

Tires

Operating income in our tire operations increased 20.9% in the fiscal year ended March 31, 2011, to ¥25.0 billion, on a 12.0% increase in sales, to ¥411.6 billion. The sales growth comprised gains in Japan and overseas and more than offset the adverse earnings effect of the rising prices for raw materials and the appreciation of the yen.

In Japan, our tire products for improving fuel economy earned a strong market reception, and our market share in replacement tires expanded. Leading our sales growth overseas were strong gains in the United States and in China. Note that the sales and earnings figures for overseas subsidiaries are for the calendar years ended three months earlier than the parent company's fiscal years.

JAPAN

Sales contributions from fuel-saving tires and from studless winter tires

In Japan, we posted sales gains in value and in unit volume in replacement tires and in original equipment tires. We made the most of a recovery in replacement demand in passenger car tires by promoting fuel-saving tires and studless winter tires. The launch of the BluEarth series, our new flagship line in fuel-saving tires, was highly successful, and that stimulated demand for all our offerings in products focused on fuel efficiency.

Our strong sales performance in studless winter tires reflected heavy snowfall and the continuing popularity of our Ice GUARD TRIPLE PLUS studless tire. That product, launched in September 2010, combines excellent grip on icy surfaces with good fuel economy.

We also posted sales gains in truck and bus tires. Demand remained strong for our ZEN truck tires, which feature good fuel economy with long-life durability, and that improved our sales mix in truck and bus tires. The ZEN series is especially popular with transport operators, who welcome its multifaceted contributions to cost savings. It also meshes well with the mounting sentiment for reducing emissions of greenhouse gases.

Japanese demand for tires appears unlikely to grow significantly in the present fiscal period, but we are aiming to increase our monthly unit sales and operating profitability. Our marketing efforts will include promoting BluEarth tires and other tire offerings in the premium and middle-market segments. We will also raise prices as necessary to offset the continuing upward trend in raw material costs.

Factory fitments on a broadened range of vehicle models

Winning factory fitments on a broadened range of models enabled us to expand our market share and increase our sales in original equipment tires. We achieved that growth even while sharpening our focus on sound margins to address the rise in material costs. Our efforts included working out a sliding-price arrangement with automakers that links tire prices to an index of raw material prices.

Japanese automakers remain our biggest customers in the original equipment sector, and our performance in that sector in the present fiscal year will hinge on their progress in recovering from the Great East Japan Earthquake. We will continue striving to secure sound margins while pursuing new business in original equipment tires.

North America

US unit sales gains complemented by price hikes and cost reductions

Determined, strategic marketing helped us capture the full momentum of recovering demand for tires in the United States, and we posted sales gains in value and in unit volume there. Accompanying unit sales growth with price hikes and with cost cutting, we succeeded in



The AVID Touring-S all-season tire offers a remarkably comfortable, quiet ride.



This car, the AEROPRIUS YURASTYLE neo, traveled 1,000 miles on Yokohama BluEarth tires without refueling. Designed and driven by the prominent racecar designer Takuya Yura, it accomplished the feat in November 2010.

offsetting the adverse earnings impact of the rising cost of raw materials and the appreciation of the yen.

Supporting our sales gains in passenger car tires was progress in cultivating new sales outlets and in expanding business in ongoing relationships with large retailers. Leading our US sales growth in passenger car tires were the AVID Touring-S, our best-selling all-season tire; the AVID ENVigor, a high-performance all-season tire that features superb handling and excellent fuel economy; and tires for sport-utility vehicles.

We also posted growth in the United States in unit sales of truck and bus tires. Stepped-up marketing to transport operators contributed to that growth. Another contributor to sales growth was the continuing popularity of our ZEN truck tires. Launched in the United States in 2009, the ZEN tires have won high customer regard for their wear resistance and fuel savings, and they have helped raise overall value-added in our sales portfolio.

Tire demand in the United States continues to expand in the present fiscal year. We project further gains there in sales momentum, both in value and in unit volume, and we also project gains in profitability. Our plans call for business growth in passenger car tires and in off-the-road tires, though supply constraints could prevent us from matching the past year's sales pace in truck and bus tires.

REVIEW OF OPERATIONS

A new production line under construction at our Salem (Virginia) Plant will help us keep up with US demand. That line will increase the plant's production capacity to 6,200,000 passenger car tires a year by the end of 2011, from 5,600,000 a year presently.

We regard the high and rising prices for raw materials, meanwhile, as a structural, long-term phenomenon. In response, we continue working to earn market acceptance for price increases for our tires in the United States, to optimize our sales portfolio, and to reduce costs throughout our US operations.

Canadian business steady

Our Canadian business was basically steady in the past fiscal year in regard to sales by value and in regard to profitability. Positive business developments in Canada included sales gains for our AVID ENVigor high-performance all-season tire and sales growth in truck and bus tires and in off-the-road tires.

Our unit sales in the Canadian tire market declined on account of a decline in winter tires. Quebec enacted a law in 2009 that requires motorists to equip their vehicles with winter tires from December 15 to March 15. That occasioned a surge in demand in Quebec, and the decline in demand in the past fiscal

year was partly a recoil effect of that surge. It also reflected the light snowfall of a warm winter.

We expect demand for winter tires to return to its historical norm in winter 2011–2012. And we project sales growth, both in value and in unit volume, and gains in profitability.

Asian Nations besides Japan

Growth of more than 30% in China

Tire demand in Asia's emerging markets was resurgent in the past fiscal year, and we achieved solid growth in unit sales volume. We addressed the rising cost of raw materials and the strengthening yen by accompanying our unit sales gains with price hikes and cost cutting.

Our unit sales increased more than 30% in China, our largest Asian market outside Japan. We made the most of recovering demand by cultivating new sales channels and by working to raise our market profile. Our Chinese business in studless winter tires expanded solidly in 2010, and we also posted solid growth in other high-value-added tires, such as the AVS dB.

Sales of our tires were robust in other Asian markets, too, increasing more than 20% in Malaysia, Thailand, and India. Our Malaysian distributor was

Yokohama has been an official sponsor of the Asia Cross Country Rally for 11 years. That event is the largest cross-country rally held in Asia under the auspices of the Fédération Internationale de l'Automobile (FIA). The 2011 edition of the competition unfolded from August 6 to 11 in Thailand and Cambodia. In the photo is a Toyota FJ Cruiser equipped with Yokohama GEOLANDAR tires and driven in the rally by the actor and sometimes rally driver Show Aikawa.



notably successful with marketing measures for capitalizing on expanding demand. In Thailand, the sales company that we established in 2008 has made steady progress in cultivating sales channels, and it achieved strong sales growth in the past fiscal year with a strategy focused on high-performance tires. Our sales in India have grown steadily since we established a sales company there in 2007. That company has worked effectively in structuring a logistics framework and in building a network of affiliated retailers.

Tire demand in Asian markets continues to rise in the present fiscal period, and we are eyeing further gains in sales momentum. We are eschewing the low end of the market, where imports from China and the Republic of Korea are undercutting prices. Focusing on up-market business, we are fortifying our presence in passenger car tires with the premium-grade, comfort-oriented ADVAN dB and with the fuel-saving C.drive2. We are also fortifying our market presence by expanding our Yokohama Club Network of affiliated retailers.

Sweeping expansion in store for Philippine manufacturing

The expansion work under way at our Philippine tire plant will unfold in two phases. In the first phase, we will increase the plant's production capacity to 10 million tires a year by 2013, from 7 million presently. In the second phase, we will expand the plant's capacity to 17 million tires a year by 2017. We have earmarked ¥50 billion in aggregate funding for the two-phase expansion.

Our Philippine plant produces tires for passenger cars, including sport-utility vehicles, in the size range from 13 inches to 18 inches. It is mainly an export platform, shipping tires to Europe, to North America, and to other Southeast Asian nations. North America will be the destination for most of the additional output that will result from the increases in production capacity.



The production capacity at Yokohama Tire Philippines, Inc., will increase 2.4-fold by 2017, to 17 million tires a year.

Europe

Gratifying growth

We posted unit sales gains amid recovering demand in the European tire market. As in other regions, rising raw material costs and the appreciation of the yen affected earnings adversely. Successful efforts to minimize the effect of those negative factors included increasing sales of high-value-added products and raising prices for our lower-priced products.



This is a scene from the samurai-themed television commercial for Yokohama tires, Master of the Road. The commercial has aired in several nations to wide acclaim.

REVIEW OF OPERATIONS

Geographically, our sales growth was especially strong in Russia, and we also posted growth in Germany, Italy, and the United Kingdom. We achieved gratifying sales gains in our flagship ADVAN line of high-performance tires and in our GEOLANDAR tires for sport-utility vehicles. Increased supply allocations to Europe enabled us to increase our sales there in truck and bus tires, too.

We continue working in the present fiscal period to reinforce our European profitability by securing market acceptance for price hikes and by promoting high-value-added products. In passenger car tires, we are devoting special emphasis to the C.drive2, which is the successor to the C.drive and which offers excellent wet-surface handling, and to the GEOLANDAR series. Another marketing emphasis will be our top-of-the-line fuel-saving tire, the BluEarth-1, which we launched in Europe in April 2011.

In truck and bus tires, we are vigorously promoting our ZEN series, which offers excellent fuel efficiency and wear resistance and which we launched in Europe in 2010. We are augmenting our ZEN offerings in Europe with new sizes and are preparing to launch completely new products in truck and bus tires there.

Double-digit sales gains in Russia

Our sales volume in Russia is well above two million tires a year and expanded at a double-digit pace in the



Here is one of the hundreds of Russian retail outlets in the Yokohama Club Network.



The all-around GEOLANDAR A/T-S, for sport-utility vehicles, provides superior performance on and off the road.

past fiscal year. That growth was a tribute to progress in fostering ties with a growing range of wholesalers and retailers. Affiliated retailers in our Yokohama Club Network numbered more than 500 at fiscal year-end.

We are building a tire plant in the Lipetsk special economic zone, south of Moscow, which is slated to begin operation in 2011. The plant will have an initial production capacity of 700,000 tires a year, and we will soon begin work on doubling that capacity. Our expanded supply capacity in Russia will enable us to recruit more member retailers for the Yokohama Club Network and to broaden our marketing coverage in that nation. We are reinforcing our sales organization in Russia by dispatching technical support engineers and marketing specialists.

The Middle East

Middle Eastern tire demand, supported by high oil prices, was robust despite the disruptions caused by popular uprisings in several nations. Our sales increased, even as we raised prices to absorb the earnings impact of rising raw material costs. Gains in passenger car tires more than offset a downturn in truck and bus tires, where our price hikes diminished unit volume.

Demand continues to grow in the Middle East in the present fiscal period, and we are increasing our supply allocations to the region to maintain our sales momentum there. A version of our A.drive passenger car tire specially configured for heat resistance is strengthening our presence in mass-market tires. We are promoting that product mainly in the Gulf States. In truck and bus tires, our price competitiveness is improving as competitors begin raising prices.

Oceania

Sales of Yokohama tires in Australia and other nations of Oceania increased. That increase reflected a strong recovery from the previous fiscal year in shipments to automakers in Australia. Supply constraints undercut our business in the replacement market for passenger car tires, and our sales also declined in truck and bus tires.

We are working in the present fiscal period to rebuild our sales momentum in the replacement tire market in Oceania. Our measures include bolstering our market presence in passenger car tires with the fuel-saving C.drive2 and the premium-grade, comfort-oriented ADVAN dB. In addition, we are

expanding our directly owned retail chain, Tyres & More. We are also moving to fortify our line of truck and bus tires with new products.

Latin America

Our unit tire sales in Latin America increased, led by strong growth in Argentina and by strength in high-performance passenger car tires, including the ADVAN Sport. We improved the profitability of our Latin American business by raising prices and by sharpening our focus on high-value-added products.

Supply constraints could prevent us from increasing our sales momentum in Latin America in the present fiscal period, but we will continue working to improve our profitability in the region. That will include introducing new products to improve our sales portfolios in passenger car tires and in truck and bus tires.

Africa

We posted unit sales growth in South Africa, the principal market for our products in Africa. Tire demand in South Africa recovered strongly as the nation's currency, the rand, regained strength, and as international prices for the nation's natural resources rose. Our sales of passenger car tires surged, though our business in truck and bus tires was weak amid intense price competition.

An African nation where we are cultivating demand as our second main market on the continent is Egypt. The lifting of an antidumping duty in 2009 made Egypt a viable market for imports, and our unit sales have grown rapidly since we began working with a newly contracted Egyptian distributor in September 2010.

We expect our sales momentum to remain strong in South Africa and in Egypt in the present fiscal period. To strengthen our market presence, we will augment our product line with the C.drive2 and the ADVAN dB, and we will expand our retailing networks.



This retail outlet in Argentina is part of the growing Yokohama Club Network in that nation.