Review of Operations

MB group

Multiple Business

In the MB Group, sales declined 15.9% in fiscal 2010, to ¥98.8 billion, and operating income declined 74.3%, to ¥880 million. Those declines reflected weak sales in the group's main products, especially in high-pressure hoses and conveyor belts. A business highlight of the year was sales growth in golf products.

We expect sales and earnings to rebound in the MB Group in fiscal 2011. Our projections call for sales to rise 9.3%, to ¥108.0 billion, led by growth in high-pressure hoses but including growth in most product sectors. And we expect operating income to increase more than fivefold, to ¥4.5 billion.

HIGH-PRESSURE HOSES

Slumping demand in construction equipment and automobiles

Our sales of high-pressure hoses declined 24.4% in fiscal 2010, to ¥27.6 billion. Demand for hydraulic hoses and automotive hoses slumped in Japan, our largest market for those hoses. Undercutting demand were declines in Japanese production of construction equipment and automobiles, though output turned upward in the fiscal second half.

In the United States, our subsidiary YH America, Inc., increased its hose production capacity with the purchase of manufacturing equipment and translated that increase into sales growth. Sales at another U.S. subsidiary, SAS Rubber Company, declined on account of the fiscal first-half decline in automobile production. Sales also declined at our subsidiaries SC Kingflex Corporation, in Taiwan, and Yokohama Rubber (Thailand) Co., Ltd.

Highlighting our marketing in Japan in fiscal 2010 were stepped-up efforts to cultivate business with new customers. That included reaching out to small and medium-sized manufacturers of construction equipment. Overseas, we supplemented our business in supplying hoses to equipment manufacturers with new business in marketing replacement hoses for construction equipment and for machine tools. We supported that new business by dispatching personnel to North America and to Southeast Asia to monitor and analyze market needs.

In fiscal 2011, we project sales growth of 19.6% in high-pressure hoses, to ¥33.0 billion. Underlying that projection is the recovery under way in Japan and overseas in the production of construction equipment and automobiles. That recovery promises to support growth in sales of hydraulic hoses and automotive hoses. We are working to maximize our growth potential by making the most of our new business in replacement hoses overseas and by fostering demand in Japan.

INDUSTRIAL PRODUCTS

Weak demand in Japan and overseas

We posted a 21.3% decline in sales of industrial products in fiscal 2010, to ¥23.4 billion. That decline reflected weakness in Japan and overseas in all of our main products in this category: conveyor belts, marine hoses, marine fenders, anti-seismic rubber-and-steel fittings for protecting bridges and other structures from earthquakes, and rubber joints for road surfaces on bridges. We expect sales to increase 13.2% in fiscal 2011, to ¥26.5 billion, led by growth in conveyor belts and marine hoses.

The fiscal 2010 sales decline in conveyor belts resulted from a sharp drop in demand at overseas mining projects. Business with those projects had accounted for most of our sales growth in conveyor belts in recent years. Mining demand is recovering in the resurgent economies of Asia and Oceania, and we are eyeing renewed growth in conveyor belts in fiscal 2011. We are bolstering our growth prospects by supplying a growing portion of our conveyor belts from a Chinese subsidiary. Those conveyor belts, fully comparable in quality to our Japanese products, increase our cost competitiveness.

In marine hoses, the sales decline in fiscal 2010 reflected a decline in the number of large oil-development projects worldwide. Activity in oil development is recovering gradually in fiscal 2011, engendering expectations of a sales upturn in marine hoses.

Bucking the overall weakness in marine fenders in fiscal 2010 were orders for buoys for preventing contact between oil tankers. We expect sales to remain steady in marine fenders in fiscal 2011.

Japanese budgetary reductions in public works spending diminished demand for our anti-seismic rubber-and-steel fittings for protecting bridges in fiscal 2010. Amplifying the downturn was our fulfillment of orders in the previous fiscal year in connection with a Japanese freeway construction project. We are aiming to avoid a further sales decline in fiscal 2011 despite Japan's continuing cutbacks in public works spending. Our marketing includes promoting anti-seismic fittings as maintenance replacements for conventional fittings and deploying new and improved products.

The fiscal 2010 sales decline in rubber joints for road surfaces on bridges reflected the cutbacks in public works spending. We are working to achieve renewed sales growth in fiscal 2011 by expanding business in replacement joints for maintenance work.

SEALANTS AND ADHESIVES

Sluggish demand for construction sealants

Our sales of sealants and adhesives declined 5.3% in fiscal 2010, to ¥22.9 billion. Operating profitability improved greatly in this product category, however, as raw material prices declined, as we made progress in raising productivity, and as we switched to less-expensive materials where possible.

Construction starts for office buildings and condominiums in Japan continued to decline, and that undercut demand for our biggest-selling product in this category, construction sealants. Our business in automotive sealants expanded, as Japanese vehicle production began to recover in the fiscal second half. That upturn supported sales growth for us in windshield sealants and in hot-melt sealants for automotive lamps.

Overseas, our sales of sealants were steady at Yokohama Rubber (Thailand) but declined at YH America. Sealant business at both of those companies began growing in the fiscal second half, supported by recoveries in vehicle production.

We project that sales in sealants and adhesives will grow 2.6% in fiscal 2011, to ¥23.5 billion. Office building and condominium construction remains sluggish in Japan, and a further sales decline in construction sealants appears unavoidable. We expect

The Boeing 737: a family of short- and medium-haul airliners that is the manufacturer's best-selling product line
Yokohama: the exclusive supplier of lavatory modules for the 737—up to four per aircraft—since 2004

strong growth in automotive sealants, though, as the recovery in vehicle production gains momentum worldwide. A government program of incentives for energy-efficient housing took effect in Japan in March 2010, and that promises to occasion growth in sales of sealants for single-family homes.

Cultivating new markets

Developing new markets has been a priority for us in recent years in sealants and adhesives. Our work has focused on studying possibilities and developing products to serve the growing demand in electronic components and materials and in solar cells. In January 2010, we launched a hard-coating product, VH322F, for protecting the surfaces of plastic materials. That product combines extreme hardness with greater toughness than other coatings of similar hardness. We have begun filling orders for VH322F from manufacturers of home appliances, who welcome its performance in preventing scratches and cracking.

In February 2010, we launched a sealant, M-155P, for solar cell modules. Manufacturers use our sealant to affix the solar panels to aluminum frames and to prevent water vapor from getting inside. M-155P features important advances in heat resistance and in adhesiveness.

AIRCRAFT PRODUCTS

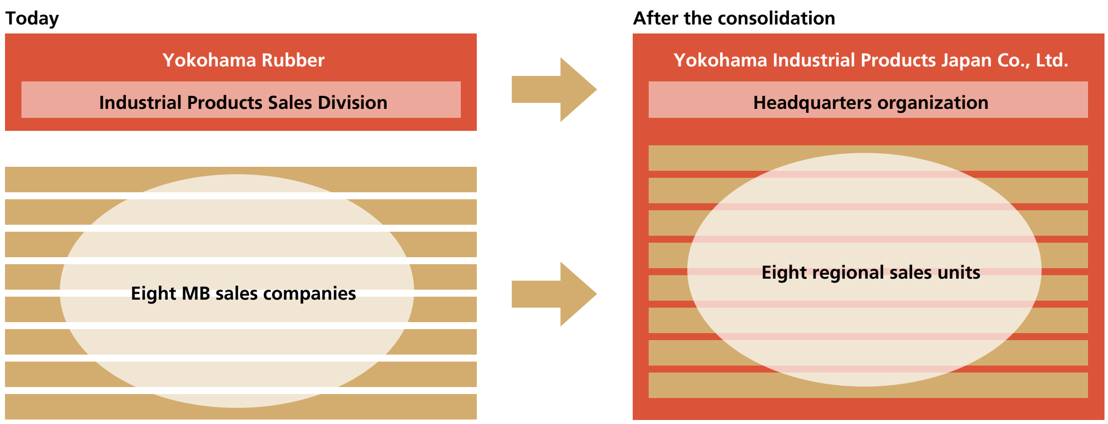
Stagnant demand across the public and private sectors

We posted a 5.2% decline in sales of aircraft products in fiscal 2010, to ¥15.4 billion. Business suffered from weak demand in the public and private sectors in Japan and, in overseas business, from the appreciation of the yen. Our government business languished amid a dearth of large-volume orders for applications in new aircraft and a decline in orders for replacement products. In the private sector, our business volume was basically steady in lavatory modules and drinking-water tanks for new commercial aircraft. Fiscal weakness in the airline industry worldwide obliged airlines, however, to postpone orders for replacement equipment.

We project growth of 3.9% in aircraft products in fiscal 2011, to ¥16.0 billion. Government demand remains sluggish, but private-sector demand for replacement equipment is beginning to recover. We are striving, meanwhile, to achieve profitability growth in excess of our projected sales growth. Our efforts include raising prices, modifying product specifications to reduce material costs, and training and deploying employees to handle a flexibly variable range of work.

Consolidating MB sales operations in Japan

We will consolidate our eight Japanese sales companies and the headquarters sales unit for high-pressure hoses, sealants and adhesives, conveyor belts, anti-seismic rubber-and-steel fittings for structures, and rubber joints for road surfaces. Those operations will all become part of Yokohama Industrial Products Japan Co., Ltd., which we will establish on October 1, 2010. The new company will sharpen our marketing focus in industrial products. It will retain the closeness to customers that its predecessor sales companies established, and it will complement that closeness with strengthened ties to manufacturing. We are counting on our new subsidiary to make us more responsive than ever to customer needs and expectations.

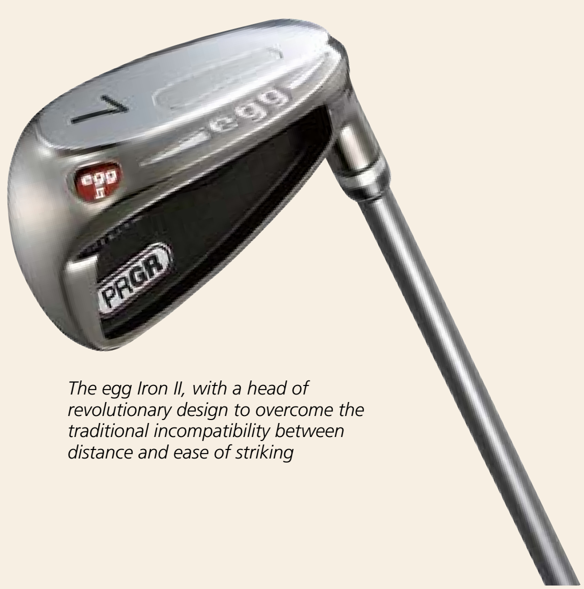


GOLF PRODUCTS AND OTHER PRODUCTS

Strong sales of golf clubs despite market weakness

Sales of golf products and other products declined 11.9% in fiscal 2010, to ¥9.5 billion. That decline occurred despite sales growth in golf products and resulted from reduced revenue from miscellaneous products. Leading our sales gains in golf equipment was growth in golf clubs in Japan, where the market was generally weak. A product highlight was our popular Silver-Blade line of putters, designed to optimize roll. Another highlight was our series of clubs dubbed egg. We have incorporated counterintuitive design concepts in that series to achieve parallel improvements in range and in ease of striking, and the egg clubs have become popular with a wide range of golfers.

Japan's market for golf equipment appears likely to continue shrinking in fiscal 2011, and we project a sales decline in golf products and other products of 5.6%, to ¥9.0 billion. We will strive to maintain sales momentum by launching golf products conceived to differentiate our equipment advantageously from the competition's. And we will step up our efforts to cultivate markets outside Japan.



The egg Iron II, with a head of revolutionary design to overcome the traditional incompatibility between distance and ease of striking