctuations.

I believe this to be an important addition to the Yokohama Group and would therefore like to take this opportunity to introduce ATG to you in more detail.



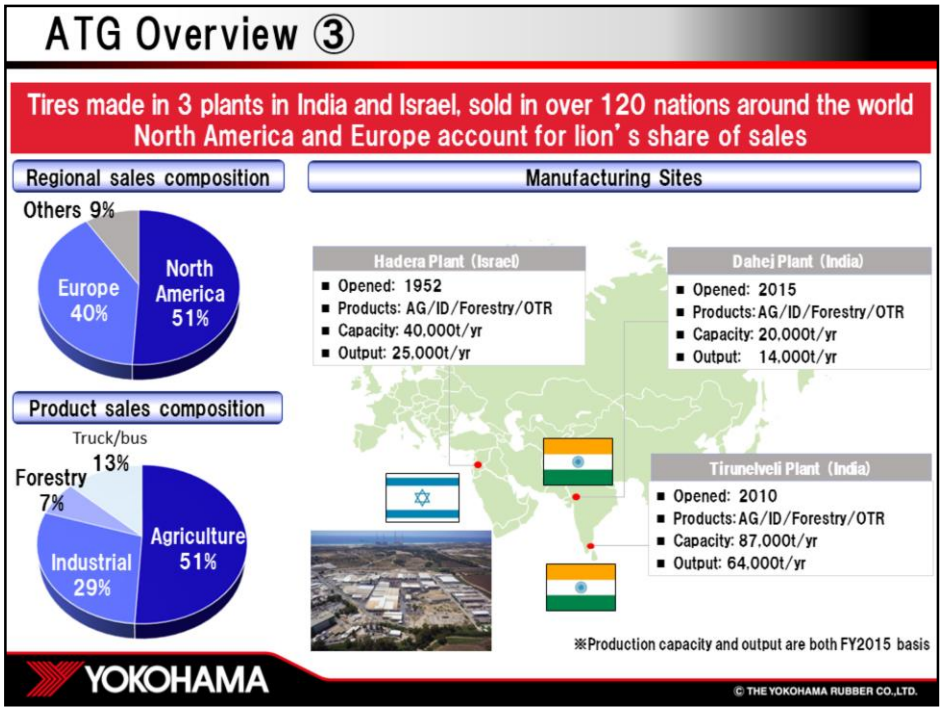
ATG specializes in the manufacture and sale of commercial tires used on agricultural, forestry, industrial, and construction machinery.

In fiscal 2015, it achieved net sales of US$529 million and operating income of US$95 million.



ATG has accumulated three tire brands — Alliance, Galaxy and Primex — with a combined product lineup of more than 2,000 tires of various sizes.

The Alliance brand is strong in Europe, while the Galaxy and Primex brands' core market is North America.

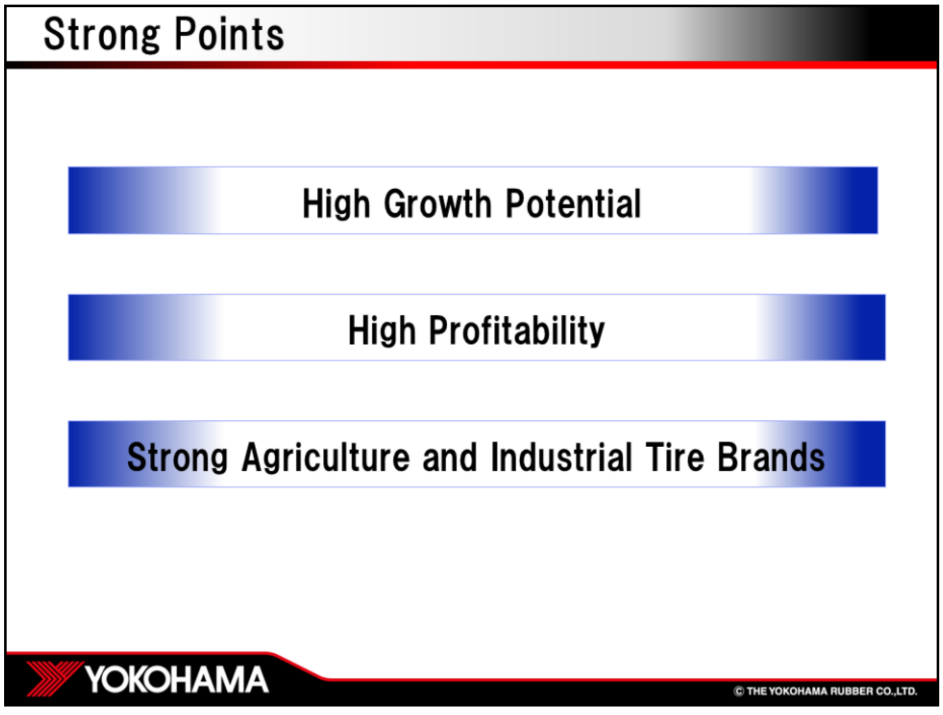


ATG has three tire manufacturing plants, one in Israel and two in India.

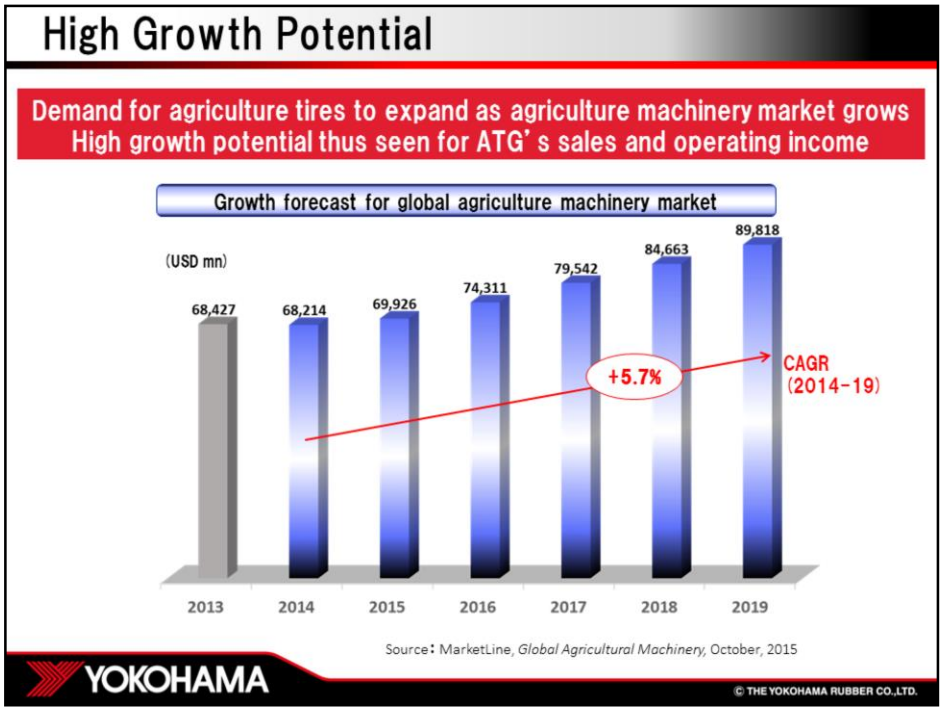
The Israel plant began operations in 1952 and primarily makes higher-value-added tires.

The two plants in India are newer, having come on line in 2010 and 2015.

ATG's main markets are in North America, which accounts for about 50% of total sales, and Europe, about 40%. By product, agriculture-use tires account for 51% of total sales, industrial-use 29% and forestry-use 7%.

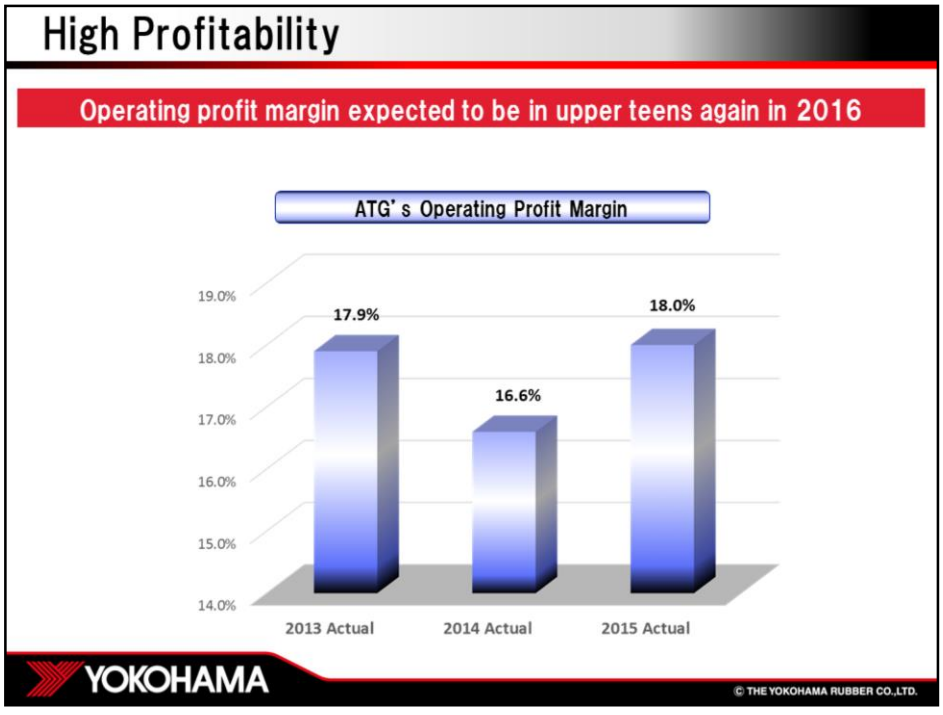


ATG has three core strengths: high growth potential; high profitability; strong agriculture- and industrial-use tire brands.



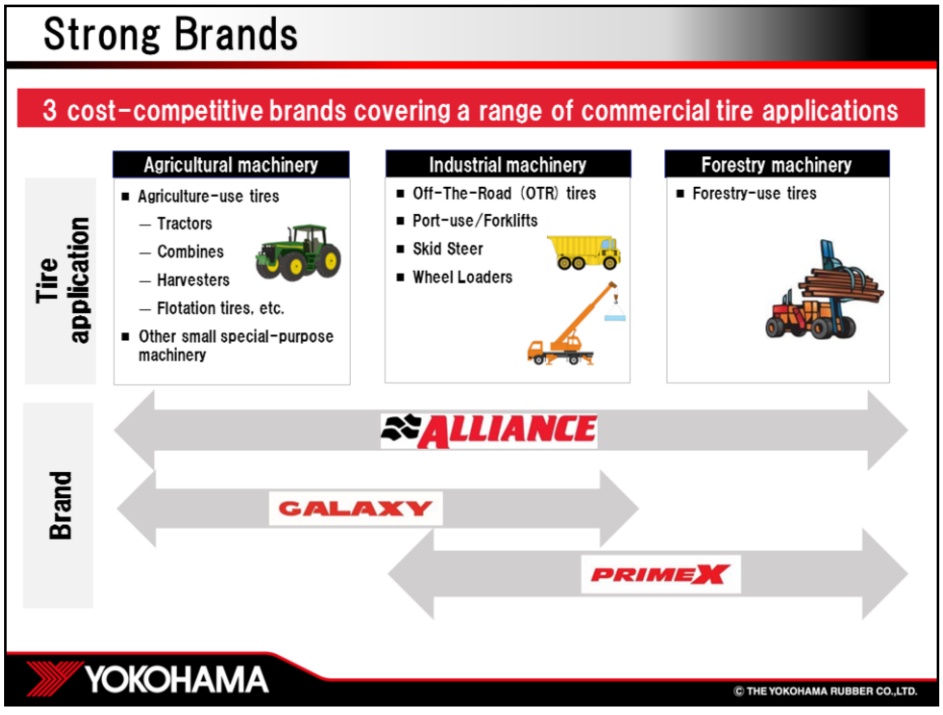
ATG's high growth potential is supported by expanding demand for agricultural machinery.

According to an independent market research firm, the global market for agricultural machinery is forecast to grow at CAGR of 5.7% from 2014 to 2019. We think ATG has correspondingly high growth potential.



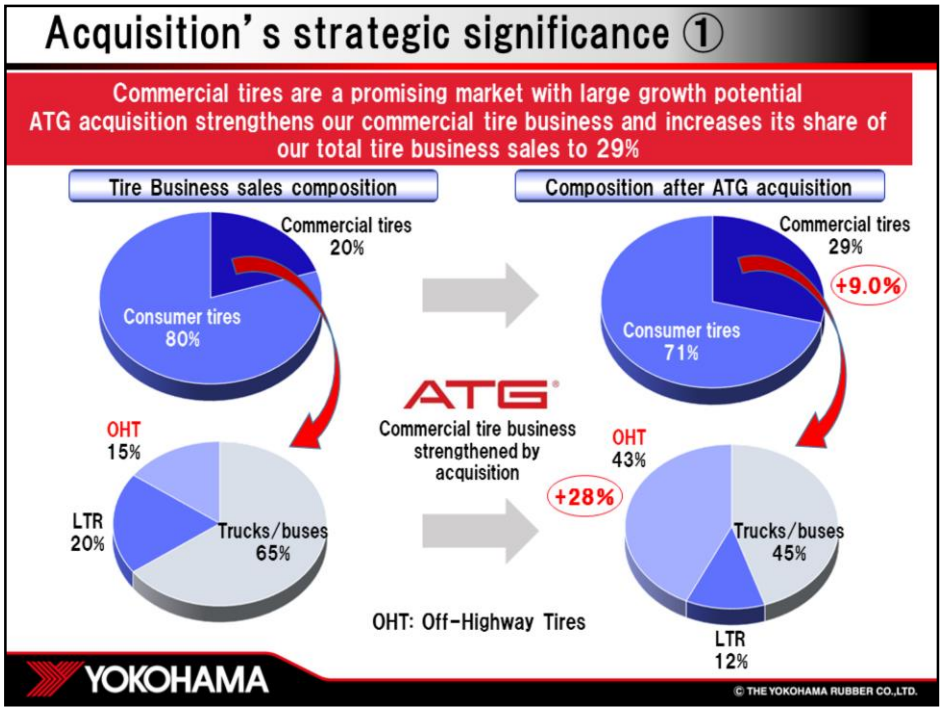
Next, let's look at ATG's profitability.

ATG can boast a very high operating profit margin. Its margin has consistently been in the upper teens, at 17.9% in 2013, 16.6% in 2014, and 18% in 2015.



ATG's third key strength is its brand power.

Alliance brand sales are primarily in Europe, while the Galaxy and Primex brands' sales are centered on the North American market. All three have established strong reputations as commercial tire brands.

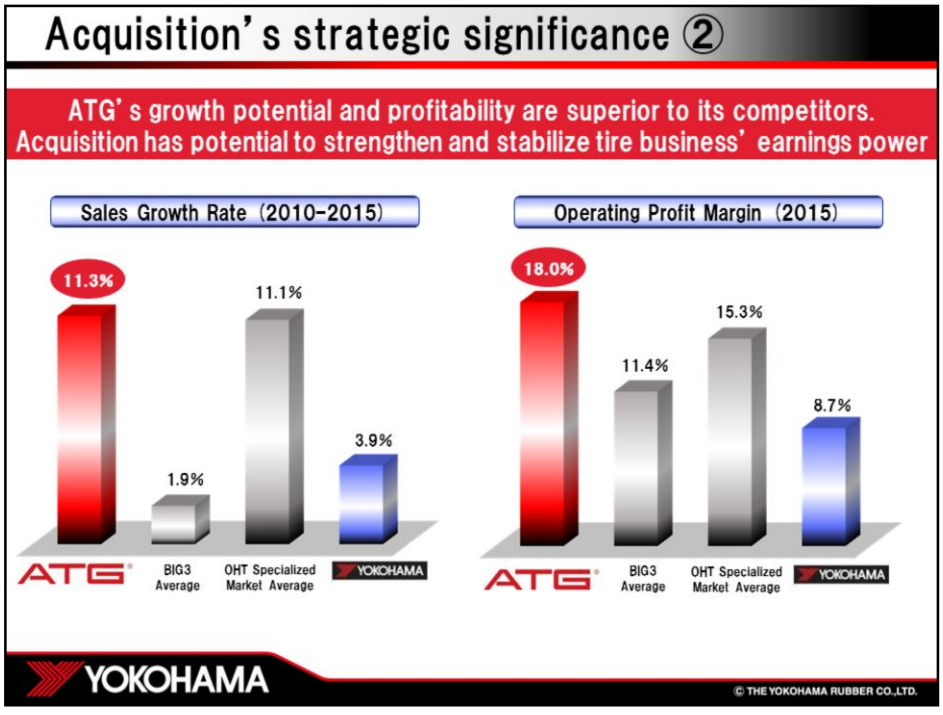


Next I would like to explain the significance of the ATG acquisition.

First, it improves our product portfolio.

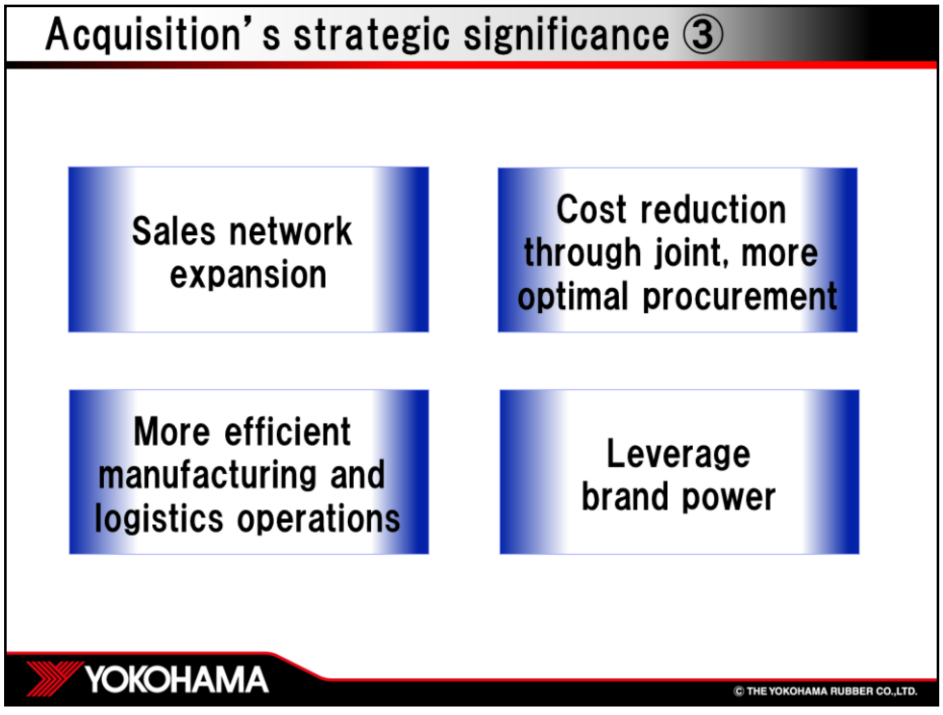
Prior to the acquisition, our annual tire business sales were about ¥500 billion, with passenger car and other consumer tires accounting for 80% of sales and commercial tires, primarily truck and bus tires, just 20%. The ATG acquisition gives us a better 70–30 balance.

The acquisition also improves the product portfolio within our commercial tire business. Prior to the addition of ATG, truck, bus, and light truck tires accounted for 85% of our commercial tire sales against just 15% for off-highway tires. ATG greatly improves that balance to 57–43. We expect that raising the share of agriculture-use tires in our product portfolio will help stabilize the business' earnings performance because sales of these tires are less vulnerable to shifts in the economic environment.



The ATG acquisition also brings us a business with strong growth potential.

ATG's sales increased at an average annual clip of 11.3% from 2010 to 2015. Its operating profit margin in 2015 was 18%. These figures not only are higher than the averages for the OHT industry, they are considerably higher than the results achieved by the comprehensive tire makers, including Yokohama Rubber.



Lastly, we expect the acquisition to generate synergies in four key areas.

It will enable us to expand our sales network, achieve more efficient manufacturing and logistics operations, reduce costs through joint and more optimal procurement, and take advantage of the strength of ATG's three brands. We expect these synergistic effects will increase annual Group operating income by more US$15 million three years from now.

Acquisition Details

Acquired all ATG shares held by KKR and all other shareholders for US$1.2 billion

Acquisition target	100% of the common stock of Alliance Tire Group B.V.
Acquisition price	US1.18 billion ※ Acquisition price based on equity value after considering interest-bearing debt
Acquisition completed	July 1, 2016
Funding sources	Cash reserves and bank loans

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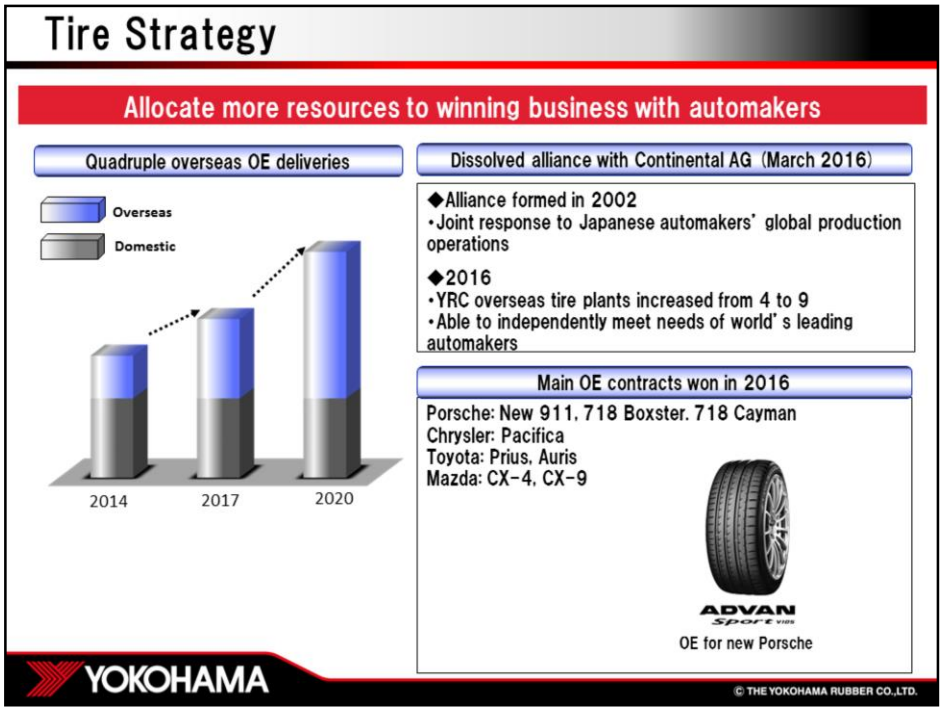
The acquisition of ATG was completed on July 1, and the acquisition prices was based on the company's equity value of about US$1.18 billion.

That concludes my explanation of the content and aims of the ATG acquisition.

Next, I would like to introduce the initiatives being taken in line with the Tire Business' strategy during GD100 Phase IV.



The first initiative in our Tire Strategy is to allocate more resources to winning business with automakers.

By 2020, we plan to quadruple overseas factory fitments of our tires for use as original equipment from the 2014 level. One recent move toward the achievement of that goal was the dissolution in March this year of Yokohama Continental Tire, our joint venture with Continental AG

The joint venture was established in 2002 as a response to Japanese automakers' expanding global production network. Since then, however, we have expanded our own overseas tire plant network to nine plants. Accordingly, Yokohama rubber and Continental agreed to end our alliance and respond separately to the needs of Japanese automakers. We believe the dissolution of the joint venture will enable us to respond more independently to the global procurement needs of Japanese automakers, which will enable us to further strengthen our business.

So far this year we have 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, Chrysler, Toyota, and Mazda.

The second initiative in our Tire Strategy is to strengthen our presence in our principal markets.

This summer we entered our second season as a sponsor of the English Premier League's Chelsea Football Club. Following the unveiling of the teams new uniform for the 2016–2017 season, we produced a visual advertisement featuring the new uniform and are using this advertisement to raise recognition of the YOKOHAMA brand around the world.

We also are aggressively introducing new tire products. This year, we launched worldwide sales of the latest offering from our global flagship ADVAN tire brand—the ADVAN FLEVA V701 is a high-performance sport tire targeted at a wide user base. We also introduced a new SUV tire, the GEOLANDAR A/T G015, to markets around the world, beginning with a launch in North America. Both tires have also been available in Japan since this August. In addition, we will launch the iceGUARD SUV G075, a new SUV studless tire, in Japan from this September.

On the motor sports front, this year we became the official tire supplier for the Japanese SUPER FORMULA Championship series, Asia's ultimate Formula racing series and the racing category closest to F1 racing. Tires used in these races therefore must apply the same advanced technologies found in F1 tires. Our active involvement in motor sports events around the world enables us to demonstrate our superior product development and technological capabilities, thereby enhancing the YOKOHAMA brand image and presence in global markets.

Tire Strategy

Tire annual production capacity, by country

Unit: 10,000 tires

	Plant		2013	2014	2015	2016	2017	2018
Japan	Mie	(TB/LT)	590	590	590	590	590	590
	Mishima	(PC)	1,390	1,390	1,390	1,390	1,390	1,390
	Shinshiro	(PC)	1,410	1,410	1,410	1,410	1,425	1,475
	Shinshiro-minam	(PC)	280	280	280	280	280	280
	Domestic total		3,670	3,670	3,670	3,670	3,685	3,735
Overseas	USA	(PC)	620	620	620	620	620	620
		(TB)	60	60	60	100	100	100
	Philippines	(PC)	800	1,000	1,160	1,190	1,250	1,250
	China	(PC)	550	740	850	935	1,065	1,065
		(TB)	34	34	34	34	34	34
	Thailand	(PC/LT)	400	400	400	400	400	400
		(TB)	35	35	35	35	35	35
	Russia	(PC)	140	160	160	160	160	160
	India	(PC)	–	40	70	70	70	70
	Overseas total		2,639	3,089	3,389	3,544	3,734	3,734
Overseas capacity as % of total capacity			42%	46%	48%	49%	50%	50%
Global total			6,309	6,759	7,059	7,214	7,419	7,469

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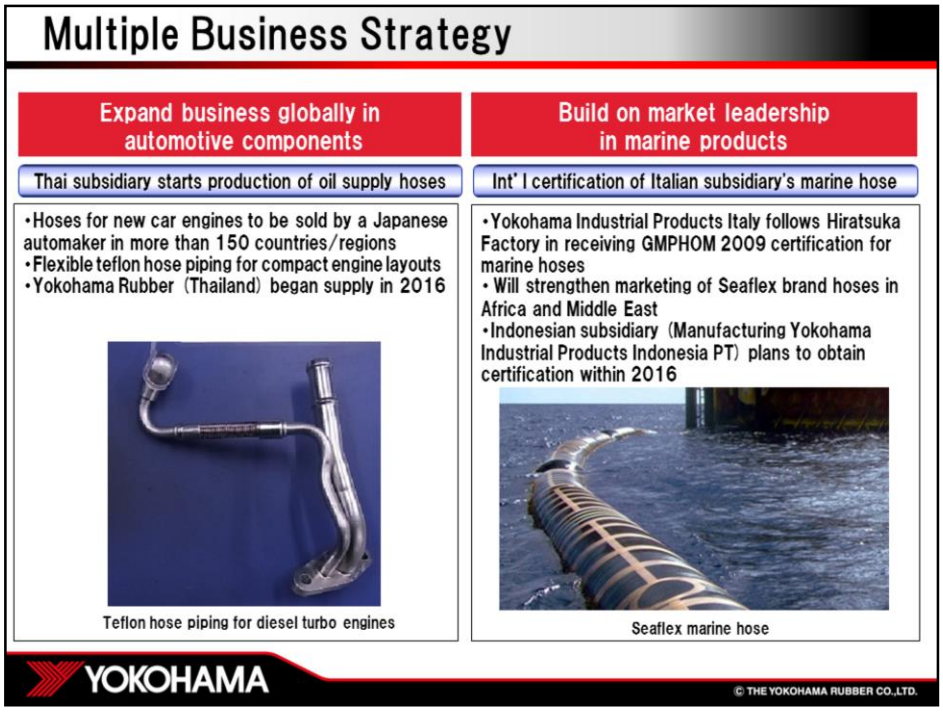
This table shows our plans for tire production capacity in each country up to 2018.

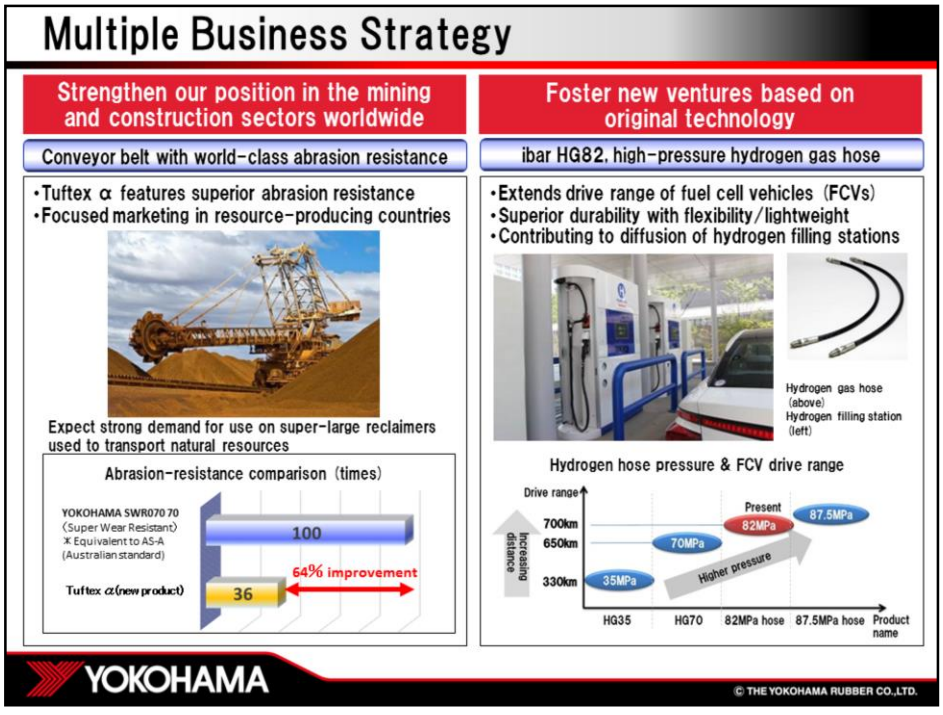
During GD100 Phase IV, we plan to invest ¥120 billion in production facilities and expand total annual capacity from just under 68 million tires in 2014 to almost 75 million in 2018. We will also plan to increase overseas capacity to 50% of our global production capacity. Looking a bit further out, we plan to increase global capacity to 89 million tires by the end of 2020.



Next, I will briefly explain our Multiple Business strategy.

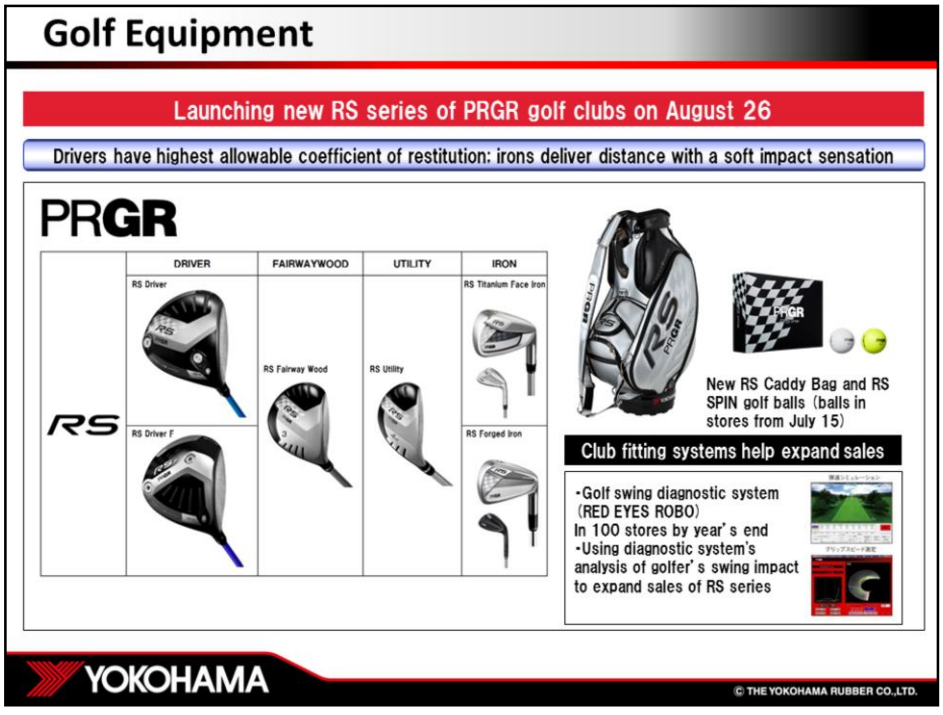
First, as part of our plan for expanding business globally in automotive components, we started production of oil supply hoses for Toyota at Yokohama Rubber (Thailand). Our flexible teflon hose piping for compact engine layouts will be used in a new engine that Toyota plans to install in cars to be sold in more than 150 countries and regions by 2020.

As part of our plan to build on market leadership in marine products, in 2014 we bought an Italian marine hose manufacturing and sales company, which we have renamed Yokohama Industrial Products Italy. This spring, the company received international certification for production of our Seaflex brand marine hoses. The Seaflex brand has established a strong reputation for reliability with users around the world, and we now plan to step up marketing of the Italian-made Seaflex hoses to users in African and the Middle East. In addition, our marine products manufacturing and sales subsidiary in Indonesia is preparing to begin operations and plans to obtain international certification of the Seaflex brand during 2016.



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. This spring we introduced 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. The new product's abrasion resistance is 64% higher than that of our previous offering, the super wear resistant conveyor belt SWR-70.

We are also targeting to foster new ventures based on original technology. We recently began sales of ibar HG82, a hydrogen gas hose developed in cooperation with Iwatani Industrial Gases Corporation that has a dispensing pressure of 82 megapascals. The hose combines superior durability with superior flexibility and lightweight that make it easy to transport and facilitates the filling operation. The development of high-pressure hydrogen storage systems is extending the drive range of fuel cell vehicles. In support of that trend, we will continue our efforts to develop hydrogen hoses capable of dispensing hydrogen fuel at higher pressures.

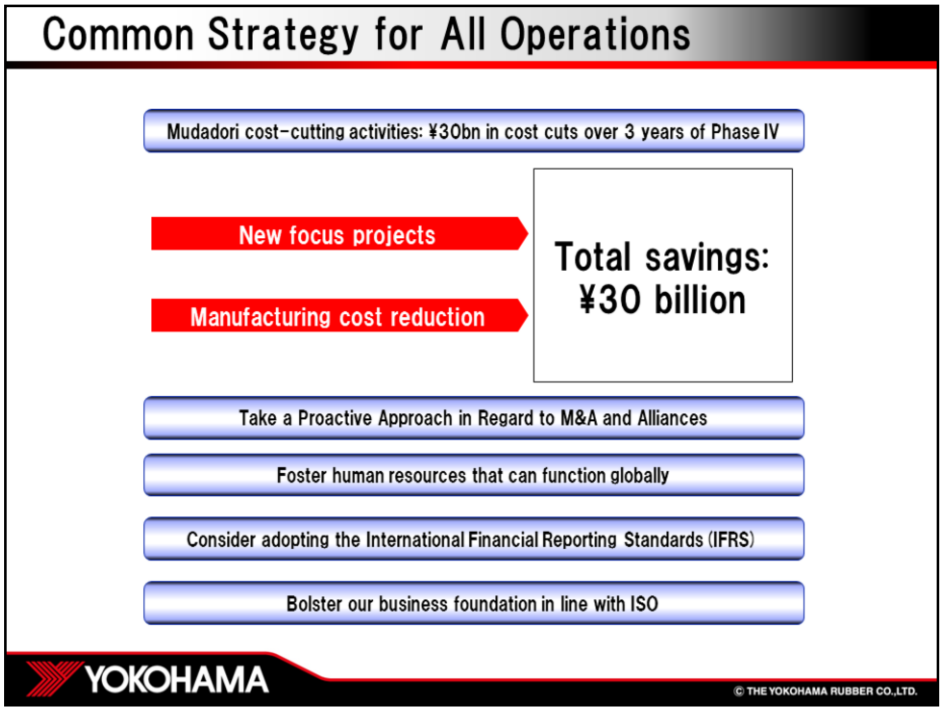


Next, let's look at our Golf Equipment business.

On August 26 our PRGR brand of golf equipment will launch the RS series, including drivers, fairway woods, utility clubs, and irons. The drivers' face deflection has been increased to raise the coefficient of restitution to the highest level permitted by tournament rules. The drivers also feature a high initial velocity area that has been expanded to the highest level available in a golf club.

The RS series has been used on a trial basis by a number of sponsored and non-sponsored tour pros since the start of the current season, and the good results achieved with the clubs has brought the clubs to the attention of golfers before they have become available in golf shops.

We are also increasing the number of golf shops equipped with our RED EYES ROBO golf swing diagnostic system, which we plan to have in 100 shops by the end of this year. Considering the increasing number of golfers who want to try clubs before purchasing, we think that the opportunity to diagnose their swing using this system will lead to increased sales of our RS series.



Our companywide strategy, which is implemented by all units of the company, includes our "Mudadori cost-cutting", 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.

We also are carrying out a number of other thematic initiatives, such as the proactive consideration and promotion of corporate acquisition and alliances.

Yokohama Rubber CSR/ESG initiatives are based on core subjects that the Company must tackle to fulfill our responsibilities to each of our stakeholders and constituencies. Highlights from these activities during the first half of 2016 included the receipt of two awards in April recognizing the excellent environmental practices at our tire manufacturing subsidiary in the US state of Virginia. One award was from a local environmental NPO and the other from the State of Virginia.

Meanwhile in Japan, in April our employees supported a tree-planting event for local students at the “Heisei Forest” in Iwate Prefecture’s Otsuchi Town. Yokohama Rubber also established the YOKOHAMA Magokoro (Sincere Heart) Fund by employees as a social contribution fund to provide funding for worthy social programs, including programs that promote environmental preservation and the protection of human rights. The fund will also be used to provide donations to the victims of earthquakes and other serious natural disasters. For its part, the Company established a matching gift system that matches the contributions to the fund made by its employees.

Lastly, I would also like to note that we regard corporate governance and compliance as important management issues, and we intend to further strengthen related organizations and structures.

GD100

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