To Our Stakeholders

Eyeing Record-Level Earnings in 2012, the First Year of Phase III in Our Grand Design 100 Medium-Term Management Plan

Tadanobu Nagumo (left), Chairman and CEO, and Hikomitsu Noji, President

We thank you for your continuing support and goodwill. We thank you, too, for keeping a place in your hearts for the victims of the Great East Japan Earthquake. Let us all pray for the earliest possible recovery in the communities affected by the disaster.

Higher-than-Expected Sales and Earnings

We shifted in 2011 to calendar-year fiscal accounting, from 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.

In the nine-month fiscal period under review, we posted net sales of ¥465.1 billion, operating income of ¥26.3 billion, and net income of ¥11.6 billion. All three figures were higher than the projections that we announced in November 2011.

Our better-than-expected sales and earnings performance reflects stronger-than-anticipated business in tires in Japan and overseas, accelerated progress in reducing costs, ahead-of-schedule success in instituting price increases, and smaller-than-expected adverse effects from the continuing rise in raw material prices and from the continuing appreciation of the yen. We continued to share our growth with shareholders by paying annual dividends of ¥7 per share—an end-of-the-period dividend of ¥4 and an interim dividend of ¥3.

The Beginning of Grand Design 100 Phase III

In 2012, we have entered the first year of Phase III in our medium-term management plan, Grand Design 100. That plan, launched in April 2006, covers the years to 2017, our corporate centennial. It comprises four phases of three years each. We completed Phase I in March 2009 and Phase II in December 2011.

Our long-term financial goals in Grand Design 100 originally centered on achieving annual net sales of ¥1 trillion, annual operating income of ¥100 billion, and annual operating return on sales of 10%.

Phase II Progress in Establishing Structural Profitability

We marked important progress during Phase II in positioning our operations to generate profits irrespective of changes in the operating environment. The economic and business environment deteriorated as global demand slumped in the wake of the Lehman Shock of September 2008, the yen appreciated, and raw material prices rose. Our aggregate net sales in the two years and nine months of Phase II, at ¥1,451.2 billion, were 7.3% lower than in the three years of Phase I. Our aggregate operating income was 15.2% higher, however, and our aggregate operating return on sales rose a percentage point, to 5.3%.

Targets for Phase III

Our cumulative, three-year targets for financial performance in Phase III call for aggregate net sales of ¥1.8 trillion, cumulative operating income of ¥150.0 billion, and cumulative operating return on sales of 8.3%. We are aiming for net sales of ¥630.0 billion, operating income of ¥60.0 billion, and operating return on sales of 9.5% in the third and culminating year of Phase III.

Robust and Responsive Growth

The operating environment is bound to present a diversity of change and risk during the three years of Grand Design 100 Phase III. We will need to cope with that change and risk while also addressing some issues that have arisen for our company. Most notably, we need to expand our production capacity for tires more rapidly to keep up with growing global demand.

We have adopted the slogan "Robust and Responsive Growth" for Phase III. That slogan expresses our determination to continue strengthening our operations while maximizing our flexibility in responding to changes in the business environment. It describes what we need to do to set the stage for accelerating growth in Phase IV.

Changes in the operating environment have obliged us to defer the horizon for attaining our ¥1 trillion annual sales target to 2019 or 2020. We now project that net sales in 2017, the culminating year of Grand Design 100, will total about ¥850 billion and that we will achieve our ¥100 billion target for operating income on schedule, in 2017. That would mean achieving our 10% target for operating return on sales ahead of schedule.

Strategy for Achieving our Grand Design 100 Targets

We will invest in expanding our production capacity greatly in Phase III, especially in tires. Expanding our supply capacity will position us to serve the growth in demand in growth markets, and that will generate liquidity to fund further investment. We will pursue our 10% goal for operating return on sales, meanwhile, by strengthening our cost competitiveness and by bolstering our brand appeal. You will find on pages 6 to 9 a description of our strategy for in tires, diversified products, and technology for achieving our Grand Design 100 targets.

Plans for Raising the Dividend in 2012

Our fiscal projections for 2012 call for net sales of ¥575.0 billion, operating income of ¥40.0 billion, and net income of ¥25.0 billion. The projected earnings would be at historic high levels for our company. We propose to increase the full-period dividend to ¥13 per share—an interim dividend of ¥6 and a year-end dividend of ¥7. That would be a ¥6 increase over the dividend payment for the nine-month fiscal period ended December 31, 2011, and a ¥3 increase over the ¥10 full-year dividend for the fiscal year ended March 31, 2011.

All of us at Yokohama are committed to fulfilling your highest expectations. Grand Design 100 is a framework for achieving the kind of growth that you rightly expect of our company. And we will be doing our utmost in Phase III to build on our momentum.

March 2012

Tadanobu Nagumo
Chairman and Chief Executive Officer

Hikomitsu Noji
President