Review of Operations

Tires

As noted elsewhere in this report, Yokohama has shifted to a calendar-year fiscal accounting, from an April-to-March fiscal accounting. That resulted in a one-time-only nine-month fiscal period ended December 31, 2011. Year-on-year comparisons of operating results are therefore impossible, and this report dispenses with any such comparisons.

Yokohama’s sales in tires totaled ¥379.2 billion in the nine-month fiscal period ended December 31, 2011, and operating income in this segment totaled ¥23.4 billion. In Japan, business was vigorous in replacement tires, though the Great East Japan Earthquake caused prolonged interruptions in vehicle production and therefore undermined demand for original-equipment tires. In overseas markets, Yokohama posted strong sales in replacement tires in North America, Europe, the Middle East, and Asian nations.

JAPAN
Strength in Consumer Tires Highlighted by BluEarth Product Launches

Japanese replacement demand for passenger car tires was strong in the nine-month fiscal period. A pattern of deferred purchasing that had persisted since the Lehman Shock of September 2008 gave way to resurgent demand, the postquake reconstruction effort spawned wide-ranging demand, and heavy snowfall generated demand for studless winter tires.

Yokohama fortified its product lines in consumer and commercial tires during the fiscal period with high-value-added products, and the Company absorbed cost increases by raising prices. Successful launches in passenger car tires included the BluEarth AE-01, a middle-market fuel-saving tire; the iceGUARD TRIPLE PLUS, a studless winter tire for passenger cars; the BluEarth-1, the top-of-the-line entry in the BluEarth family; and the BluEarth RV-01, for sport-utility vehicles. Strong sales in replacement tires more than offset postquake sluggishness in original-equipment demand in passenger car tires. In truck and bus tires, the Company bolstered its flagship ZEN brand with successful launches of the fuel-saving ZEN 702ZE, ZEN 902ZE, and ZEN 102ZE tires. It also augmented the ZEN lineup with the ZEN 903ZW studless winter tire.

In 2012, Japanese demand for consumer tires appears likely to slacken. That projection is on account of the absence of the special factors that boosted demand in the past fiscal period. Yokohama will be maximizing its momentum in passenger car tires by promoting the...
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In 2012, Japanese demand for consumer tires appears likely to slacken. That projection is on account of the absence of the special factors that boosted demand in the past fiscal period. Yokohama will be maximizing its momentum in passenger car tires by promoting the BluEarth line and other high-value-added products. It launched the middle-market BluEarth-A and the fuel-saving sport-utility tire GEOLANDAR SUV in February.

Japanese demand for truck and bus tires continues in 2012 to benefit from the postquake rebuilding. Yokohama will be serving that demand by expanding its ZEN product series and by upgrading its life-cycle support, from new tires to retreads.

NORTH AMERICA

Strong Momentum in High-Performance Products

Tire demand in North America weakened as the European debt crisis and political instability in oil-producing nations sparked concerns about a possible global economic slowdown. Yokohama posted a strong sales performance there in passenger car tires and in Yokohama’s BluEarth line of environmentally friendly tires has grown to four models, with more to come.
truck and bus tires despite the uncertain business environment. Leading Yokohama’s North American sales in passenger car tires were the Company’s global flagship brand in high-performance tires, ADVAN, and another high-performance brand, AVID.

Yokohama strengthened its popular AVID ENVigor line of all-season tires during the fiscal period with a run-flat offering. The Company reinforced its position in environmentally friendly tires, as well as in high-performance tires. It continued to supply low-rolling-resistance tires to the US manufacturer of electric vehicles, Tesla Motors, Inc.

Progress in expanding Yokohama’s North American sales network reinforced the Company’s sales momentum. The number of retail outlets that handle Yokohama tires increased by about 200 during the fiscal period, to some 1,900. In addition, Yokohama secured market acceptance for price increases across its product line.

Global economic concerns continue to cloud the outlook for North American tire demand in 2012. Yokohama is moving to buttress its market momentum, nonetheless, by focusing on high-performance tires. The Company augmented its AVID line with the March launch of the AVID Ascend, and it is preparing to begin marketing its flagship offering in fuel-saving tires, the BluEarth-1, in North America. In truck and bus tires, Yokohama’s marketing includes new moves to reach out to potential customers.

ASIA

Vigor in Consumer and Commercial Tires

Yokohama made the most of strong demand in China and other Asian nations during the nine-month fiscal period. Positive market trends suggested that buying patterns have fully recovered from the slump that began with the Lehman Shock of September 2008. And Yokohama achieved solid sales in passenger car tires and in truck and bus tires.

China is Yokohama’s biggest Asian tire market outside Japan, and the Company expanded production capacity during the fiscal period at its passenger car tire plant in Hangzhou. That bolstered Yokohama’s ability to serve growing local demand for its mass-market ASPEC brand and its ADVAN high-performance tires. Business in China also benefited from strong sales of studless winter tires. As in most other markets, Yokohama raised its tire prices in China.
Yokohama continued to expand its Chinese sales network. The number of retail outlets that handle Yokohama tires increased about 300 during calendar 2011, to some 1,500. The Company raised its market profile through participation in prominent racing events. It was the sole tire supplier at the Macau Grand Prix, for example, for the 29th consecutive year.

The good sales performance for Yokohama in Asian nations included gratifying results in Taiwan, Malaysia, Singapore, and India and in the emerging markets of such nations as Indonesia, Vietnam, and Myanmar. Yokohama’s drive series remained popular throughout the region, and the Company augmented its tire offerings in Asian markets with three new tires that feature improvements in environmentally friendly performance. Promotional events, including behind-the-wheel sessions, have been highly effective in launching new products and otherwise attracting positive attention.

Demand in Asian markets outside Japan could soften in 2012 on account of the European debt crisis and China’s financial retrenchment. Yokohama is appealing to Chinese customers in this Olympic year as an official supporter of China’s national track-and-field team. It has fortified its product line in China with its flagship product in environmentally friendly tires, the BluEarth-1, and will launch the mass-market BluEarth AE-01 there in 2012. Environmentally friendly tires are an important part of Yokohama marketing in other Asian nations, too. Yokohama has introduced in several nations, for example, a tire for sport-utility vehicles that features improved fuel economy, the GEOLANDAR SUV.

EUROPE

Encouraging Sales Performance Centered on Russia

Demand for consumer tires in Europe firmed slightly during the nine-month fiscal period despite the debt crisis and the resultant economic slowdown, but demand for commercial tires weakened. Yokohama’s sales results mirrored those trends. The Company registered strong sales in passenger car tires, led by gains in Russia, and posted weak sales in truck and bus tires.

Yokohama improved its product mix in Europe by focusing on high-value-added products where it asserts a distinctive competitive edge. That included promoting
products under Yokohama’s global flagship brand for high-performance tires, ADVAN, and the GEOLANDAR line of tires for sport-utility vehicles. As in most other markets, Yokohama raised prices for its tires in Europe.

New labeling regulations in Europe require tire manufacturers to indicate fuel consumption, wet grip, and noise on all tires sold there, starting in 2012. With an eye to the labeling regulations, Yokohama launched its flagship fuel-saving tire, the BluEarth-1, in Europe in 2011 and promoted the tire vigorously.

Yokohama strengthened its European marketing by further consolidating distribution at a warehouse in Germany operated by its subsidiary Yokohama Europe GmbH. That has raised efficiency and reduced inventories in distributing tires in Germany and in surrounding nations. It will serve as a distribution hub for a growing range of European nations.

European demand for consumer tires is softening in 2012 as the debt crisis prompts consumers to defer purchases. The long-term outlook, however, is for gradual growth in demand. Competition will escalate as tire manufacturers increase production at European plants. Yokohama will seek to assert competitiveness by promoting distinctive products, especially in fuel-saving tires. The BluEarth-1 has earned high regard in the fuel-economy category, and Yokohama launched a mass-market BluEarth tire, the BluEarth AE-01, and a fuel-saving sport-utility tire, the GEOLANDAR SUV, in Europe in March 2012.

Three Million a Year!

Yokohama is a leading tire importer in Russia, and our sales there reached 3 million tires in calendar 2011. Especially popular with Russian customers are our GEOLANDAR tires, for sport-utility vehicles, and our iceGUARD winter tires.

We had recruited more than 500 retailers for our Yokohama Club Network by 2011 year-end. Those retailers meet specified sales targets for Yokohama tires. They are mainly in Russia’s largest cities, but we are recruiting a growing number of retailers for the network in smaller cities.

We began producing passenger car tires in December 2011 at a plant south of Moscow in the Lipetsk special economic zone. Yokohama thus became the first Japanese tire manufacturer to produce passenger car tires in Russia. The plant’s initial production capacity is 700,000 tires a year, and planned expansion will increase that to 1.6 million tires a year by the end of 2014. Local production emphasizes our commitment to the Russian market and lays a foundation for sustainable growth there.
MIDDLE EAST

Robust Sales across the Board

Tire demand increased in Saudi Arabia and in other oil-producing nations of the Middle East amid economic growth fueled by rising oil prices. Demand was weak in Syria and Yemen on account of civil strife. Yokohama posted strong sales in its largest market in the region, Saudi Arabia, in truck and bus tires and in tires for passenger cars, for vans, and for light trucks.

An important product introduction during the fiscal period was the A.drive in late 2011. Events held in several nations to promote the new product to dealers set the stage for strong sales in 2012. The Middle East was another region where Yokohama raised prices across its product line.

Economic growth appears likely to continue in the Middle East in 2012, albeit at a slower rate than in 2011. Yokohama is promoting the A.drive as a mainstream mass-market product and will bolster its presence in high-value-added tires with the ADVAN dB. The Company is working to improve its product mix in tires for passenger cars, for vans, and for light trucks. And it is working to position its Middle Eastern business in truck and bus tires as a steady source of robust sales and earnings.

OCEANIA

Business Good in Off-the-Road Tires

Demand was strong in Oceania, supported by vigorous activity in natural resources development in Australia and elsewhere. Yokohama’s sales in the region suffered, however, as Australia’s strong currency attracted an influx of competitors in the tire market. That influx included manufacturers in emerging economies, which amplified the downward pressure on prices.

Strong sales of tires for construction equipment were a bright spot for Yokohama in Australia. In passenger car tires, Yokohama launched the ADVAN dB and the C.drive2 and held behind-the-wheel sessions at several sites in the region to promote the new products. The Company also continued working to strengthen and expand its Tyres & More network of affiliated retailers.

Australia’s thriving economy could slow in 2012 as a result of the European debt crisis. Yokohama is striving to make the most of demand with strategic product launches. It will launch the fuel-saving GEOLANDAR SUV for the vibrant sport-utility segment of Australia’s automobile market. And it will launch three products in truck and bus tires, including two in its flagship ZEN product family. Yokohama is also reinforcing its marketing in truck and bus tires by putting in place a framework of comprehensive support, from new tires to retreads.
LATIN AMERICA

Stepped-Up Marketing in High-Value-Added Products

Brazil will host soccer’s World Cup in 2014, and the anticipation of that event is stimulating consumer spending there and in Argentina and other nations in the region. Yokohama also benefited in the nine-month fiscal period to December 2011 from vigorous activity in resources development and public works projects in Peru and Colombia. Competition escalated, however, as imports of Chinese and Korean tires increased and as tire manufacturers that have local plants increased production. Yokohama fortified its market presence by launching high-value-added products, including the ADVAN dB and C.drive2. It also raised prices in Latin America, as in most other regions.

Concerns are arising in 2012 that nations in Latin America might resort to protectionist measures and that the European debt crisis could affect the region adversely. Yokohama continues to promote the high-performance ADVAN dB and the fuel-saving C.drive2 vigorously. And it is preparing to launch the fuel-saving GEOLANDAR SUV tire for sport-utility vehicles in Latin America.

AFRICA

Gratifying Results in Consumer Tires

Tire demand surged in South Africa amid booming activity in resources development. Demand weakened somewhat in Egypt, however, on account of civil strife. The largest market for Yokohama in Africa is South Africa, and the Company improved its product mix and fortified its presence there by launching the ADVAN dB and the C.drive2. Yokohama stepped up its marketing, meanwhile, in other nations. It raised prices across its product line in Africa, as in most other regions.

In 2012, tire demand in South Africa is poised for continued growth, and demand in Egypt appears likely to recover. Europe’s debt crisis is a threat, however, to economic vitality in Africa, as elsewhere. Yokohama is focusing on providing reliable supplies of tires in African nations where it has an established presence. It is also devoting careful attention to fostering a presence in other nations.
In the nine-month fiscal period ended December 31, 2011, Yokohama’s sales of high-pressure hoses, sealants and adhesives, conveyor belts, antiseismic products, marine hoses, marine fenders, and other industrial products totaled ¥68.2 billion, and the operating income in this segment totaled ¥1.7 billion. Demand for sealants and adhesives and for high-pressure hoses weakened in the automotive sector amid the operational disruptions caused by the Great East Japan Earthquake and the Thai flooding. Business was solid, however, in high-pressure hoses for construction equipment, in conveyor belts, and in marine hoses.

High-Pressure Hoses
Solid Business in Replacement Hoses for Construction Equipment
Sales of high-pressure hoses at Yokohama totaled ¥32.3 billion in the nine-month fiscal period. Japanese demand was weak in the first several months of the fiscal period. Production slumped in the automotive and construction equipment sectors in the wake of the earthquake disaster. Demand picked up, however, in the latter part of the fiscal period. Overseas, Chinese demand in the construction equipment sector softened amid financial retrenchment.

Yokohama’s deliveries of high-pressure hoses to construction equipment plants in Japan and China were sluggish, but Japanese business was brisk in replacement hoses. The Company fortified its marketing by establishing distribution centers to handle peripheral components for replacement hoses and thereby strengthen the assembly function.

Earthquake-related interruptions in production at Japanese automakers undermined business in automotive hoses. Overseas, Yokohama posted strong sales in automotive hoses in the United States.

Japanese demand for high-pressure hoses is strengthening in 2012. Automakers are ramping up production, and manufacturers of construction equipment are racing to keep up with demand associated with postdisaster reconstruction. Sales remain lackluster, however, to Japanese construction equipment manufacturers in China, who are Yokohama’s main customers in that sector there. Those manufacturers face
escalating competition from locally owned manufacturers in the Chinese market.

Yokohama is working to increase its market share in sales of original-equipment hoses to construction equipment manufacturers in Japan. And it is upgrading its Japanese sales network for replacement hoses by adapting its marketing more closely to regional circumstances.

In China, Yokohama is working to develop business with local manufacturers of construction equipment and to broaden its market presence in replacement hoses. The Company is building a plant in Hangzhou that will begin producing high-pressure hoses for construction equipment in January 2013. Yokohama continues to supply original-equipment hoses to the plants of Japanese construction equipment manufacturers in North America, Europe, and Asian nations besides Japan, and it is working to expand business in replacement hoses under the Exceed brand, developed especially for overseas markets.

Sealants and Adhesives

Adverse Impact from the Japanese Earthquake and Thai Flooding

Yokohama’s sales of sealants and adhesives in the nine-month fiscal period totaled ¥17.7 billion. The Great East Japan Earthquake cramped supplies of construction materials and impeded work throughout the construction industry, which diminished demand for Yokohama’s construction sealants. It also impinged on Yokohama’s supply capacity by damaging the Company’s Ibaraki Plant and forcing a temporary suspension of operation there and by impeding access to raw materials. Escalating price competition in Japan was another issue in this product category. Demand slumped, too, in the automobile industry, where Japan’s earthquake and Thailand’s floods interrupted production. That undercut demand for Yokohama’s automotive sealants.

In April 2011, Yokohama established a division to handle its growing business in electromaterials, including sealants for photovoltaic panels, sealants for light-emitting diodes, adhesives for speakers, and hard coatings for mobile information terminals. The new division will develop and market high-performance electromaterials based on Yokohama’s strengths in sealing and adhesive technologies.

Japan’s construction market presents firming demand in 2012 in new projects and in building repairs. Yokohama is working to expand its market share in construction sealants even while raising prices for those products. Production is recovering, meanwhile, in the automotive sector, and Yokohama is poised to achieve increased sales momentum in automotive sealants. The Company is also moving to increase its sales momentum in electromaterials, where it is strengthening its capabilities in targeted marketing and product development.
Demand for marine hoses and marine fenders was strong worldwide. That performance benefited from strong demand associated with steady flows of crude oil. Yokohama recorded especially strong sales in marine hoses in Asian and Middle Eastern markets. Sales were weak in marine fenders, however, reflecting the completion of some large supply contracts. Yokohama fortified its business in marine products by securing market acceptance for price increases.

Business was weak in antiseismic steel-and-rubber bearings. That reflected the completion of some large projects in the previous fiscal year. It also reflected escalating price competition.

In 2012, Japanese demand for conveyor belts appears to be holding steady, and overseas demand remains vibrant in natural resource producing nations. Yokohama is stepping up its marketing approach to users where its share of purchasing is small, and it is revamping its distribution and warehouse network. The Company is also stepping up its marketing in Australia, in Asian nations besides Japan, and in North America.

Global demand remains strong for marine hoses and marine fenders on account of the steady flows of crude oil. Yokohama is working to win a healthy share of business in supplying replacement marine hoses in Asian nations besides Japan, the Middle East, Africa, and other markets. The Company is testing a newly developed remote-monitoring system for monitoring the positioning of marine fenders and ship hulls. Yokohama is preparing to begin marketing the system and is configuring it to assert an edge in quality over competing products.

In antiseismic products, demand in new projects is trending downward, but replacement demand is strong amid postquake reconstruction, and Yokohama is moving to secure a large share of that demand. Yokohama’s VS-1, introduced as an antiseismic bearing for bridges in 2011, offers high performance and good safety assurance, and it promises to help the Company expand its presence in replacement bearings.

Industrial Materials
Demand for Marine Hoses Spawned by Booming Resources Development
Conveyor belts, marine hoses, marine fenders, antiseismic products, and highway joints are the principal products in the industrial materials category. And sales in this category totaled ¥18.2 billion in the nine-month fiscal period.

Business in conveyor belts was a contrast of strength in Japan and weakness overseas. Sales in Japan benefited from postdisaster reconstruction demand. Sales were robust to Yokohama’s principal Japanese customers for conveyor belts, steelmakers and mine operators, and to thermal power plants, which increased their output amid the prolonged closures of Japan’s nuclear power plants. Demand was vigorous in several nations that are large producers of natural resources, but Yokohama’s overseas sales were weak because of poor sales in Australia, the Company’s largest overseas market for conveyor belts.

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Yokohama’s sales in aircraft fixtures and components and in golf equipment and other products totaled ¥17.7 billion in the nine-month fiscal period ended December 31, 2011, and operating income in this segment totaled ¥1.2 billion. Business was strong in aircraft fixtures and components, led by replacement lavatory modules for Boeing Company, but business was weak in golf equipment in the wake of the Great East Japan Earthquake.

**Aircraft Fixtures and Components**

**Strong Sales in Lavatory Modules**

Business in aircraft fixtures and components totaled ¥11.8 billion in the nine-month fiscal period. Demand for replacement fixtures and components for aircraft firmed as commercial airlines’ earnings improved. Lavatory modules for the Boeing 737 are Yokohama’s main product offerings in aircraft fixtures, and the Company’s sales were robust in units for new B737s, as well as in replacement units. Sales were also brisk in onboard staircases for the Boeing 747-8I, which Yokohama began supplying in 2010.

In 2012, Yokohama projects continued vigor in sales of lavatory modules for the B737. The Company continues to develop new products, meanwhile, to broaden its presence in this sector.
Golf Equipment, Other

Demand for Golf Equipment Weak in Wake of Earthquake

Yokohama’s sales total of ¥5.9 billion in golf equipment and other products in the nine-month fiscal period reflected the adverse effects of the Great East Japan Earthquake. Customer traffic on Japan’s golf courses declined sharply in the wake of the disaster. Sales of iD series products were weak. Launched in 2010, the iD series is Yokohama’s core product family in golf equipment. The newly introduced egg series, however, generated strong sales, especially the distance-oriented egg drivers. And business was also good in the Republic of Korea, Yokohama’s principal overseas market for golf equipment.

Japan’s market for golf equipment remains challenging in 2012. Yokohama is moving to cultivate demand in Japan with launches of middle-market products. The Company has broadened its overseas marketing, meanwhile, to China, as well as the Republic of Korea, Taiwan, and Southeast Asian nations. And it will launch three products in 2012 developed especially for overseas markets.

Innovative Golf Products Based on Telecommunications and Measurement Technologies

Yokohama has supplemented its business in golf equipment with original systems for analyzing golf swings and for measuring shot trajectory. Its swing-diagnosis product is available in two versions: Science Fit, a fully configured diagnostic system for even professional golfers to use, and Quick Science Fit, a simpler configuration. Golf schools and golf equipment shops throughout Japan have adopted the Science Fit products. In December 2011, Yokohama introduced its REDEYES COMPACT II compact measurement system for simulating golf shot trajectories.

Underlying Yokohama’s products for analyzing swings and simulating shot trajectories are advanced telecommunications and measurement technologies. The technological sophistication of the products supports highly accurate results, which are garnering high regard among golfers. And Yokohama is moving to adapt the technologies to products in other sectors.