FY2017 Interim Results Briefing

The Yokohama Rubber Co., Ltd.
August 10, 2017

I am Masataka Yamaishi, President of Yokohama Rubber.

Regarding the fire at Yokohama Tire Philippines, Inc. (YTPI)

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First of all, I would like to report on the fire that occurred at the Yokohama Tire Philippines' tire plant in May this year, and I would like to take this opportunity to once again express our sincerest apologies for the inconveniences and concerns this unfortunate event has caused to all concerned parties.

Plant Fire Details

YTPI Information

■Location: Clark Freeport Zone in the Philippines

■Site area: 452,000m² (building floor space: 205,000m²)

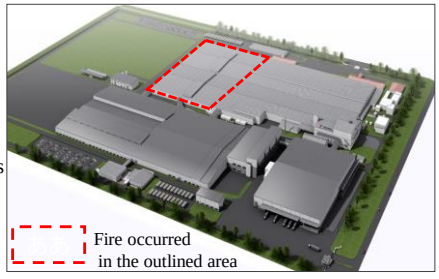
Fire Details

■Time of outbreak: May 14 at about 3:00 p.m. local time; extinguished at about 11:00 p.m.

■Area affected: Approximately 17,400m² in the northeast sector of YTPI's East Plant.

■Damage summary: Partial damage to buildings and production facilities; destruction of products stored in a warehouse

■Expected loss on FY17 accounts: About ¥5.0 billion



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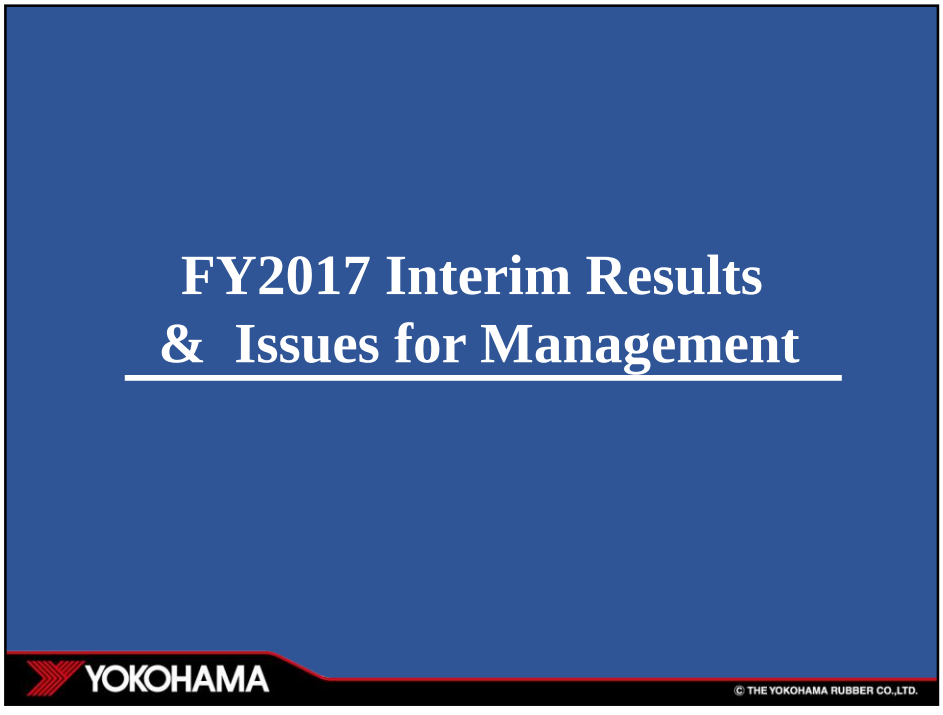
Yokohama Tire Philippines is located in the Clark Freeport Zone on the island of Luzon. The plant's tire output is primarily exported to Europe and the United States.

The fire broke out at about 3:00 p.m. on May 14 and was completely extinguished by 11:00 p.m. that day. As shown in the diagram on this slide, the affected area was about a 17,400 square meter section the East Plant's northeast sector. The fire damaged the building, production equipment, and on-site inventory. We expect to report damage-related losses of about ¥5.0 billion on our FY2017 accounts.

The entire Yokohama Rubber Group is taking actions to strengthen our safety measures to ensure that such fires do not occur in the future.

2017 is the Yokohama Rubber Group’s centennial year. It is also the final year of “GD100", our long-term strategic plan initiated in 2006.



Next, I will provide a brief summary of our activities in first half of the final year of our “GD100” as well as the issues facing us and initiatives being taken as we prepare for Yokohama Rubber’s next 100 years.

We plan to announce our first post-GD100 medium-term plan when we release FY2017 results next February.

2017 Earnings Performance

(billion yen)

		Jan-Jun 2017	Jan-Jun 2016	% chg
First-half	Net sales	310.8	268.1	+15.9%
	Operating income	18.4	15.7	+16.8%
	Operating income margin	5.9%	5.9%	0%

		2017 (forecast)	2016	% chg
Full-year	Net sales	660.0	596.2	+10.7%
	Operating income	50.0	42.3	+18.2%
	Operating income margin	7.6%	7.1%	+0.5%

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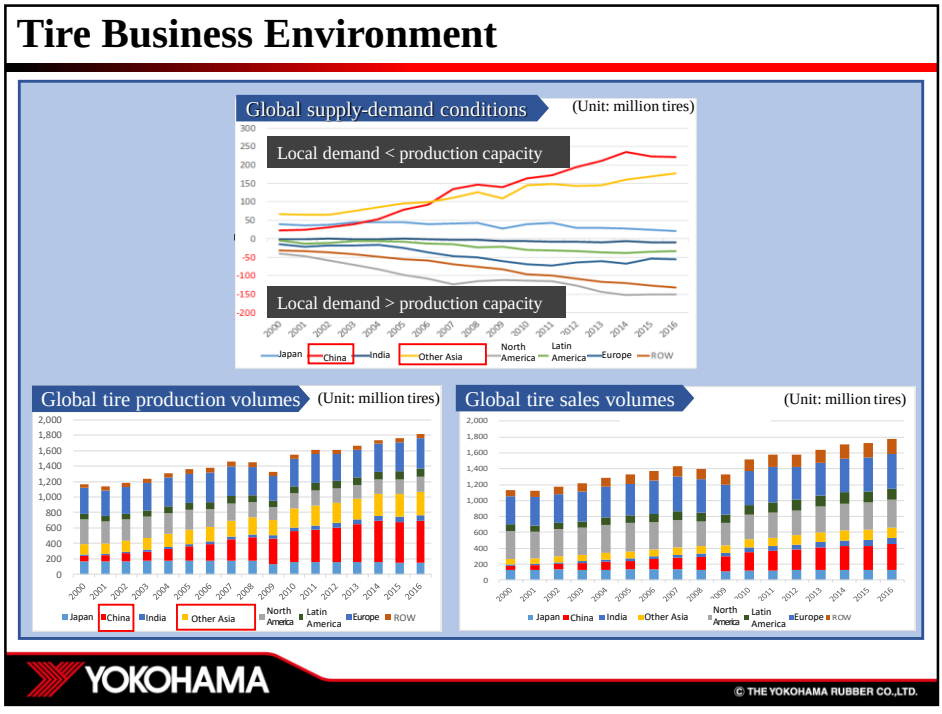
In the first half of 2017, as announced the other day, we achieved year-on-year growth in sales and profits.

We forecast sales will increase 10.7% year on year to ¥660.0 billion and operating income will expand 18.2% to ¥50.0 billion.

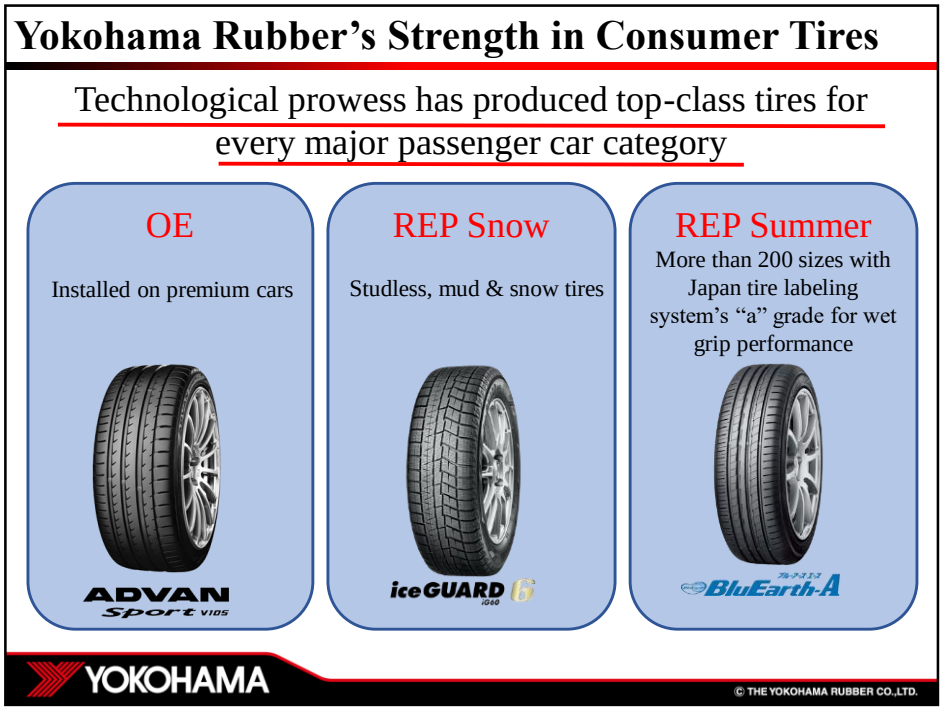
The head of our accounting department will discuss these figures in more detail later. My presentation will focus on the initiatives being taken at each of our businesses.

Tires

Let’s start with the Tire segment.



Except for a setback during the 2008 global recession following the Lehman Shock, global tire demand has been on a steady upward trend for decades. However, the recent growth drivers have been China and Asia, which has tended to accelerate commoditization of the tire market. I would like to briefly explain our response to this management environment.



For starters, allow me to introduce our strengths consumer tires, where we have developed top-class tires for each major product category, namely the OE (original equipment for new cars), REP Snow (replacement market snow tires) and the REP summer (replacement market summer tires).

The world tire industry comprises more than 200 makers, but less than 20 of these companies, including Yokohama Rubber, are delivering tires to automakers in Japan, the US and Europe. An even smaller number of tire makers, again including Yokohama Rubber, supplies tires for the premium car market.

In the REP Snow category, we have top-class tires for all subcategories, from stud and studless to mud and snow tires used on SUVs.

In the REP Summer category, as of August 2017 we boast the world's broadest product lineup, with 200 sizes, all of which have been awarded the ultimate "a" ranging for wet grip performance by Japan's tire labeling system. Only a few of the world's tire makers, including Yokohama Rubber, supply racing tires for the replacement tire market.

Next, I would like to present the recent results and initiatives we are taking in each of these categories.

OE (Original Equipment for New Cars)

Dissolution of alliance with Continental AG

Enables us to respond independently to global production by Japanese automakers

▼

We won contract to supply OE tires for US-made Subaru Impreza

Strong sales to China OE market

Stricter fuel-efficiency standards raise required tire performance levels

▼

Winning new OE contracts for high-value-added tires helped drive up 1H sales

Suzhou Yokohama Tire plant

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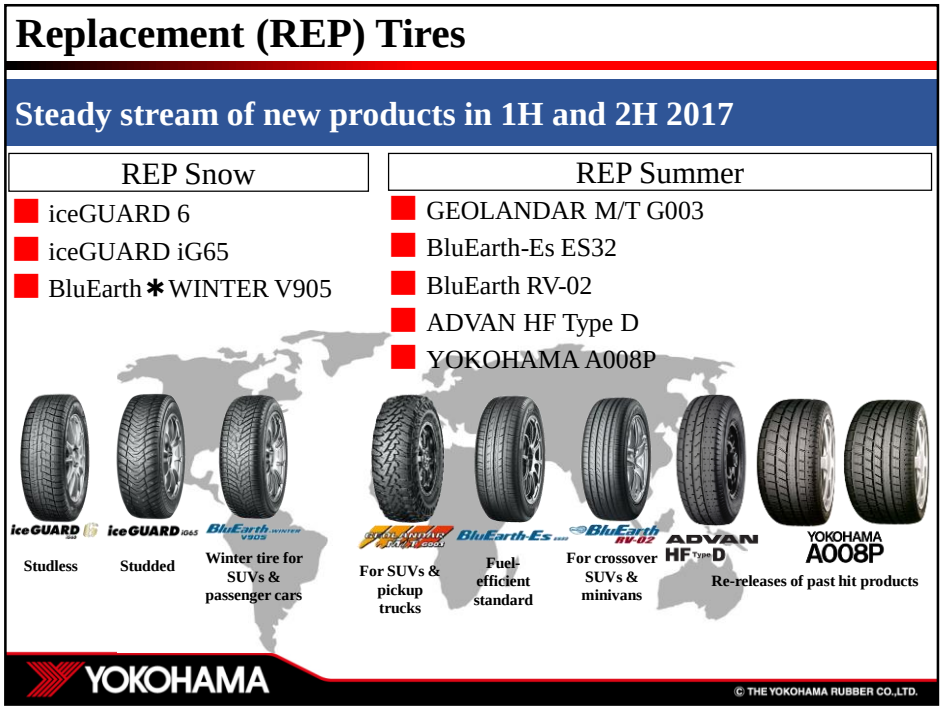
We steadily expanded our OE sales in the first half. We are now supplying OE tires for use on many popular Japanese models in foreign markets, such as the SUBARU XV, Mazda CX-5 and the Toyota Vitz (Yaris).

In March 2016, we dissolved our tie-up with Germany's Continental AG. The dissolution enables us to independently pursue business with Japanese automakers in countries and regions where the tie-up previously prevented us from acting on our own. The first big result to emerge from this change was our winning a contract last year to supply OE tires for Subaru Imprezas made in the United States.

Meanwhile, China's increasingly strict automobile fuel-efficiency standards are raising required tire performance levels, which in turn is bringing us more enquiries from Chinese automakers for our fuel-efficient tires. Against this backdrop, stronger OE demand for our high-performance tires helped drive up our sales in China during the first half.



Next, let's look at our recent initiatives in the REP Snow and REP Summer categories.

In the REP Snow category, we soon will be launch several new products, including the studless iceGUARD 6, the studded iceGUARD iG65, and the BluEarth＊WINTER V905, a winter tire for both passenger cars and SUVs.

Meanwhile, first-half rollouts of new REP Summer tires in Japan and overseas included the GEOLANDAR M/T G003 for SUVs and pickup trucks, the fuel-efficient BluEarth-Es, and the BluEarth RV-02 for crossover SUVs and minivans.

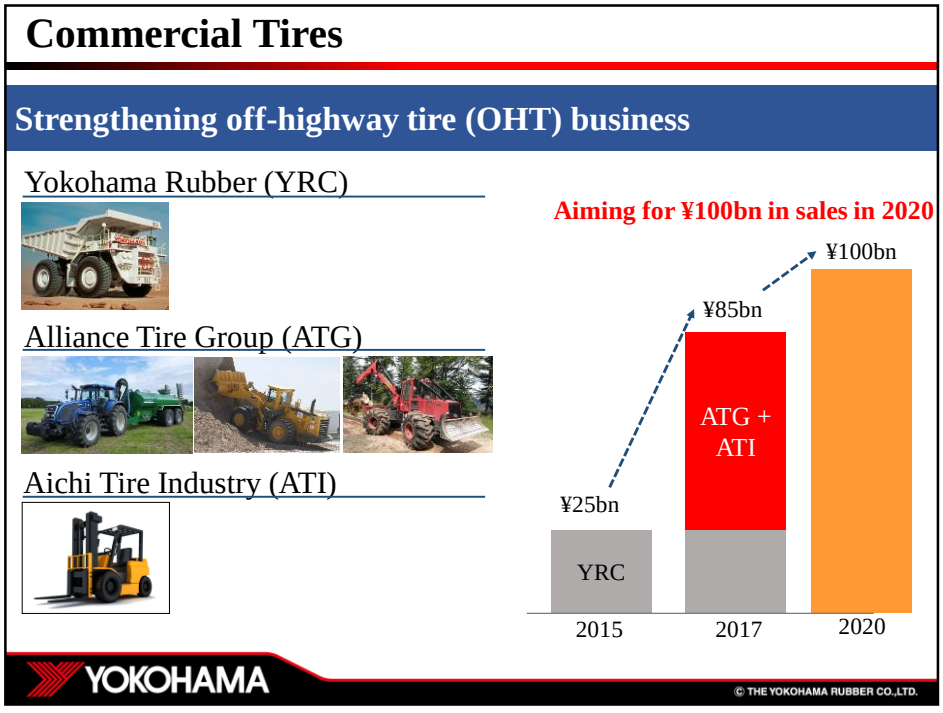
We will also re-release two big hits from the past, the ADVAN HF Type D and the YOKOHAMA A008P.

Along with new product introductions, we have been actively promoting our company image via the five-year sponsorship agreement signed in 2015 with Chelsea FC of the English Premier League. This past season, Chelsea captured the league championship. Our connection with the team is beginning to increase our tire sales in England and other European countries as well as in Asian countries, such as Thailand.

We have expanded our approach to the replacement tire market in Europe by launching the ALLIANCE brand as a second brand of passenger car tires from the YOKOHAMA Group.

ALLIANCE is the commercial tire brand of the Alliance Tire Group, which we acquired in 2016. From this May we began using the same brand name for passenger car tires targeted at the European market. This enables us to maintain the higher-value-added image of our YOKOHAMA brand while aiming to increase sales and profits by expanding into the commodity tire zone.

We are now taking measures to expand sales of both brands, with one such initiative being the inclusion of the ALLIANCE logo on the Chelsea FC jersey along with the YOKOHAMA logo.



Next, I'd like to explain some of the ways in which we are strengthening our commercial tire business. Off-highway tires, which have high profit margins and are expected to enjoy steady sales growth, have been positioned as the core product of our commercial tire business.

In 2015, sales of these tires focused on tires for off-the-road vehicles and totaled ¥25.0 billion. However, following the acquisitions of the Alliance Tire Group in 2016 and Aichi Tire Industry earlier this year, we expect our combined sales of off-highway tires to reach ¥85.0 billion in 2017. Furthermore, we will strive to create synergies with the two new group companies and aim for combined sales of ¥100.0 billion in 2020, which would place us among the world's Top 5 in this market segment.

Global Tire Annual Production Capacity

Expanding capacity in China

Unit: 10,000 tires

	Plant		2014/12	2015/12	2016/12	2017/12	2018/12	2019/12	2020/12
Japan	Mie	(TB/LT)	590	590	590	590	590	590	590
	Mishima	(PC)	1,390	1,390	1,390	1,390	1,390	1,390	1,390
	Shinshiro	(PC)	1,410	1,410	1,410	1,425	1,475	1,480	1,480
	Shinshiro-minam	(PC)	280	280	280	280	280	280	280
	Domestic total		3,670	3,670	3,670	3,685	3,735	3,740	3,740
Overseas	USA	(PC/LT)	620	620	620	620	620	620	620
		(TB)	60	60	100	100	100	100	100
	Philippines*	(PC)	1,000	1,160	1,190	1,250	1,250	1,250	1,250
	China	(PC)	740	850	935	1,065	1,106	1,266	1,350
		(TB)	34	34	34	0	0	0	0
	Thailand	(PC/LT)	400	400	400	400	400	400	400
		(TB)	35	35	35	35	35	35	35
	Russia	(PC)	160	160	160	160	160	160	160
	India	(PC)	40	70	70	70	70	70	70
	Overseas total		3,089	3,389	3,544	3,700	3,741	3,901	3,985
Overseas capacity as % of total capacity			46%	48%	49%	50%	50%	51%	52%
Total			6,759	7,059	7,214	7,385	7,476	7,641	7,725

*2017–2020 figures are based on planned capacity prior to the fire at YTPI.

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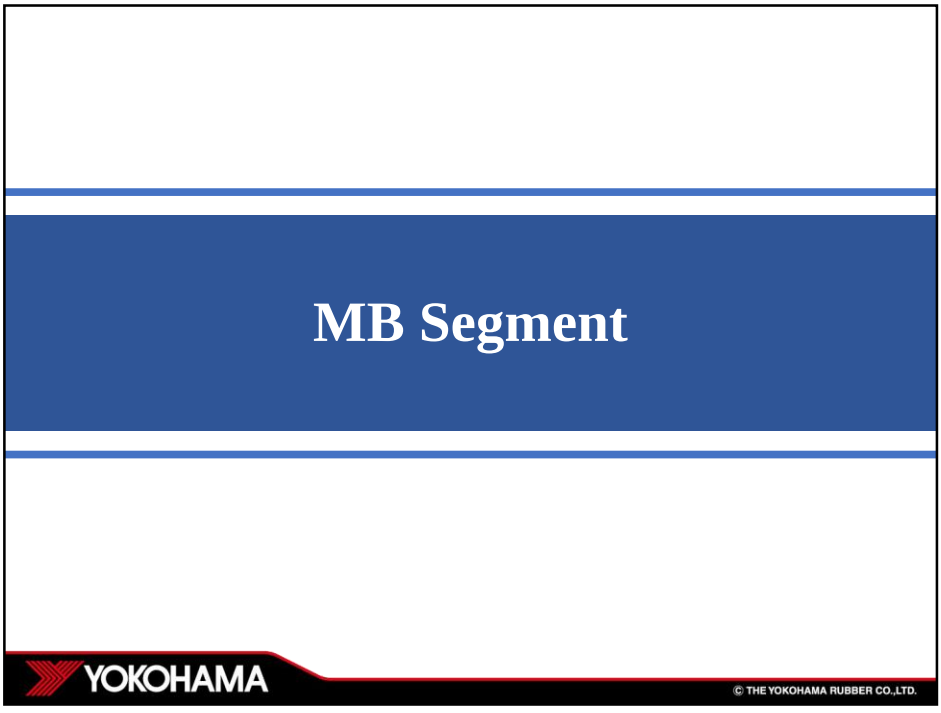
I will conclude my comments on our Tire Segment with an explanation of our plans for production capacity.

This table shows our plans for tire production capacity in each country up to 2020. The figures shown for the Philippines are based on plans drawn up before the fire at YTPI that I mentioned at the start of the presentation.

As initially announced in 2014, we plan to expand our tire production capacity each year until 2020.

The biggest increase will be in China, where we plan to expand capacity to 13.5 million tires by 2020, an increase of 2.85 million units from 2017, as we aim to meet the robust growth in demand for OE tires in that country.



I will now comment on our Multiple Business, or MB, segment.

MB Segment

Strengthening overseas business

Supply automotive hoses to automakers in North America

- Air conditioner hoses
- Oil cooler hose assemblies

Oil cooler hose assembly

Obtain international certification for our high-pressure hoses

- Launched mid- and high-grade products meeting US and European standards
- Obtaining offshore classification supports expansion of sales for use on ships and at port facilities

Versatran high-pressure hose

Won major contracts for conveyor belts in Southeast Asia

- Government-run thermal power plant in Thailand
- Copper mine in Philippines

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In the MB segment, we plan to expand our business overseas, where we see potential for growth. We are focusing our efforts on our core strengths in automotive hoses and marine products.

In 1H 2017, we stepped up our efforts to market our automotive hoses, including oil cooler hose assemblies, to automakers in North America. Targeting further expansion of this business, we are now establishing a global supply system.

In the high-pressure hose area, we are aggressively seeking international certification of our products and strengthening our overseas sales structure.

In addition, we received major orders for our conveyor belts from customers in Southeast Asia, including a state-run thermal power plant in Thailand and a copper mine in the Philippines.

MB Segment

Responses to robust civil engineering and construction activity in Japan

Supplying hose assemblies to Obayashi Corp.

Developed low-extension hydraulic hose assembly for new excavator

Obayashi's new excavator
(Photo courtesy of Obayashi Corp.)

Expanding lineup of urethane waterproof building coatings

July launch of Urban Roof SF, coating with enhanced environment properties

Urban Roof SF

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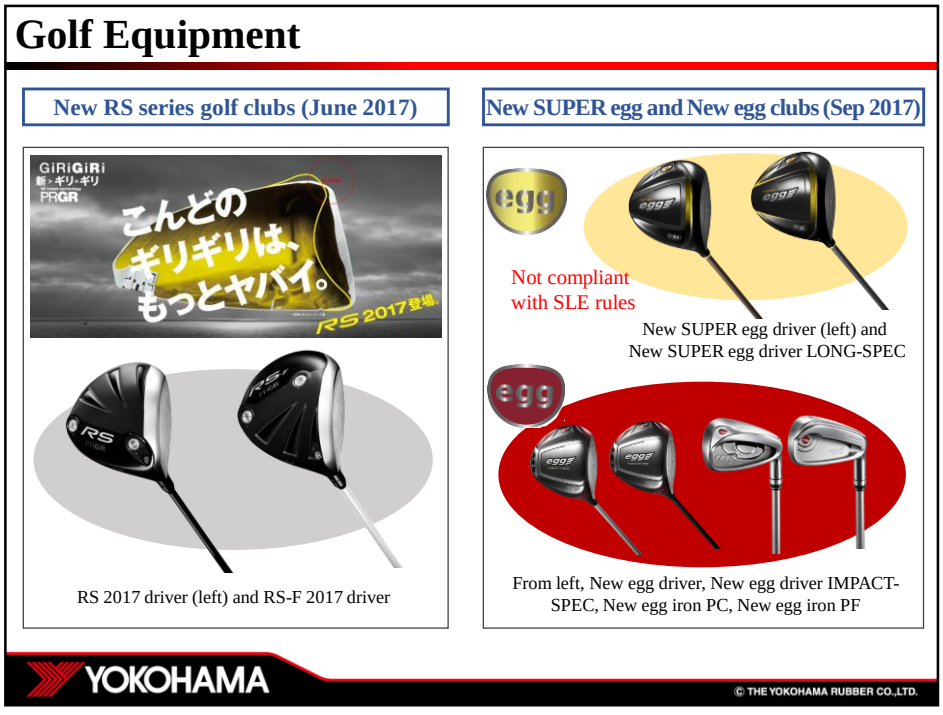
Our MB segment is also responding to the needs of Japan's civil engineering and construction industries, which are seeing a boom in activity.

In the civil engineering domain, we began supplying hose assemblies for a new excavator being used by Obayashi Corporation, one of Japan's major general contractors.

In the building construction area, this July we began marketing Urban Roof SF, a urethane-based waterproof coating for use on office buildings and condominiums.

The new coating has enhanced environmental properties that we expect will lead to its increased use as a urethane-based waterproof coating, demand for which has been expanding recent years.

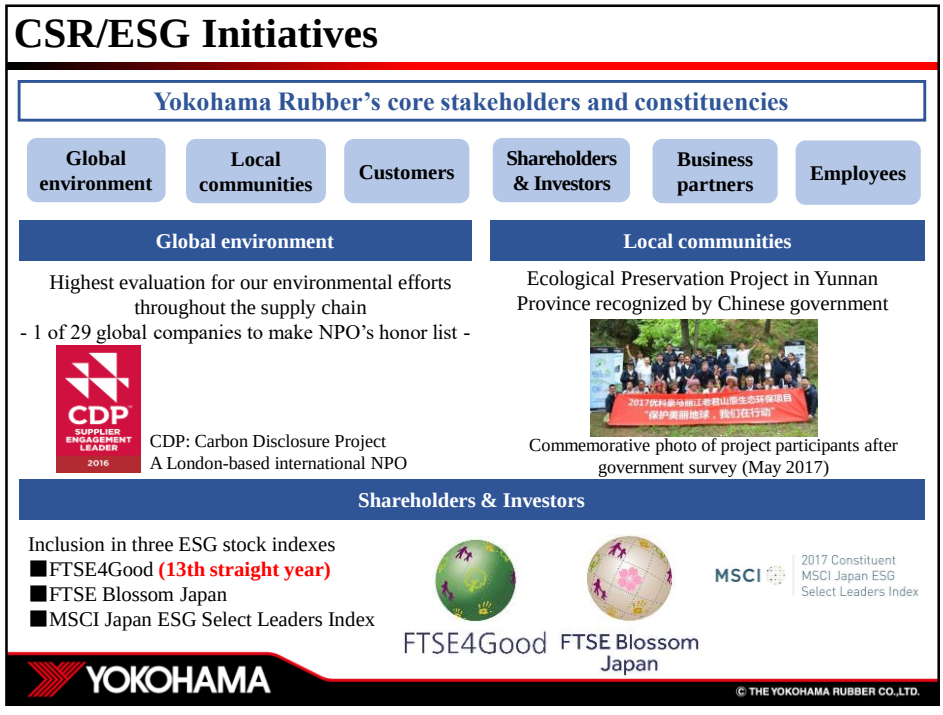
Next, let’s look at recent developments at our golf equipment business.



This June, we introduced the RS 2017 and RS-F 2017 drivers, the latest additions to our RS golf clubs. The RS 2017 is designed for easier draw shots while the RS-F 2017's design makes it easier to hit fade shots. Sales of both are exceeding our expectations.

In addition, this September we will launch renewal models of our New SUPER egg and New egg drivers, clubs designed to deliver longer flight distance. The New SUPER egg driver does not conform with golf's rules governing a club's spring-like effect and therefore has been popular with senior golfers seeking to regain the driving distances of their younger playing days. Sales have expanded steadily since its introduction in 2015, and we have high hopes for the new model. The New SUPER and New egg sets both include two drivers, a fairway wood, and a utility club. The New egg set also includes two irons.

Next, I would like to highlight a few recent achievements of our corporate social responsibility activities.



In January this year, our environment protection efforts received the highest possible evaluation by CDP, an international NPO. Yokohama Rubber was one of 29 companies recognized, of which only eight are Japanese companies.

Meanwhile, one of our efforts on behalf of our local communities—an Ecological Preservation Project in China's Yunnan Province that we have actively supported since 2011—was recognized by a national survey that plays an important role in government policy decisions.

Lastly, in the Shareholders & Investors category, we were selected for the 13th straight year for inclusion in the FTSE4Good Index of companies demonstrating strong Environmental, Social and Governance (ESG) practices. In addition, we have been included in two of the three new ESG indexes that Japan's Government Pension Investment Fund decided to invest in from this July.

As I mentioned at the start of my presentation, we will celebrate the 100th anniversary of the establishment of Yokohama Rubber this October. To commemorate this milestone and express our sincere appreciation of our supportive shareholders, we plan to distribute special commemorative dividends of ¥5 per share at the interim and again at the end of the year.

In closing, I want thank all of you for your attendance and kind attention today. I look forward to your continued support and encouragement in the future.