YOKOHAMA

# ANNUAL REPORT 2011

The Yokohama Rubber Co., Ltd.
Year ended March 31, 2011

## Profile

Measures for accelerating growth highlight strategy at The Yokohama Rubber Co., Ltd. Yokohama, a leading tire manufacturer, is also an industry leader in several lines of diversified business, including high-pressure hoses, sealants and adhesives, other industrial products, aircraft components, and golf equipment. The company is laying the groundwork for strong, sustainable growth by expanding its global production capacity for tires and by cultivating global markets for its diversified products. Yokohama has detailed its strategy for accelerating growth in Grand Design 100, a medium-term management plan. Launched in April 2006, that plan is a systematic framework for achieving operating return on sales of 10% and annual net sales of ¥1 trillion by 2017.

## Contents



*On the Cover*

*Team Yokohama EV Challenge's vehicle speeds up Pikes Peak on June 26, 2011. It is en route to the team's second-consecutive victory in the electric vehicle class of the Pikes Peak International Hill climb. The vehicle, sponsored by Yokohama and equipped with Yokohama tires, bettered its own record time over the 20-kilometer course and reached the 4,301-meter summit of Pikes Peak in just 12 minutes, 20.084 seconds. The Team Yokohama EV Challenge vehicle benefited from Yokohama breakthroughs in energy-efficient tires. Those same breakthroughs are a centerpiece of Yokohama's growth strategy in the global tire market.*

**Forward-Looking Statements**

*This annual report contains forward-looking estimates and forecasts based on management's plans, which are subject to unforeseeable risks and uncertainties. The company's business results could differ significantly from those estimates and forecasts.*

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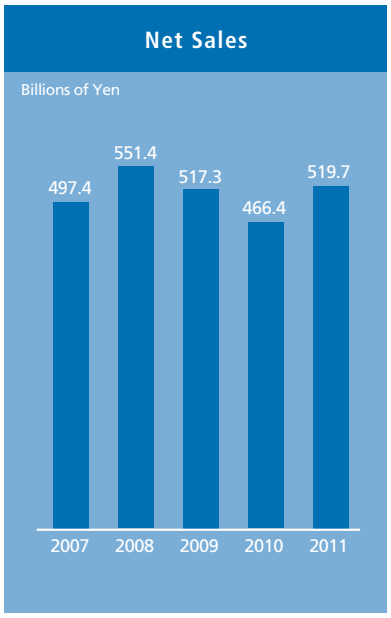
# Financial Highlights

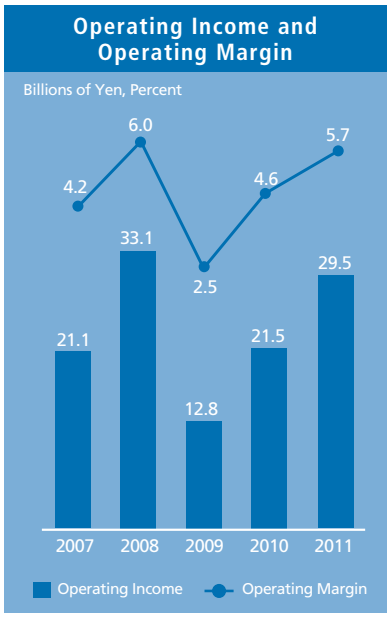
Years ended March 31, 2011 and 2010

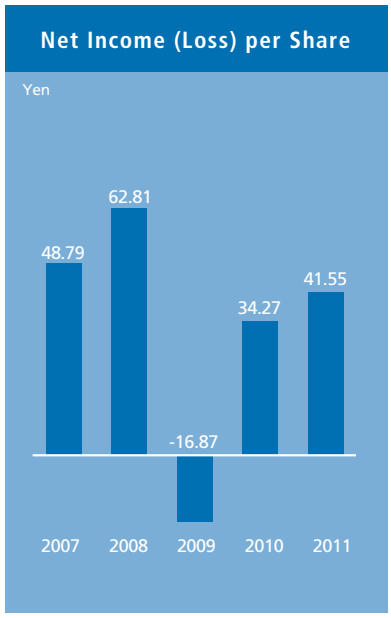
| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2011** | 2010 | Percent Change (2011/2010) | **2011** |
| Net sales | **¥519,742** | ¥ 466,358 | + 11.4% | **$ 6,250,656** |
| Operating income | **29,491** | 21,455 | + 37.5 | **354,670** |
| Income before income taxes and minority interests | **21,880** | 18,969 | + 15.3 | **263,139** |
| Net income | **13,924** | 11,487 | + 21.2 | **167,450** |
| | | | Change (2011/2010) | |
| Total assets | **¥478,916** | ¥ 466,973 | +¥11,943 | **$ 5,759,659** |
| Total net assets | **170,872** | 163,382 | + 7,490 | **2,054,980** |

| | Yen | | | U.S. Dollars |
|---|---|---|---|---|
| Per share: | **2011** | 2010 | | **2011** |
| Net income: Basic | **¥41.55** | ¥34.27 | + ¥7.28 | **$0.50** |
| Cash dividends | **10.00** | 10.00 | 0.00 | **0.12** |

**Note:** *Here and throughout this report, the U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥83.15 = US$1.00, the approximate exchange rate on March 31, 2011.*



# To Our Stakeholders

You see a new signature on our message to you this year. Hikomitsu Noji has succeeded Tadanobu Nagumo as the president of Yokohama Rubber, and Nagumo has assumed the position of chairman and chief executive officer. Those changes took effect on approval by the general meeting of shareholders on June 29, 2011.

We begin our first message to you as the chairman and president with a word about the tragic Great East Japan Earthquake of March 2011. We and our colleagues at Yokohama grieve for those who lost their lives in the quake and tsunami. We extend heartfelt sympathy to everyone who suffered human or material loss in that disaster. And we reaffirm the Yokohama commitment to supporting the recovery effort in every way possible. We also take this opportunity to report that the direct effect of the disaster on our employees and equipment was minimal.

*Tadanobu Nagumo (right), Chairman and CEO, and Hikomitsu Noji, President*

### Hefty gains in sales and earnings

Our net income increased 21.2% in the fiscal year ended March 31, 2011, to ¥13.9 billion, on a 37.5% increase in operating income, to ¥29.5 billion, and an 11.4% increase in net sales, to ¥519.7 billion. Strong sales growth in our tire operations and in our diversified operations more than offset the adverse effect on earnings of rising prices for raw materials and the appreciation of the yen. Earnings also benefited from continuing progress in measures for streamlining operations and trimming costs. We maintained the aggregate annual dividend at ¥10 per share—an interim dividend of ¥4 and a year-end dividend of ¥6.

### A nine-month fiscal term

We will switch our fiscal accounting in 2011 from an April-to-March basis to a calendar-year basis. That will align the fiscal accounting at our Japanese operations with the fiscal periods employed at our overseas operations, and it will result in a one-time-only nine-month fiscal term: April 1 to December 31, 2011.

Our fiscal projections for the nine months to December 2011 call for net income of ¥11.0 billion on operating income of ¥21.0 billion and net sales of ¥471.0 billion. We plan to pay an aggregate dividend of ¥7 for the nine-month fiscal term: an interim dividend of ¥3 and a term-end dividend of ¥4.

### The concluding year of Grand Design 100 Phase II

Our blueprint for growth is Grand Design 100, a medium-term management plan. Launched in April 2006, that plan covers the years to 2017, our corporate centennial. The plan's chief target is to raise operating return on sales to 10% on a sustainable basis. We are also working through Grand Design 100 to increase net sales to ¥1 trillion and—in accordance with our target for operating profitability—to raise operating income to ¥100 billion by 2017.

Grand Design 100 consists of four phases of three years each. We completed the first phase in March 2009, and we are now in the third and final year of Phase II (shortened to nine months on account of the change in our fiscal period). Our core emphasis in Phase II of Grand Design 100 has been on quality growth, and we continue focusing on reinforcing our corporate foundation in that spirit.

### Growth strategy: tires

Our chief emphases in our tire business are on deploying environmentally friendly products globally, winning factory fitments on a global cast of vehicle models, strengthening our position further in the Russian market, expanding production capacity, and integrating our operations locally in each principal region. We marked important progress in regard to each of those emphases in the past fiscal year.

In environmentally friendly products, we fortified our BluEarth line of fuel-saving tires with three new products: the BlueEarth-1, our premier offering in environmentally friendly tires; the BluEarth RV-01, for minivans; and the BluEarth AE-01, for a broad range of model types. We have launched the BluEarth-1 in Europe, as well as in Japan, and we will offer it in a growing range of markets around the world.

Our production capacity, meanwhile, continues to expand. We are undertaking expansion projects at our tire plants in the Philippines, China, Thailand, and the United States and will open a new tire plant this year in Russia. Those projects, along with previous expansion, will increase our annual production capacity to 60 million tires by the end of December 2011. That is an 11% increase over the end of March 2009.

### Growth strategy: diversified products

In diversified products, our business spans industrial products and other products, mainly aircraft products and golf equipment. Our chief emphases in industrial products are on deploying products globally in growth sectors and on developing business in new product sectors, especially in regard to environmental protection.

We have bolstered our global marketing capabilities in industrial products with the May 2011 establishment of a Chinese sales company for high-pressure hoses, conveyor belts, and sealants and adhesives. In another move in China, we will build a plant to produce high-pressure hoses for construction equipment. Chinese demand is growing rapidly in that

product sector, and we plan for our new plant to begin operation in January 2013.

In new product sectors, we are stepping up our marketing effort in sealants for photovoltaic cells and in coatings for smart phones and other mobile terminals.

Our business in golf equipment gained additional momentum with the December 2010 launch of the all-new iD line of golf clubs. We broadened that line in February 2011 with the launch of the iD WOMAN'S series for female golfers.

### Technology strategy

Two recent technological advances that have buttressed our competitiveness in tires are our nano BLEND compound and our Advanced inner liner. Our nano BLEND compound, which contains orange oil, resolves traditional tradeoffs and helps minimize rolling resistance while maximizing grip. Tire manufacturers use inner liners, meanwhile, to help minimize air seepage. And we have achieved new progress in preventing air loss in our newly developed Advanced inner liner. We have secured patent protection worldwide for our new liner technology.

### Measures for reinforcing our corporate foundation

Recent measures for reinforcing our corporate foundation have included restructuring our Japanese sales operations. We have streamlined our industrial products operations by merging our Japanese sales subsidiaries into a single company in October 2010. That followed a similar consolidation of our tire sales operations in Japan.

Our *Muda-dori* activities, inaugurated in 2006, tap employee initiative in identifying and eliminating waste. They have yielded cumulative cost savings of some ¥44 billion.

We have been working to secure ISO 14001 certifications for sound environmental management at all our principal plants worldwide, and we expect to achieve that goal by the end of this year. Our environmental commitment includes working to eliminate landfill waste at our operations worldwide. In public-interest activities, we are working through the Yokohama Forever Forest project to plant 500,000 trees at Yokohama plants worldwide by 2017. The first plantings in that project took place in 2007, and we had planted 183,000 trees—37% of our goal—by March 31, 2011.

Rigorous compliance with high standards of corporate ethics is also part of our measures for reinforcing our corporate foundation. We continue working in every way to earn the confidence of our friends and neighbors in the global community. And we welcome your scrutiny of our progress.

June 2011

Tadanobu Nagumo
Chairman and CEO

Hikomitsu Noji
President

# Trust

## Management perspectives from the new president, Hikomitsu Noji

### Tackle the next phase in Grand Design 100

We have entered the third and concluding fiscal period of Phase II in our Grand Design 100 medium-term management plan. My responsibilities as president center on finding ways to accelerate our growth as we approach Phase III, which begins next year. Phase III will be pivotal in positioning us to achieve the Grand Design 100 targets of raising operating return on sales to 10% while increasing net sales to ¥1 trillion and thus increasing operating income to ¥100 billion. I will therefore concentrate on laying a solid foundation in Phase III for achieving those goals in Phase IV.

### Serve the global growth in tire demand

Our most pressing task in regard to achieving further growth is to expand our production capacity in tires. Global demand for tires is clearly trending upward, and we're expanding capacity at tire plants in the Philippines, China, the United States, and Japan.

Multistage expansion is under way at our Philippine tire plant, which has become a crucial export platform. By 2017, we will expand that plant's annual production capacity to 17 million tires—a 2.4-fold increase over its present capacity. Our new tire plant in Russia will help us maintain our strong sales momentum in that fast-growing market. We continue to expand our production capacity in China. We've got the land to build a plant in India when the time is right, and we're also keeping an eye on market trends in Brazil.

### Establish footholds in new product sectors

In diversified products, we'll be more aggressive in going after business in the global marketplace. We have especially strong competitive positions in such products as high-pressure hoses, conveyor belts, and sealants and adhesives. Those product categories will be the focus of our international push in diversified products.

We'll also be stepping up our efforts to develop business in new sectors. For example, we have developed useful products in sealants and adhesives for photovoltaic generation systems, hydraulic hoses for wind-power generation systems, coatings for mobile phones and digital appliances, and pressure-relieving air-cell cushions for wheelchairs. We will promote those products vigorously and continue to develop new products for similar applications and for new ones.

## Assert a distinctive presence amid escalating competition

Business outside Japan generates nearly half our sales, and coping with global competition will become increasingly important for our company. Two crucial strengths for us in tackling that challenge will be our corporate scale and our technological capabilities.

We're small enough that we can mobilize our resources swiftly as necessary. We're big enough that we can undertake R&D programs that keep us in the vanguard of fast-evolving product technologies. That is evident in the strong position that we have staked out in the fast-growing global market for fuel-saving tires. Reconciling gains in fuel economy with simultaneous gains in wet grip requires extremely sophisticated technology. Our technological capabilities have supported world-class attainment in fuel-saving tires that also provide excellent handling, and we will make the most of our competitive edge in those products.

Another Yokohama strength is our extensive experience in motor sports. That experience has yielded a lot of insight into matching tire specifications and vehicle settings optimally. Such insight makes us a highly valued partner for world-leading automakers in vehicle-development projects. Thus do Yokohama tires appear as factory equipment on some of the world's most prestigious high-performance cars.

## Nurture corporate growth by nurturing personal growth

I have spent a lot of time in manufacturing, including assignments as the assistant manager of the Shinshiro Plant, as the manager of the Mishima Plant, and as the president of our tire manufacturing subsidiary in the Philippines. That experience has taught me that corporate growth depends on personal growth by the people in the workplace. It has taught me that leaders need to cultivate a workplace environment where people can fulfill their full potential.

People don't grow if their leaders simply give orders. Leaders need to present a vision, trust their people to translate it into action, and give them ample authority to get the job done. They need to be firm, though, in providing direction. For example, they need to make sure that the proposals that arise from the workplace are clear and forthright. The leaders need to reject proposals framed in such uncertainty as "maybe" or "I think so." They need to insist on definite phrasing based on a solid grasp of the pertinent facts.

Once a leader has signed off on a proposal, he or she then needs to take full responsibility for the outcome. This approach fosters trust that is far more important than the outcome of any single proposal. Even proposals that don't turn out as hoped become valuable opportunities for personal growth.

## Raise efficiency by fostering trust

Trust is a crucial precondition for streamlining operations. We see that, for example, in the way that trust between people in production and their counterparts in sales can trim inventories. If the production people know that each order is for replacing goods that really have been sold, they'll respond promptly. And if the sales people trust their colleagues in production to respond promptly, they'll be less inclined to maintain extra inventory.

We've reduced our tire inventory steadily in recent years. And that's testimony to the kind of trust that I'm describing. Our workplace leaders need to keep up their good work in steering things in the right direction and in letting their people exercise initiative.

## Foster a vibrant workplace

The workplace atmosphere is fantastic at our operations in every nation. People are taking the initiative in finding ways to raise efficiency and reduce waste. That shows that they've built good relations of trust with their leaders and with each other. I'll be doing everything possible to encourage that kind of camaraderie. For I love this work, and I want everyone at Yokohama to be able to love his or her work.

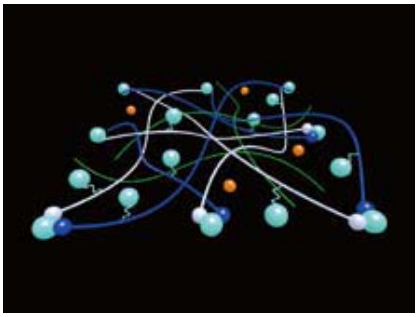
# The BluEarth-1: A New Standard for Fuel-Saving Performance

**We marked a new phase in environmentally sensitive tires with the July 2010 launch of the first BluEarth tire. The BluEarth product concept provides for accompanying progress in reducing rolling resistance with advances in handling and in comfort and quiet. It is yielding a growing line of tires that save fuel, indulge drivers and passengers, and harmonize transport with the community, all at the same time.**

The latest BluEarth tire, the BluEarth-1, debuted in Japan in March 2011 as our new flagship product in fuel-saving tires. It has earned the top designation under Japanese tire manufacturers' labeling standards for rolling resistance. In addition, it has become the first BluEarth tire to be sold overseas. We introduced the BluEarth-1 in Europe in April 2011, and we are preparing to market it in China and in North America.

The BluEarth-1 minimizes the traditional tradeoffs between low rolling resistance, on one hand, and wet grip and long mileage on the other. It surpasses in that regard even the DNA dB super E-spec, our former flagship product in environmental performance. The BluEarth-1 is superior to the DNA dB super E-spec in reducing external, "pass-by" noise, and it is fully comparable to its predecessor in handling stability and quiet ride.

Our BluEarth series includes the BluEarth RV-01, for minivans, and the BluEarth AE-01, available in sizes for a broad range of model types, as well as the flagship BluEarth-1. We will continue to augment the BluEarth series with new products to serve the growing global demand for fuel-saving tires.



*The chemical structure of the tread compound in the BluEarth-1.*

### A remarkable polymer

Contributing hugely to the BluEarth-1's fuel-saving performance is a newly developed polymer that we have incorporated in the tread compound. The polymers used in conventional silica rubber compounds are prone to heat generation when the tires are in


motion. That is because the ends of the polymer chains move freely in the compound, causing friction with the carbon and silica molecules. And the tire therefore loses some of its rolling energy to friction-generated heat.

The molecular chains of our newly developed polymer bond easily with silica molecules at their ends. That constrains the movement of the ends of the chains, which reduces friction between the polymer and silica molecules. It also helps distribute the silica evenly in the rubber compound, which minimizes friction between the silica molecules.

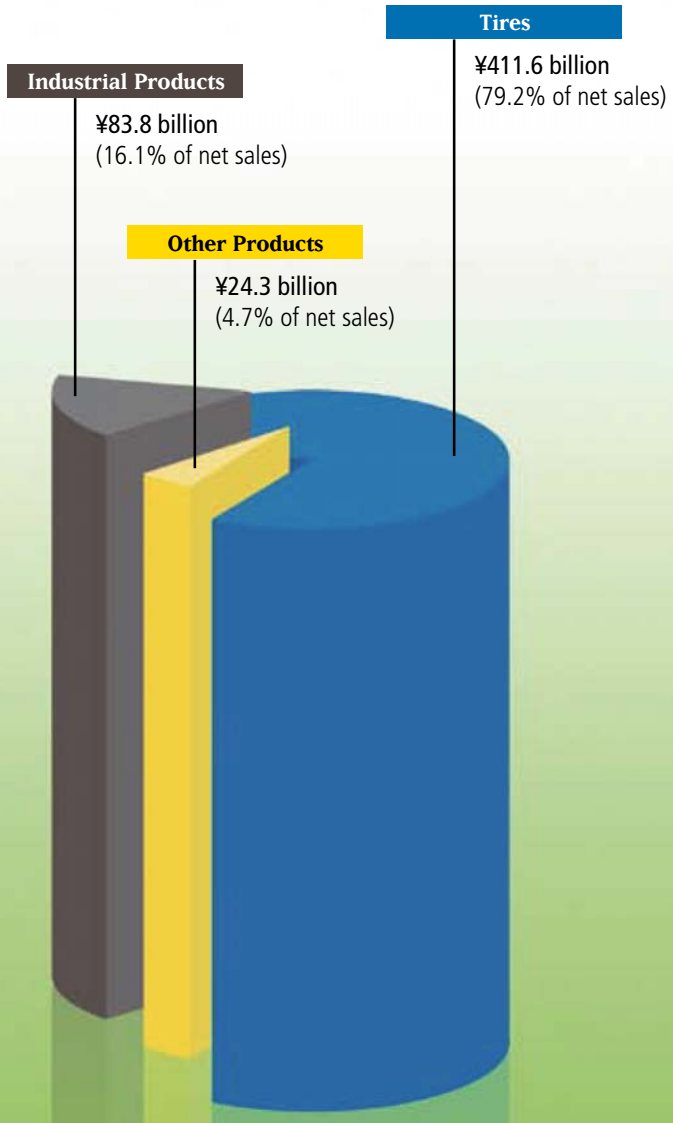
### Orange oil!

Another important component in the BluEarth-1's tread compound is orange oil, which we have also used in other fuel-saving tires. Orange oil makes the rubber more supple. It thus maximizes the area of tire contact with the textured contours of the road surface, which improves grip.

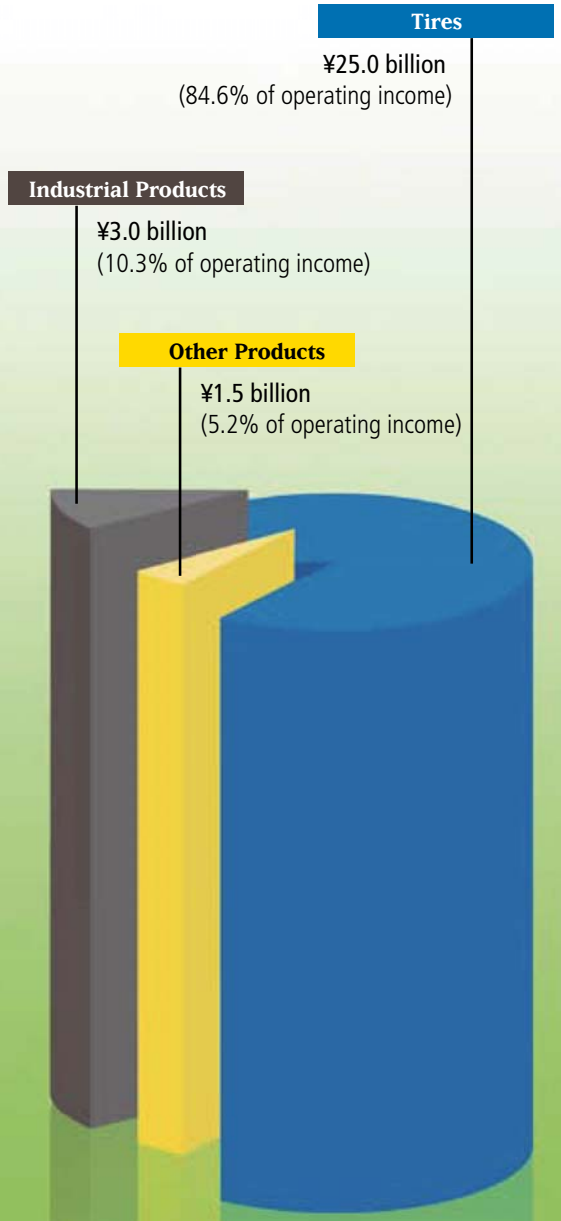
Yet another technological advance in the BluEarth-1 is the fine silica that we have adopted in the compound. Our fine silica has a greater specific surface area—surface area per unit of mass—than the silica in conventional tires. It therefore helps reduce tread wear.

Advances in compounding the tread rubber have thus enabled us to optimize the BluEarth-1 in regard to reconciling disparate performance criteria. Evidencing our success is the unprecedented combination of fuel economy, wet grip, and wear resistance.

# YOKOHAMA AT A GLANCE




**Fiscal 2011 net sales:**
**¥519.7 billion**




**Fiscal 2011 operating income:**
**¥29.5 billion**

## Tires

### Principal products

Tires for passenger cars and light trucks, for trucks and buses, and for construction and mining equipment, industrial vehicles, and other applications; aluminum alloy wheels and other peripheral products

**A focus on fuel-saving tires**

Yokohama takes the initiative in developing fuel-saving products for every tire category. Its BluEarth series, launched in July 2010, marks a new advance in reconciling fuel economy with wet grip and durability. The tires, which Yokohama will promote globally, also minimize pass-by noise.

**Global scope in high-performance tires**

ADVAN, Yokohama's flagship brand in high-performance products, asserts a compelling presence for the company in markets worldwide. Yokohama continues to win factory fitments for ADVAN tires on prestigious vehicle models, including the Bentley Continental GT, the Porsche 911 Carrera 4, and the Mercedes-Benz AMG.

## Industrial Products

### Principal products

High-pressure hoses, sealants and adhesives, conveyor belts, antiseismic products, marine hoses, pneumatic marine fenders

**Japan's market leader in high-pressure hoses and in construction and automotive sealants**

Yokohama asserts unmatched strengths in high-pressure hoses for off-the-road equipment, in sealants for buildings, and in windshield sealants for automobiles.

**The world leader in marine hoses and marine fenders**

The company is the world's largest supplier of pneumatic fenders for protecting ship hulls. It is also a leading supplier of marine hoses for loading and unloading crude oil.

## Other Products

### Principal products

Aircraft fixtures and components, golf equipment

**Lightweight, high-strength aircraft fixtures and components**

Yokohama supplies lavatory modules for the Boeing 737 airliner and drinking-water and wastewater tanks for the Airbus A380. Underlying the competitiveness of Yokohama's aircraft products are the company's unique strengths in fabricating lightweight, high-strength items from fiber-reinforced plastic.

**Pace-setting golf equipment**

The head-speed theory adopted in Yokohama's PRGR line of golf clubs in 1984 has become axiomatic in the golf world. And Yokohama has continued to earn plaudits for golf equipment that exhibits breakthrough insights and a scientific approach to product development.

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

*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.*

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.

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

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.*

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 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.


*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.*

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.



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

## 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.

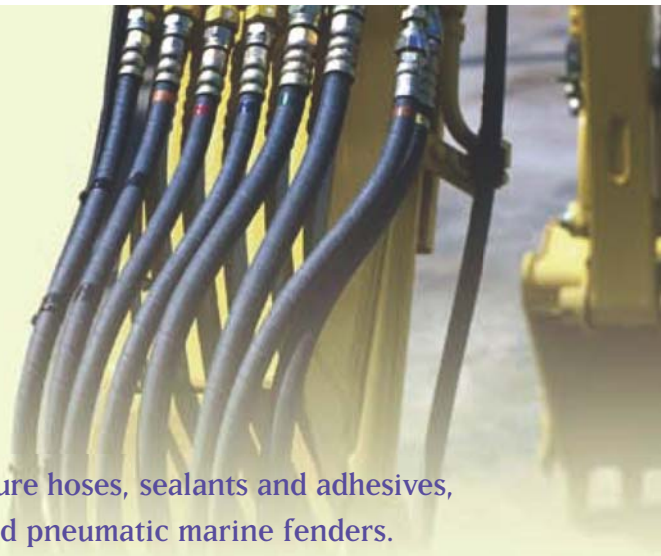
## Africa

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.

# Industrial PRODUCTS



Our industrial products operations center on high-pressure hoses, sealants and adhesives, conveyor belts, antiseismic products, marine hoses, and pneumatic marine fenders. Operating income in those operations increased 5.2-fold in the fiscal year ended March 31, 2011, to ¥3.0 billion, on a 13.3% increase in sales, to ¥83.8 billion. Especially strong gains in high-pressure hoses and growth in sealants and adhesives more than offset weakness in antiseismic products, in marine hoses, and in pneumatic marine fenders.

## High-Pressure Hoses

### Strong growth in hoses for construction equipment

Sales of high-pressure hoses increased 35.8%, to ¥37.5 billion, led by strong growth in hoses for construction equipment. Japanese manufacturers of construction equipment expanded production capacity at their plants in Japan and in China, and increased demand at those plants was the chief factor in our sales growth in this product sector. Another positive factor was the recovery in vehicle manufacturing in the United States and Thailand and an accompanying increase in demand for our automotive hoses.

We project that our sales of high-pressure hoses will remain steady in the present fiscal period. In Japan, capacity utilization rates have declined in the construction equipment industry and in the automobile industry, and that will undercut our sales momentum. We will address that adversity by cultivating demand associated with the recovery effort and by positioning ourselves to serve the expected rebound in demand in construction equipment and automobiles. Overseas, our largest market for high-pressure hoses is China. And we will cultivate demand there by developing business with construction equipment manufacturers, including Chinese-owned operations and the Chinese operations of our traditional Japanese manufacturers.

### A new plant to produce high-pressure hoses in China

We will start work in late 2011 on a plant to produce high-pressure hoses in the Chinese city of Hangzhou. The plant will produce hoses for medium- to high-pressure applications. We will invest about ¥3.0 billion in building the plant, and our plans call for it to begin operation in January 2013. The plant will have an initial production capacity of about 400,000 meters of hose per month.

Chinese demand for construction equipment slumped amid the global financial crisis precipitated by the collapse of Lehman Brothers in 2008, but it has since recovered strongly. In addition to serving Japanese and Chinese manufacturers of construction equipment in China, we serve the surging demand in China for replacement hoses. We expect Chinese demand for high-pressure hoses for construction equipment to continue to grow, and our new Chinese plant will help us serve that demand.

## Sealants and Adhesives

### Growth in architectural sealants for residential construction

Our sales of sealants and adhesives grew 7.4%, to ¥24.6 billion. We achieved robust growth in architectural sealants and in sealants for double-pane windows, spurred by Japanese government incentives for energy-saving residential architecture. Another contributor to sales growth in sealants and adhesives was our line of urethane waterproofing materials. Growth contributors also included our new line of flexible adhesives for electrical appliances and our coatings for mobile phones and digital cameras.

Despite the growth in sales, profitability declined in sealants and adhesives. That decline was partly the result of the upward movement in raw material costs. It also reflected sales declines in high-margin architectural sealants and automotive window sealants.

We project that the pace of sales in sealants and adhesives will remain steady in the present fiscal year. Demand for architectural sealants is rising, partly on account of reconstruction and repairs associated with the Great East Japan Earthquake. In the automotive sector, we aim to maintain our large market share in the original equipment market for window sealants and hot-melt adhesives for lamps, and we are also working to expand our share of the replacement market for windshield sealants. We have developed structural adhesives for automobile bodies, meanwhile, and will begin promoting them to automakers in the present fiscal period.

Bolstering profitability will remain a heavy emphasis throughout our sealants and adhesives operations. Our measures will include continuing efforts to reduce costs and, as possible, raising the prices for our products.

*Y-coat, a vacuum-deposition coating for mobile phones and digital cameras, is a highlight of Yokohama's progress in developing markets in new sectors. In the photo is an example of Y-coat on metal-imprinted plastic panels.*

## Industrial Materials

### Growth in conveyor belts and in roadway joints

We posted a 7.3% decline in sales, to ¥21.7 billion, in industrial materials. The sales decline occurred despite sales gains in conveyor belts and in roadway joints and resulted from weakness in marine hoses, pneumatic marine fenders, and antiseismic products. In the present fiscal year, we project sales growth in industrial materials.

Our business in conveyor belts expanded in Japan and overseas. Japanese demand reflected a recovery in production volume at the nation's steelmakers. Shipments to mining operations in Australia led the growth in our overseas sales. Our overseas business expanded notably in steel-cord conveyor belts and heat-resistant conveyor belts. Cost-competitive conveyor belts from our Chinese plant buttressed profitability in this product category.

Japan presents a trying business environment for conveyor belts in the present fiscal year amid the

*Yokohama's conveyor belt operations posted especially strong growth in the past fiscal year in steel-cord belts for large-volume, long-distance conveyance.*

aftereffects of the Great East Japan Earthquake. We will make the most of that environment by promoting our products in reconstruction and repair projects. Overseas, we will cultivate demand for high-value-added products in nations that are important sources of natural resources. That will include promoting distinctive products, such as flame-resistant conveyor belts and energy-saving conveyor belts. We will continue working, meanwhile, to cope with the rising cost of raw materials by raising prices and by focusing on profitable business in our marketing.

Our sales of marine hoses declined sharply amid slumping demand. The number of orders and product inquiries increased in the fiscal fourth quarter, however, and we anticipate a strong sales rebound in the present fiscal period.

Sales declined in pneumatic marine fenders as the strong yen diminished our cost competitiveness, especially in comparison with Korean competitors. Those competitive dynamics remain an issue for us in the present fiscal period. We are seeking to restore our sales momentum by appealing to core customers with products of especially high quality.

The sales decline in antiseismic products reflected reduced public-sector investment in new bridge construction. Demand remains weak in regard to new bridge construction, but we are augmenting our business in this product category by promoting compact products as replacement fittings for bridge-refurbishing projects.

Our sales gains in roadway joints comprised sales growth in large joints for road surfaces on newly constructed bridges and in general-purpose joints for road-maintenance projects. We have augmented our product line with new offerings in simple steel joints, and we are stepping up our marketing of road-maintenance products.

## Technological Support for the Physically Disabled

**Medi-Air1 cushions for preventing wheelchair pressure sores**

We launched a line of pressure-relieving air-cell cushions in September 2010 for preventing pressure sores on persons confined to wheelchairs. Dubbed Medi-Air1 (Medi-Air One), the new product line combines original Yokohama technologies for rubber cushioning and for pressure sensing. It is a promising foothold for us in personal-welfare products.

A unique sensory-and-control function automatically regulates the air pressure inside the cells of the Medi-Air1 cushions. That helps prevent pressure sores and allows for occupying wheelchairs comfortably for extended periods. A sensor detects a shift in posture that would cause the hip bones to press directly on the wheelchair seat and increases the air pressure as necessary to maintain protective cushioning.

Medi-Air1 is the first product line of its kind to incorporate such an automated pressure-maintenance function. It has received a certification for coverage under Japan's guidelines for geriatric-care insurance. Medi-Air1 also qualifies for payments under a Japanese program for helping disabled persons attain self-reliance.

*The Medi-Air1's pressure-relieving air-cell technology will help prevent discomfort for people confined to wheelchairs.*

# OTHER PRODUCTS

**Operating income in other products—principally aircraft fixtures and components and golf equipment—increased 6.9-fold in the fiscal year ended March 31, 2011, to ¥1.5 billion, on a 2.0% decline in sales, to ¥24.3 billion. The decline in sales resulted from weakness in golf equipment. Driving the surge in profitability were price increases for aircraft lavatory modules and progress in trimming costs.**

## Aircraft Products

### New business in onboard stairways

We posted a 6.4% increase in sales of aircraft products, to ¥16.3 billion. Our profitability in this sector also improved, despite the appreciation of the yen. New business in onboard stairways for the Boeing 747-8I jumbo airliner contributed to that improvement, as did improved profitability in our business in lavatory modules for the Boeing 737 airliner.

Our projections call for the pace of sales in aircraft products to increase in the present fiscal period. We anticipate continuing growth in orders from Boeing Company for lavatory modules for the B737, and demand for replacement modules is poised to rise as earnings improve in the airline industry.

## Golf Equipment and Other Products

### Shrinking demand for golf equipment

Our business in golf equipment, marketed under the PRGR brand, and other products declined 15.5%, to ¥8.0 billion. That decline reflected shrinking demand for golf equipment in Japan, our principal market for golf products. It also reflected a diminished weighting for new products in our sales portfolio in golf equipment. In the fiscal second half, we launched a promising line of clubs, named iD, that emphasizes ease of striking. Also promising was the growth in our overseas business in golf equipment. We solidified our market footholds in the Republic of Korea, our largest market outside Japan; in China, where we began a serious marketing effort in 2010; and in Southeast Asian nations.


*Yokohama's new iD line of golf clubs combines shooting ease with long distance. Pictured is the iD435, a driver for serious amateurs.*

Adding a new dimension to our business in golf equipment is Science Fit, a diagnostic system for golf swings. A leading operator of sports facilities has installed the system at facilities in Tokyo, Yokohama, and Osaka. PRGR-accredited instructors use the Science Fit diagnoses at those facilities to analyze golfers' swings and to help the golfers choose clubs of optimal length and specifications. We will promote the Science Fit system to the sports-facility operator's facilities in cities throughout Japan and will also promote the system to other operators of golf schools.

Japanese demand for golf equipment has weakened in the wake of the Great East Japan Earthquake. We are showcasing innovative strengths through our new iD line and through other products. Overseas, we are expanding our sales coverage in the Republic of Korea and broadening our line of products developed especially for Korean golfers. We are also stepping up our marketing effort in China and are studying the possibility of deploying products tailored to the Chinese market.

# Corporate Social Responsibility

We at Yokohama are committed to earning and retaining confidence in our company by fulfilling our corporate social responsibility. In that spirit, we dedicate ourselves especially to environmental protection and public-interest activities.

### Adopting original criteria for green products

Product development at Yokohama includes a focus on improving environmental performance across our entire product line. We have established four original criteria for environmental performance: preventing global warming, recycling resources, reusing and conserving resources, maximizing safety and amenability. Each new Yokohama product must excel its predecessor by at least 5% in the average value for those four criteria, and no backsliding is allowable in any criterion. In addition, we are pursuing the goal of adopting environmentally beneficial features in all our products by December 2017. Our attainment was 84% as of March 2011.

### Installing on-site systems for efficient electrical generation

Yokohama participates in Japanese initiatives for reducing the output of greenhouse gases. That includes working to reduce the output of carbon dioxide 25% by 2020, from the 1990 level. Our measures include undertaking rigorous energy conservation, including the installation of highly energy-efficient production equipment. We also continue to expand our on-site capacity for efficient electrical generation. That has included installing photovoltaic generating systems at our Hiratsuka, Mishima, and Shinshiro-Minami plants, in Japan. In China, Hangzhou Yokohama Tire Co., Ltd., completed a large photovoltaic generating system in February 2011.

### Offering products for clean energy and for personal welfare

For photovoltaic generation, we supply (1) our M-155 and M-155P edge sealants to ensure airtight sealing between the photovoltaic cells and their frames and (2) FLASH ONE (photo) adhesive to use on current-collection boxes. Our LEVEX hydraulic hoses render service, meanwhile, in the drive mechanisms for wind-power electrical generation systems. In the personal welfare sector, our Medi-Air1 pressure-relieving air-cell cushions help prevent pressure sores on persons confined to wheelchairs (see page 20).


### Planting trees at operations worldwide

The Yokohama Forever Forest project got under way in 2007 as an initiative for planting 500,000 trees around our manufacturing operations worldwide. We had planted 183,000 by March 2011. In another initiative, we are helping to raise environmental awareness in the community by providing oak seedlings for planting. Yokohama employee volunteers grow the seedlings from seeds, and we supply the seedlings for planting by public-sector organizations, nonprofit groups, and private-sector corporations. We also participate in the Green Wave, an international campaign conducted


*Photovoltaic panels are visible atop this building at Hangzhou Yokohama Tire.*

*In the United States, elementary school children take part in a tree seed sowing event sponsored by Yokohama Tire Corporation.*

under the Convention on Biological Diversity to promote tree planting.

### Eliminating landfill waste at manufacturing operations

We had eliminated landfill waste at all our plants in Japan by March 2006, and we have maintained a 100% recycling rate for waste at all of those plants since March 2010. Overseas, we had eliminated landfill waste at 5 plants in China, the Philippines, and Thailand by November 2010. Work continues to eliminate or reduce landfill waste at our other 10 overseas plants.

### Helping to preserve biodiversity

We have begun conducting surveys to monitor the potential effect of our operations on biodiversity at 15 sites in Japan and at 15 sites overseas. Where we determine a possible adverse effect, we will take countermeasures. We will conduct three surveys, for example, of river ecosystems near our Mie Plant, in Japan, from April to December 2011. The Yokohama Forever Forest project (above) is another important contribution to preserving biodiversity, and we are moving to maximize that contribution by conducting surveys of wildfowl in and around the planting zones.

## Part of the community everywhere we operate.

◀ Financial support for schools and child-welfare centers; sponsorship of an outdoor learning program for teaching elementary school children about environmental protection.
*May 2011*
*Yokohama Tire Manufacturing (Thailand) Co., Ltd.*

◀ Donations to a fund for fighting cancer; donations of Christmas presents through a charitable organization to families that have children afflicted by serious health problems.
*December 2010*
*YH America, Inc.*

▲ Sponsorship of events for fostering a shared awareness of environmental issues with people in the plant community (pictured: plant employees explaining the environmental benefits of electric cars to children).
*November 2010*
*Hiratsuka Factory*

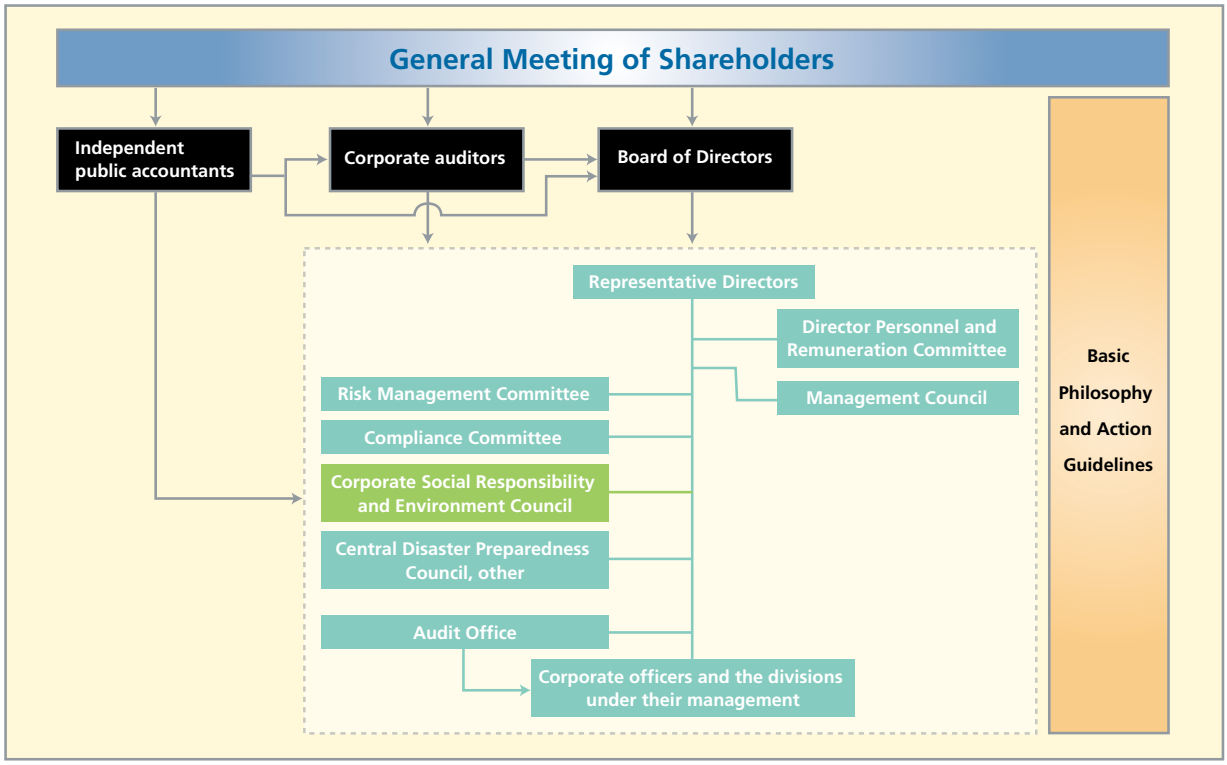
▲ State of Virginia's highest, E4, recognition for environmental stewardship (pictured: Tadashi Suzuki, then general manager of the Salem Plant [right], at the awards ceremony).
*December 2010*
*Yokohama Tire Corporation (Salem Plant)*

Funding for scholarships at a local high school; participation in a charity soccer tournament. ▶
*November 2010*
*Yokohama Tyre Vietnam Inc.*

# Corporate Governance

We are committed to positioning Yokohama to achieve continuing growth in corporate value and to earn the unwavering confidence of all our stakeholders. In that spirit, we have built a framework of corporate governance for achieving sound management characterized by transparency and fairness. We continue to reinforce that framework in accordance with our Basic Philosophy, which calls for enriching life through beneficial products.

**Yokohama's Framework for Corporate Governance**




## Framework

Our management framework differentiates clearly between operational responsibility, invested in the corporate officers, and oversight responsibility, invested in the Board of Directors. That helps maximize our responsiveness in management. Presently, the senior-management team comprises 8 directors, headed by the chairman and president and including four members who serve concurrently as corporate officers, and 14 corporate officers, not including officers who serve concurrently as directors.

The Management Council, which comprises the chairman and other selected members of the Board of Directors and other executives, reviews overall operational policy and matters crucial to the performance of work. It reports its findings to the Board of Directors, and the directors discuss and act on the council's recommendations in accordance with the pertinent corporate guidelines.

Transparency and fairness are overriding emphases in appointing directors and corporate officers and in determining their compensation. Appointments and compensation receive thorough consideration in the Director Personnel and Remuneration Committee and then go to the Board of Directors for decisions.

### Auditing

Auditing at Yokohama is a tripartite undertaking by our corporate auditors, an independent public accounting firm, and our Audit Office. We reinforce the auditing function by maintaining autonomy among those units.

The corporate auditors number five, including three recruited from outside the company to help ensure objectivity in the auditing function. They participate in meetings of the Management Council and of other management gatherings where important matters are discussed. They also obtain important information from the independent public accounting firm and from the Audit Office. The independent public accounting firm monitors the company's financial accounting, and the Audit Office monitors operations and accounting at the parent company and at subsidiaries. We assign an assistant to the auditors to help them carry out their work smoothly and effectively.

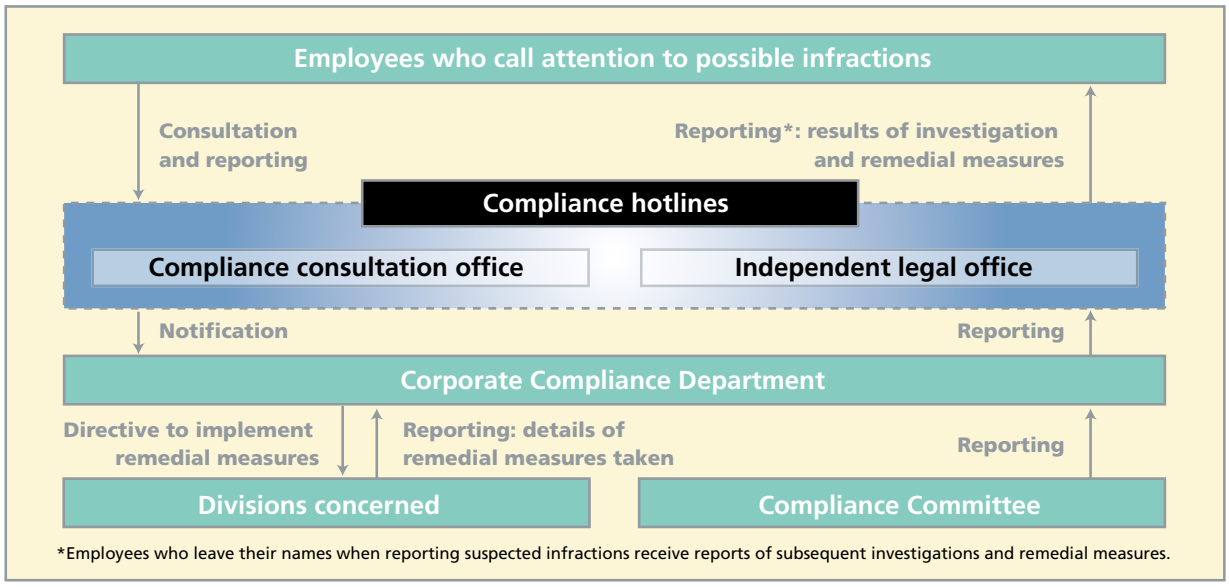
### Risk management

Spearheading risk-preparedness measures at Yokohama is our Risk Management Committee, chaired by the general manager of the Corporate Social Responsibility Division. That committee evaluates risk from a cross-sector perspective and devises precautionary measures. We have also established committees to manage risk, respond to incidents, and establish guidelines in regard to ethical compliance, disaster preparedness, information security, personal conduct, and exports. Our Board of Directors, Management Council, and corporate auditors receive timely reports from all of those committees.

### Ethical compliance

Our Compliance Committee, chaired by the president, oversees activity at the company with an eye to ensuring compliance with laws and regulations. Responsible for enforcing ethical compliance is our Corporate Compliance Department. In addition, we assign compliance monitors for each sector of operations at the parent company and for each subsidiary in Japan to help foster awareness of our ethical guidelines. They report to the Compliance Committee, which evaluates ethical infractions and potential problems and adopts appropriate countermeasures. We also maintain hotlines to handle reports of suspected infractions from persons inside and outside the company.

**How the Compliance Hotline Works**



# Directors, Corporate Auditors, and Corporate Officers

As of June 29, 2011

## Board of Directors

**Tadanobu Nagumo**
*Chairman and CEO and Representative Director*

**Hikomitsu Noji**
*President and Representative Director*
President of Tire Group

**Norio Karashima**
*Director and Vice President*
Chairman and President of Yokohama Rubber (China) Co., Ltd., Chairman of Yokohama Tire Sales (Shanghai) Co., Ltd.

**Tooru Kobayashi**
*Director and Vice President*
President of Multiple Business Group, General Manager of Electric Material Div.

**Kinya Kawakami**
*Director and Managing Corporate Officer*
In charge of Global HR Dept., General Manager of Corporate Social Responsibility Div.

**Yuji Goto**
*Director and Managing Corporate Officer*
General Manager of Tire Global Business Planning Div.

**Takao Oishi**
*Director and Managing Corporate Officer*
General Manager of Industrial Products Business Group

**Fumio Morita**
*Director and Corporate Officer*
In charge of Corporate Finance & Accounting Dept., Internal Audit Dept., General Manager of Corporate Finance & Accounting Dept., in charge of Global Procurement Div., President of Yokohamagomu Finance Co., Ltd.

## Board of Corporate Auditors

**Takashi Fukui**

**Hideo Fujiwara**

**Naozumi Furukawa**

**Yoshiki Sato**

**Go Kajitani**

## Corporate Officers

**Koichi Tanaka**
*Senior Managing Corporate Officer*
Deputy President of Tire Group,
President of Yokohama Tire Japan Co., Ltd.

**Shinichi Suzuki**
*Managing Corporate Officer*
General Manager of Tire Global Production Div., General Manager of Russia Tire Plant Div., General Manager of Tire Production HR Dept.

**Misao Hiza**
*Managing Corporate Officer*
General Manager of Aerospace Div., General Manager of R&D Center

**Hirohiko Takaoka**
*Managing Corporate Officer*
In charge of Sports Business Div., Corporate Planning Dept., Secretariat, GD100 Promotion Dept., President of Acty Corporation

**Shigeo Komatsu**
*Corporate Officer*
General Manager of Tire Global Product Planning Div., General Manager of Tire Global Marketing Research and Planning Dept.

**Yasushi Tanaka**
*Corporate Officer*
President of Yokohama Tire Corporation, President of Yokohama Corporation of America, President of Yokohama Corporation of North America

**Toshiyuki Nishida**
*Corporate Officer*
Deputy General Manager of Industrial Products Business Group, General Manager of Industrial Products Technical Div., General Manager of Hiratsuka Factory

**Takaharu Fushimi**
*Corporate Officer*
General Manager of Tire Overseas Sales & Marketing Div.

**Tadashi Suzuki**
*Corporate Officer*
In charge of MIS Dept., General Manager of Tire Global Logistics Div.

**Hideto Katsuragawa**
*Corporate Officer*
General Manager of Global O.E. Tire Sales & Marketing Div., President of Yokohama Continental Tire Co., Ltd.

**Hirohisa Hazama**
*Corporate Officer*
General Manager of Tire Global Technical Div., General Manager of Tire R&D Dept.

**Tetsuya Kuze**
*Corporate Officer*
President of Yokohama Tire Philippines, Inc.

**Yasushi Kikuchi**
*Corporate Officer*
General Manager of Global Procurement Div.

**Kazuya Nakazawa**
*Corporate Officer*
General Manager of Industrial Products Sales Div., General Manager of Industrial Products Sales Planning Dept.

# Financial Section

Net sales increased 11.4%, to ¥519.7 billion, in the fiscal year ended March 31, 2011. Leading that growth was vigor in Yokohama's core business, tire operations. Sales in tires rose in Japan and overseas, bolstered by price increases in most principal markets. In diversified operations, Yokohama posted strong sales growth in high-pressure hoses and also registered growth in sealants and adhesives and in aircraft products.

## Expenses and Earnings

Cost of sales increased 11.0%, to ¥359.2 billion, reflecting the growth in unit sales volume and the upward movement in prices for natural rubber and other raw materials. Gross return on sales rose to 30.9%, from 30.6% in the previous fiscal year, on account of improvement in capacity utilization rates.

Selling, general and administrative expenses increased 8.1%, to ¥131.0 billion, mainly on account of increases in sales commissions and logistics expenses in connection with the growth in sales volume. Progress in trimming costs helped reduce selling, general and administrative expenses as a percentage of net sales to 25.2%, from 26.0% in the previous fiscal year. Research and development expenses, included in cost of sales and in selling, general and administrative expenses, declined 4.0%, to ¥12.7 billion.

Operating income increased 37.5%, to ¥29.5 billion, and the operating profit margin rose to 5.7%, from 4.6% in the previous fiscal year. The principal reasons for the improvement in operating profitability were the improvement in capacity utilization rates and the progress in trimming costs.

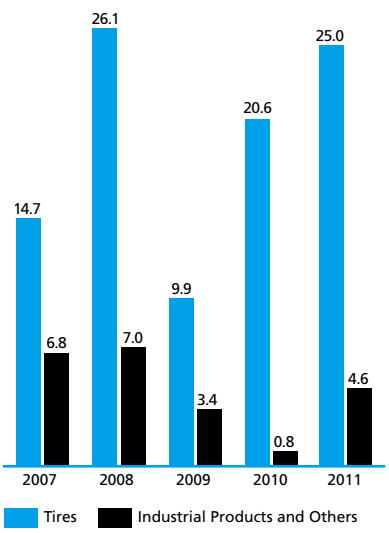
Other expenses, net of other income, increased ¥5.1 billion, to ¥7.6 billion. That increase is attributable mainly to the appreciation of the yen, which resulted in increased translation losses on foreign currency denominated receivables.

Income before income taxes and minority interests increased 15.3%, to ¥21.9 billion, reflecting the improvement in operating profitability. Net income increased 21.2%, to ¥13.9 billion, and net return on sales rose to 2.7%, from 2.5% in the previous fiscal year.

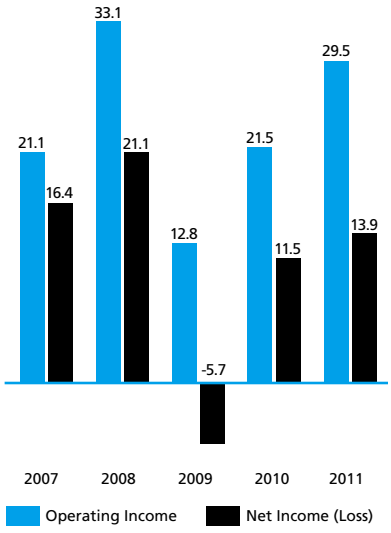
## Results by Business Segment

Sales increased 12.0% in Yokohama's tire operations, to ¥411.6 billion, and operating income increased 20.9%, to ¥25.0 billion. Sales increased in Japan and overseas, and the efficiencies engendered by increased volume more than offset the adverse earnings effect of rising prices for raw materials and the appreciation of

**Operating Income by Business Segment**
Billions of Yen




**Operating Income and Net Income (Loss)**
Billions of Yen



the yen. Yokohama tire products distinguished by fuel-saving performance earned high regard in the Japanese marketplace, and the Company's share of the market for replacement tires increased. Overseas, Yokohama posted notably strong sales growth in tires in the United States and in China.

Yokohama's diversified operations comprise industrial products, including high-pressure hoses, sealants and adhesives, conveyor belts, antiseismic products, marine hoses, and pneumatic marine fenders, and other products, consisting mainly of aircraft components and golf equipment. Sales in industrial products increased 13.3%, to ¥83.8 billion, and operating income increased 5.2-fold, to ¥3.0 billion. Sales and earnings increased strongly in high-pressure hoses and also increased in sealants and adhesives, more than offsetting weakness in antiseismic products, marine hoses, and pneumatic marine fenders.

In other products, sales declined 2.0%, to ¥24.3 billion, and operating income increased 6.9-fold, to ¥1.5 billion. The sales decline resulted from weakness in golf equipment, and the increase in earnings resulted from price increases for aircraft lavatory modules and from progress in trimming costs.

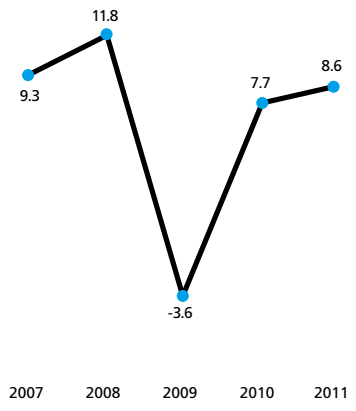
## Capital Spending

Capital spending increased 42.8%, to ¥24.9 billion. Yokohama allocated most of its capital spending, ¥22.2 billion, to expanding and upgrading production capacity in its tire operations. That included ¥6.6 billion of investment at the parent company for expanding production capacity, for raising productivity, and for improving product quality. It also included ¥6.5 billion of investment at Yokohama's Russian subsidiary, Yokohama R.P.Z., for building a plant to produce tires for passenger cars and light trucks. In diversified operations, Yokohama allocated ¥2.2 billion to capital spending, mainly to expand production capacity for high-pressue hoses. Yokohama funded its capital spending with internally generated funds and borrowings.

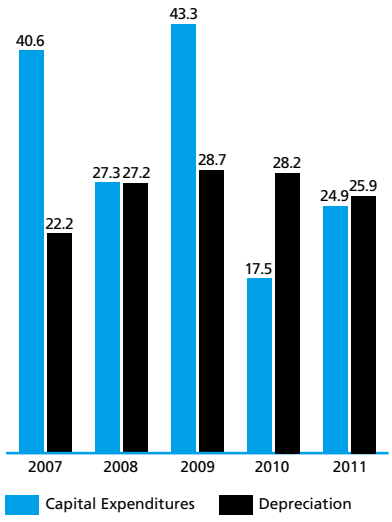
## Financial Position

Total assets increased ¥11.9 billion, to ¥478.9 billion at fiscal year-end. Current assets increased ¥24.7 billion, to ¥223.2 billion, reflecting an increase in cash deposits at overseas subsidiaries for future capital spending and an increase in accounts receivable in connection with sales growth.

**Return on Shareholders' Equity**
Percent




**Capital Expenditures and Depreciation**
Billions of Yen



Total property, plant and equipment, net, declined ¥6.6 billion, to ¥177.4 billion at fiscal year-end, as depreciation outpaced new investment. Total investments and other assets declined ¥6.2 billion, to ¥78.3 billion, mainly because of the first-time inclusion of Yokohama R.P.Z. as a consolidated subsidiary.

Total liabilities increased ¥4.5 billion, to ¥308.0 billion. That increase resulted mainly from an increase in accounts payable, which was attributable to the growth in business volume, and to the effect of rising raw material costs on accounts payable. Total net assets increased ¥7.5 billion, to ¥170.9 billion, mainly because of an increase in retained earnings.

## Cash Flow

Net cash provided by operating activities declined ¥8.7 billion, to ¥41.2 billion. Offsetting the increase in before income taxes and minority interests were an increase in inventories and other factors.

Net cash used in investing activities declined ¥4.7 billion, to ¥20.6 billion, as a decline in purchases of marketable securities and investment securities exceeded the increase in purchases of property, plant and equipment.

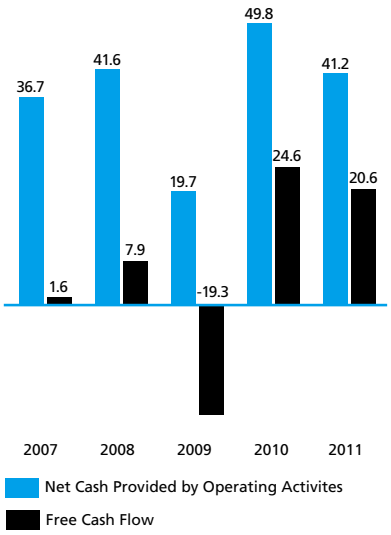
Free cash flow declined ¥4.0 billion, to ¥20.6 billion. Yokohama used its free cash flow for repayments of borrowings and long-term debt and for dividend payments.

Net repayments of borrowings and long-term debt were smaller than in the previous fiscal year, and net cash used in financing activities declined ¥22.1 billion, to ¥7.3 billion. Cash and cash equivalents at fiscal year-end increased ¥16.6 billion over the previous fiscal year-end, to ¥28.2 billion.

## Fiscal Outlook

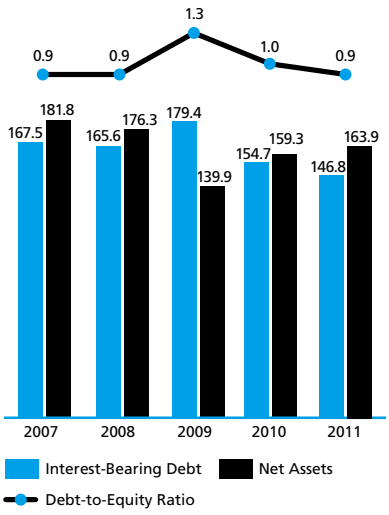
Yokohama will switch its fiscal accounting in 2011 from an April-to-March basis to a calendar-year basis. That will align the fiscal accounting at the Company's Japanese operations with the fiscal periods employed at its overseas operations, and it will result in a one-time-only nine-month fiscal term: April 1 to December 31, 2011. The Company's fiscal projections for the nine months to December 2011 call for net income of ¥11.0 billion on operating income of ¥21.0 billion and net sales of ¥471.0 billion.

**Net Cash Provided by Operating Activities and Free Cash Flow***
Billions of Yen




** Net cash provided by operating activities less net cash used in investing activities*

**Interest-Bearing Debt, Net Assets*, and Debt-to-Equity Ratio****
Billions of Yen, Times




** Less minority interests*
*** Interest-bearing debt divided by net assets less minority interests*

# Risk

Below is a partial listing of risks that could adversely affect the Company's business performance, financial position, or share price. All references to possible future events are from the standpoint of the fiscal year ended March 31, 2011.

### *Economic conditions*

Vehicle tires account for most of the Company's worldwide revenues. Demand for those tires reflects economic conditions in nations and regions where the Company sells its products. Therefore, economic trends and developments that diminish demand in the Company's main markets—including Japan, North America, Europe, and Asian nations besides Japan—could adversely affect the Company's business performance and financial position.

### *Exchange rates*

The Company conducts most of its business transactions and investment in yen, but it conducts some transactions and investment in dollars and in other currencies. The Company continues to expand its operations globally. That expansion will increase the Company's exposure to fluctuations in currency exchange rates. The Company hedges its exposure to currency exchange rates with forward exchange contracts and with other instruments, but hedging cannot fully offset the effect of fluctuations in currency exchange rates on the Company's business performance and financial position.

### *Seasonal factors*

Historically, the Company's sales and earnings performance has tended to be stronger in the fiscal second half (October to March) than in the first half (April to September). That is partly because sales of studless snow tires are an important contributor to the Company's sales and earnings. It is also partly because purchases of warm-weather tires are most vigorous during the fiscal second half. A later-than-usual onset of winter or lighter-than-usual snowfall could diminish demand for snow tires and thereby adversely affect the Company's business performance and financial position.

### *Raw material prices*

Yokohama's principal raw materials are natural rubber and petrochemical products, including synthetic rubber and carbon black. Sharp increases in prices for natural rubber or for crude oil could adversely affect the Company's business performance and financial position.

### *Access to funding*

Instability in any of the world's principal financial markets could affect the Company's access to funding adversely. In addition, the lowering of the Company's credit rating by leading credit-rating agencies could adversely affect the Company's access to debt financing and could increase the Company's cost of funds. That could adversely affect the Company's financial performance and financial position.

### *Interest rates*

As of March 31, 2011, the Company's interest-bearing debt was equivalent to 31.3% of its total assets. An increase in interest rates could adversely affect the Company's financial performance and financial position.

### *Securities*

The Company owns marketable securities, mainly Japanese equities. A decline in the value of those securities could adversely affect the Company's financial performance and financial position.

### *Investment*

In response to growing demand for automobile tires, the Company is investing in expanding its tire production capacity, especially in Asia. Changes in the regulatory environment, in economic conditions, in industrial circumstances, or in political and social stability in the host nations for the Company's investment could adversely affect the Company's business performance and financial position.

### *Retirement benefit obligations*

The Company calculates retirement benefit obligations and retirement benefit expenses according to predetermined criteria, including expected returns on pension assets. If actual return on the Company's pension assets declined substantially below the expected return, that could adversely affect the Company's financial performance and financial position. Similarly, if the Company revised its retirement plan in a manner that increased future payment obligations as a result of unforeseen changes in actuarial calculations or for any other reason, that could adversely affect the Company's financial performance and financial position.

### *Natural disasters*

Earthquakes and other natural disasters could damage the Company's plants and other facilities and could limit the Company's access to essential raw materials and services. That could adversely affect the Company's business performance and financial position.

# Eleven-Year Summary

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
Fiscal Years Ended March 31

| | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Net sales | **¥519,742** | ¥466,358 | ¥517,263 | ¥551,431 |
| Operating income | **29,491** | 21,455 | 12,808 | 33,119 |
| Income (loss) before income taxes and minority interests | **21,880** | 18,969 | (3,166) | 20,478 |
| Net income (loss) | **13,924** | 11,487 | (5,654) | 21,060 |
| | | | | |
| Depreciation | **25,885** | 28,184 | 28,684 | 27,238 |
| Capital expenditures | **24,944** | 17,471 | 43,341 | 27,292 |
| R&D expenditures | **12,748** | 13,280 | 15,277 | 15,289 |
| | | | | |
| Interest-bearing debt | **146,773** | 154,675 | 179,379 | 165,614 |
| Total net assets | **170,872** | 163,382 | 144,159 | 181,538 |
| Total assets | **478,916** | 466,973 | 473,376 | 526,192 |
| | | | | |
| Per share (yen): | | | | |
| Net income (loss): basic | **¥ 41.55** | ¥ 34.27 | ¥ (16.87) | ¥ 62.81 |
| Net assets | **489.27** | 475.26 | 417.45 | 525.96 |
| Cash dividends | **10.00** | 10.00 | 10.00 | 13.00 |
| | | | | |
| Key financial ratios: | | | | |
| Operating margin (%) | **5.7** | 4.6 | 2.5 | 6.0 |
| Return on shareholders' equity (%) | **8.6** | 7.7 | (3.6) | 11.8 |
| Capital turnover (times) | **1.1** | 1.0 | 1.0 | 1.0 |
| Interest-bearing debt to shareholders' equity (times) | **0.9** | 1.0 | 1.3 | 0.9 |
| Interest coverage (times) | **13.4** | 8.0 | 4.3 | 9.0 |
| | | | | |
| Number of employees | **18,465** | 17,566 | 16,772 | 16,099 |

Millions of Yen

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| ¥497,396 | ¥451,911 | ¥419,789 | ¥401,718 | ¥400,448 | ¥399,824 | ¥387,855 |
| 21,070 | 21,947 | 20,955 | 21,073 | 23,184 | 22,701 | 19,845 |
| 26,038 | 22,673 | 16,337 | 16,931 | 18,778 | 16,076 | 7,052 |
| 16,363 | 21,447 | 11,322 | 10,331 | 10,144 | 7,363 | 96 |
| 22,166 | 20,491 | 19,616 | 19,199 | 19,040 | 19,247 | 20,083 |
| 40,638 | 29,067 | 27,533 | 23,735 | 22,708 | 16,940 | 18,118 |
| 14,649 | 14,557 | 14,265 | 13,818 | 12,520 | 12,298 | 11,827 |
| 167,474 | 163,022 | 151,758 | 159,700 | 167,832 | 179,098 | 191,289 |
| 186,528 | 174,609 | 139,534 | 130,622 | 114,719 | 116 | 114,205 |
| 536,322 | 502,014 | 432,717 | 429,350 | 412,626 | 437,771 | 448,130 |
| ¥ 48.79 | ¥ 62.75 | ¥ 32.95 | ¥ 29.95 | ¥ 29.38 | ¥ 21.32 | ¥ 0.28 |
| 542.10 | 508.64 | 398.24 | 373.23 | 327.61 | 334.24 | 328.81 |
| 12.00 | 10.00 | 8.00 | 8.00 | 8.00 | 6.00 | — |
| 4.2 | 4.9 | 5.0 | 5.2 | 5.8 | 5.7 | 5.1 |
| 9.3 | 14.0 | 8.6 | 8.6 | 8.9 | 6.5 | 0.1 |
| 1.0 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 |
| 0.9 | 1.0 | 1.1 | 1.2 | 1.5 | 1.6 | 1.7 |
| 7.0 | 10.1 | 11.2 | 9.2 | 7.9 | 4.9 | 3.5 |
| 15,423 | 14,617 | 13,464 | 13,264 | 12,979 | 13,130 | 13,362 |

# Consolidated Balance Sheets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| **Assets** | **2011** | 2010 | **2011** |
| **Current Assets:** | | | |
| Cash and deposits | **¥ 28,161** | ¥ 11,561 | **$ 338,678** |
| Trade receivables: | | | |
| Notes and accounts | **111,702** | 103,400 | **1,343,374** |
| Inventories (Note 3) | **68,435** | 67,612 | **823,034** |
| Deferred income taxes (Note 17) | **6,269** | 7,990 | **75,395** |
| Other current assets | **9,621** | 8,890 | **115,705** |
| Allowance for doubtful receivables | **(960)** | (916) | **(11,546)** |
| Total current assets | **223,228** | 198,537 | **2,684,640** |
| **Property, Plant and Equipment, at Cost (Notes 4, 5 and 12):** | | | |
| Land | **34,571** | 34,413 | **415,767** |
| Buildings and structures | **138,092** | 138,442 | **1,660,767** |
| Machinery and equipment | **399,495** | 403,587 | **4,804,508** |
| Leased assets | **2,536** | 2,082 | **30,498** |
| Construction in progress | **16,172** | 6,620 | **194,491** |
| | **590,866** | 585,144 | **7,106,031** |
| Less accumulated depreciation | **(413,496)** | (401,191) | **(4,972,893)** |
| Total property, plant and equipment, net | **177,370** | 183,953 | **2,133,138** |
| **Investments and Other Assets:** | | | |
| Investment securities (Note 14) | **59,360** | 59,257 | **713,888** |
| Deferred income taxes (Note 17) | **4,820** | 5,970 | **57,966** |
| Other investments and other assets | **14,834** | 20,169 | **178,401** |
| Allowance for doubtful receivables | **(696)** | (913) | **(8,374)** |
| Total investments and other assets | **78,318** | 84,483 | **941,881** |
| Total assets | **¥478,916** | ¥466,973 | **$5,759,659** |

See accompanying Notes to Consolidated Financial Statements.

| Liabilities and Net Assets | Millions of Yen 2011 | Millions of Yen 2010 | Thousands of U.S. Dollars (Note 1) 2011 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Bank loans | **¥ 70,349** | ¥ 74,770 | **$ 846,048** |
| Current maturities of long-term debt (Note 4) | **8,220** | 23,295 | **98,859** |
| Commercial paper | **3,000** | — | **36,079** |
| Trade notes and accounts payable | **79,611** | 69,858 | **957,433** |
| Accrued income taxes | **1,167** | 1,942 | **14,045** |
| Accrued expenses | **28,961** | 25,457 | **348,293** |
| Allowance for loss on disaster | **453** | — | **5,449** |
| Other current liabilities (Note 17) | **12,490** | 10,665 | **150,214** |
| Total current liabilities | **204,251** | 205,987 | **2,456,420** |
| **Long-Term Liabilities:** | | | |
| Long-term debt (Note 4) | **65,204** | 56,610 | **784,178** |
| Deferred income taxes (Note 17) | **8,873** | 8,425 | **106,712** |
| Reserve for pension and severance payments (Note 16) | **16,281** | 16,913 | **195,798** |
| Other long-term liabilities | **13,435** | 15,656 | **161,571** |
| Total long-term liabilities | **103,793** | 97,604 | **1,248,259** |
| Total liabilities | **308,044** | 303,591 | **3,704,679** |
| Contingent liabilities (Note 6) | | | |
| **Net Assets** | | | |
| **Shareholders' Equity:** | | | |
| Common stock: | | | |
| Authorized: 700,000,000 shares in 2011 and 2010 | | | |
| Issued: 342,598,162 shares in 2011 and 2010 | **38,909** | 38,909 | **467,939** |
| Capital surplus | **31,953** | 31,953 | **384,280** |
| Retained earnings (Note 9) | **108,083** | 92,740 | **1,299,858** |
| Treasury stock, at cost: 7,533,081 shares in 2011 and 7,492,603 shares in 2010 | **(4,746)** | (4,730) | **(57,082)** |
| Total shareholders' equity | **174,199** | 158,872 | **2,094,995** |
| **Accumulated Other Comprehensive Income (Loss):** | | | |
| Unrealized gains on securities | **16,426** | 16,402 | **197,542** |
| Foreign currency translation adjustments | **(21,829)** | (16,010) | **(262,527)** |
| Adjustment related to pension obligations of consolidated overseas subsidiaries | **(4,860)** | — | **(58,445)** |
| Total accumulated other comprehensive income (loss) | **(10,263)** | 392 | **(123,430)** |
| **Minority Interests** | **6,936** | 4,118 | **83,415** |
| Total net assets | **170,872** | 163,382 | **2,054,980** |
| Total liabilities and net assets | **¥478,916** | ¥466,973 | **$5,759,659** |

# Consolidated Statements of Operations

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2011, 2010 and 2009

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** |
| Net sales | **¥519,742** | ¥466,358 | ¥517,263 | **$6,250,656** |
| Cost of sales (Notes 5 and 7) | **359,210** | 323,681 | 368,933 | **4,320,023** |
| Gross profit | **160,532** | 142,677 | 148,330 | **1,930,633** |
| Selling, general and administrative expenses (Notes 5 and 7) | **131,041** | 121,222 | 135,522 | **1,575,963** |
| Operating income | **29,491** | 21,455 | 12,808 | **354,670** |
| Other income (expenses) | | | | |
| Interest and dividend income | **1,548** | 1,332 | 2,053 | **18,609** |
| Interest expense | **(2,316)** | (2,848) | (3,479) | **(27,853)** |
| Loss on disaster (Note 8) | **(1,003)** | — | — | **(12,058)** |
| Other, net | **(5,840)** | (970) | (14,548) | **(70,229)** |
| | **(7,611)** | (2,486) | (15,974) | **(91,531)** |
| Income (loss) before income taxes and minority interests | **21,880** | 18,969 | (3,166) | **263,139** |
| Income taxes (Notes 2 and 17): | | | | |
| Current | **4,144** | 2,775 | 2,975 | **49,844** |
| Deferred | **2,954** | 4,337 | (911) | **35,526** |
| | **7,098** | 7,112 | 2,064 | **85,370** |
| Income before minority interests | **14,782** | — | — | **177,769** |
| Minority interests in net income of consolidated subsidiaries | **(858)** | (370) | (424) | **(10,319)** |
| Net income (loss) | **¥ 13,924** | ¥ 11,487 | ¥ (5,654) | **$ 167,450** |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2011

| | Millions of Yen | Thousands of U.S. Dollars (Note 1) |
|---|---|---|
| | **2011** | **2011** |
| Income before minority interests | **¥14,782** | **$177,769** |
| Other comprehensive income (loss) | | |
| Unrealized gains on securities | **23** | **272** |
| Foreign currency translation adjustments | **(6,060)** | **(72,879)** |
| Adjustment related to pension obligations of consolidated overseas subsidiaries | **(96)** | **(1,153)** |
| Share of other comprehensive income of associates accounted for by the equity method | **(143)** | **(1,718)** |
| Total other comprehensive income (loss) (Note 10) | **¥(6,276)** | **$(75,478)** |
| **Comprehensive income** | **¥ 8,506** | **$102,291** |
| Comprehensive income attributable to owners of the Company | **8,033** | **96,600** |
| Comprehensive income attributable to minority interests | **473** | **5,691** |

| | Yen | | | U.S. Dollars (Note 1) |
|---|---|---|---|---|
| **Per Share Amounts:** | **2011** | 2010 | 2009 | **2011** |
| Net income (loss): Basic | **¥41.55** | ¥34.27 | ¥(16.87) | **$0.50** |
| Net income: Diluted | **—** | — | — | **—** |
| Cash dividends | **¥10.00** | ¥10.00 | ¥ 10.00 | **$0.12** |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2011, 2010 and 2009

| | | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares of Common Stock | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Shareholders' Equity | Total Comprehensive Income (Loss) | Total Accumulated Other Minority Interests | Total Net Assets |
| Balance at March 31, 2008 | 342,598,162 | ¥38,909 | ¥31,953 | ¥94,856 | ¥(4,681) | ¥161,037 | ¥15,287 | ¥5,214 | ¥181,538 |
| Effect of changes in accounting policies applied to overseas subsidiaries | — | — | — | (163) | — | (163) | — | — | (163) |
| Adjustment for employee benefit obligations in overseas subsidiaries | — | — | — | (1,398) | — | (1,398) | — | — | (1,398) |
| Net income | — | — | — | (5,654) | — | (5,654) | — | — | (5,654) |
| Cash dividends paid | — | — | — | (4,358) | — | (4,358) | — | — | (4,358) |
| Repurchase of treasury stock, net | — | — | — | (10) | (19) | (29) | — | — | (29) |
| Accumulated other comprehensive income (loss) | | | | | | | | | |
| Net unrealized gains and losses on securities | — | — | — | — | — | — | (11,366) | — | (11,366) |
| Foreign currency translation adjustments | — | — | — | — | — | — | (13,433) | — | (13,433) |
| Decrease in minority interests | — | — | — | — | — | — | — | (978) | (978) |
| Balance at March 31, 2009 | 342,598,162 | 38,909 | 31,953 | 83,273 | (4,700) | 149,435 | (9,512) | 4,236 | 144,159 |
| Adjustment for employee benefit obligations in overseas subsidiaries | — | — | — | 663 | — | 663 | — | — | 663 |
| Net income | — | — | — | 11,487 | — | 11,487 | — | — | 11,487 |
| Cash dividends paid | — | — | — | (2,681) | — | (2,681) | — | — | (2,681) |
| Repurchase of treasury stock, net | — | — | — | (2) | (30) | (32) | — | — | (32) |
| Accumulated other comprehensive income (loss) | | | | | | | | | |
| Net unrealized gains and losses on securities | — | — | — | — | — | — | 8,436 | — | 8,436 |
| Foreign currency translation adjustments | — | — | — | — | — | — | 1,468 | — | 1,468 |
| Decrease in minority interests | — | — | — | — | — | — | — | (118) | (118) |
| Balance at March 31, 2010 | 342,598,162 | 38,909 | 31,953 | 92,740 | (4,730) | 158,872 | 392 | 4,118 | 163,382 |
| Adjustment for employee benefit obligations in overseas subsidiaries | — | — | — | 4,763 | — | 4,763 | — | — | 4,763 |
| Net income | — | — | — | 13,924 | — | 13,924 | — | — | 13,924 |
| Cash dividends paid | — | — | — | (3,351) | — | (3,351) | — | — | (3,351) |
| Increase in retained earnings due to inclusion of a consolidated subsidiary | — | — | — | 8 | — | 8 | — | — | 8 |
| Repurchase of treasury stock, net | — | — | — | (1) | (16) | (17) | — | — | (17) |
| Accumulated other comprehensive income (loss) | | | | | | | | | |
| Net unrealized gains and losses on securities | — | — | — | — | — | — | 24 | — | 24 |
| Foreign currency translation adjustments | — | — | — | — | — | — | (5,819) | — | (5,819) |
| Adjustment related to pension obligations of consolidated overseas subsidiaries | — | — | — | — | — | — | (4,860) | — | (4,860) |
| Increase in minority interests | — | — | — | — | — | — | — | 2,818 | 2,818 |
| Balance at March 31, 2011 | 342,598,162 | ¥38,909 | ¥31,953 | ¥108,083 | ¥(4,746) | ¥174,199 | ¥(10,263) | ¥6,936 | ¥170,872 |

See accompanying Notes to Consolidated Financial Statements.

| | Thousands of U.S. Dollars (Note 1) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Shareholders' Equity | Total Comprehensive Income (Loss) | Total Accumulated Other Minority Interests | Total Net Assets |
| Balance at March 31, 2010 | $467,939 | $384,280 | $1,115,333 | $(56,885) | $1,910,667 | $ 4,715 | $49,531 | $1,964,913 |
| Adjustment for employee benefit obligations in overseas subsidiaries | — | — | 57,288 | — | 57,288 | — | — | 57,288 |
| Net income | — | — | 167,450 | — | 167,450 | — | — | 167,450 |
| Cash dividends paid | — | — | (40,298) | — | (40,298) | — | — | (40,298) |
| Increase in retained earnings due to inclusion of a consolidated subsidiary | — | — | 95 | — | 95 | — | — | 95 |
| Repurchase of treasury stock, net | — | — | (10) | (197) | (207) | — | — | (207) |
| Accumulated other comprehensive income (loss) | | | | | | | | |
| Net unrealized gains and losses on securities | — | — | — | — | — | 286 | — | 286 |
| Foreign currency translation adjustments | — | — | — | — | — | (69,986) | — | (69,986) |
| Adjustment related to pension obligations of consolidated overseas subsidiaries | — | — | — | — | — | (58,445) | — | (58,445) |
| Increase in minority interests | — | — | — | — | — | — | 33,884 | 33,884 |
| Balance at March 31, 2011 | $467,939 | $384,280 | $1,299,858 | $(57,082) | $2,094,995 | $(123,430) | $83,415 | $2,054,980 |

# Consolidated Statements of Cash Flows

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2011, 2010 and 2009

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** |
| **Operating Activities:** | | | | |
| Income (loss) before income taxes and minority interests | **¥21,880** | ¥18,969 | ¥(3,166) | **$263,139** |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | | |
| Depreciation and amortization (Notes 2 and 5) | **25,885** | 28,184 | 28,684 | **311,311** |
| Reserve for pension and severance payments | **(638)** | (526) | (1,052) | **(7,678)** |
| Gain on sale of investment securities | **—** | (718) | (303) | **—** |
| Loss on revaluation of investment securities | **—** | 33 | 2,914 | **—** |
| Other, net | **1,831** | 1,103 | 5,210 | **22,011** |
| Changes in operating assets and liabilities: | | | | |
| Trade notes and accounts receivable | **(10,883)** | (9,709) | 18,140 | **(130,881)** |
| Inventories | **(3,677)** | 20,701 | (12,618) | **(44,216)** |
| Notes and accounts payable | **11,442** | (3,575) | (9,413) | **137,610** |
| Other, net | **55** | (497) | (759) | **657** |
| Interest and dividends received | **1,597** | 1,295 | 2,175 | **19,209** |
| Interest paid | **(2,329)** | (2,845) | (3,488) | **(28,012)** |
| Income taxes paid | **(3,996)** | (2,570) | (6,445) | **(48,062)** |
| Compensation for damage paid | **—** | — | (188) | **—** |
| Net cash provided by operating activities | **41,167** | 49,845 | 19,691 | **495,088** |
| **Investing Activities:** | | | | |
| Purchases of property, plant and equipment | **(20,429)** | (19,690) | (42,041) | **(245,690)** |
| Purchases of marketable securities and investment securities | **(189)** | (6,268) | (2,213) | **(2,276)** |
| Proceeds from sales of marketable securities, investment securities and property | **211** | 1,230 | 2,234 | **2,540** |
| Proceeds from redemption of investment securities | **—** | — | 2,000 | **—** |
| Other, net | **(168)** | (502) | 989 | **(2,023)** |
| Net cash used in investing activities | **(20,575)** | (25,230) | (39,031) | **(247,449)** |
| **Financing Activities:** | | | | |
| Increase (decrease) in short-term bank loans | **(3,470)** | (3,782) | 761 | **(41,731)** |
| Increase (decrease) in commercial paper | **3,000** | (19,000) | 18,000 | **36,079** |
| Proceeds from long-term debt | **18,602** | 13,167 | 7,439 | **223,717** |
| Decrease in long-term debt | **(13,891)** | (16,363) | (4,708) | **(167,056)** |
| Proceeds from issuance of bonds | **—** | — | 10,000 | **—** |
| Redemption of bonds | **(10,000)** | — | (10,000) | **(120,265)** |
| Payment of cash dividends | **(3,348)** | (2,728) | (4,357) | **(40,263)** |
| Other, net | **1,766** | (729) | (397) | **21,237** |
| Net cash provided by (used in) financing activities | **(7,341)** | (29,435) | 16,738 | **(88,282)** |
| Effect of exchange rate changes on cash and cash equivalents | **(1,456)** | 140 | (2,922) | **(17,503)** |
| Increase (decrease) in cash and cash equivalents | **11,795** | (4,680) | (5,524) | **141,854** |
| Cash and cash equivalents at beginning of year | **11,559** | 16,239 | 19,530 | **139,013** |
| Effect of changes in consolidation scope on cash and cash equivalents | **4,807** | — | 2,233 | **57,811** |
| Cash and cash equivalents at end of year | **¥28,161** | ¥11,559 | ¥16,239 | **$338,678** |

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

## 1. Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company"), and its domestic consolidated subsidiaries were prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. The Company's subsidiaries in the United States of America (the "USA") prepared their financial statements in accordance with accounting principles generally accepted in the USA.

In preparing these statements, certain reclassifications and rearrangements have been made to the consolidated financial statements prepared domestically to present these statements in a form that is more familiar to readers outside Japan. In addition, the accompanying notes include information that is not required under accounting principles generally accepted in Japan.

The U.S. dollar amounts included herein are solely for the convenience of the reader and have been translated from the Japanese yen amounts at the rate of ¥83.15 = US$1.00, the approximate exchange rate prevailing on March 31, 2011.

## 2. Summary of Significant Accounting Policies

### a. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant majority-owned domestic and foreign subsidiaries (together, the "Companies"). Investment in significant unconsolidated subsidiaries and affiliated companies (companies owned 20% to 50%) is accounted for by the equity method.

All significant intercompany transactions and balances have been eliminated in consolidation. The excess of the cost of the Companies' investments in subsidiaries and affiliated companies over their equity in the net assets at the dates of acquisition was not material and was fully written off when acquired.

### b. Foreign Currency Translation

Foreign currency receivables and payables are translated at the year-end spot rates. The resulting exchange gains and losses are charged or credited to income.

The assets and liabilities of the consolidated subsidiaries outside Japan are translated at the fiscal year-end rates of those companies, and the income and expense accounts of those companies are translated at the average rates of those companies.

Differences arising from such translation are recorded in foreign currency translation adjustments and minority interests in net assets.

### c. Cash Equivalents

For purposes of the consolidated statements of cash flows, highly liquid investments with a maturity of three months or less are considered cash equivalents.

### d. Marketable Securities and Investment Securities

Securities classified as available for sale and whose fair value is readily determinable are carried at fair value with unrealized gains or losses included as a component of net assets, net of applicable taxes. Costs are determined by the moving-average method.

Securities whose fair value is not readily determinable are carried at cost. Costs are determined by the moving-average method.

### e. Derivative Instruments

Derivative instruments whose fair value is readily determinable are carried at fair value.

### f. Inventories

Inventories of the Company and domestic subsidiaries are stated at cost determined by the moving-average method, and inventories of certain foreign subsidiaries are valued at the lower of cost based on the first-in first-out method or market. The book value of inventories of the Company and its domestic consolidated subsidiaries reflects a write-down due to declines in profitability.

Effective as of the fiscal year ended March 31, 2011, certain domestic subsidiaries changed their valuation method from the most recent purchase price method to the moving-average method.

The effect of this change on the consolidated financial statements was immaterial.

**g. Allowance for Doubtful Receivables**

The allowance for doubtful receivables is provided at an estimated amount of probable bad debts plus an amount based on past credit loss experience.

**h. Depreciation**

Depreciation of property, plant and equipment is computed principally by the declining-balance method based on the estimated useful lives of the respective assets.

**i. Reserve for Severance Payments and Employee Benefit Plans**

Employees who terminate their service with the Companies are, under most circumstances, entitled to lump-sum severance payments determined by reference to their current basic rate of pay and length of service. The Company and certain consolidated subsidiaries have noncontributory pension plans for termination caused by age limit.

The Companies accounted for these liabilities based on the projected benefit obligations and plan assets at the balance sheet date.

Unrecognized actuarial gain and loss are amortized starting in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 10 years, which is shorter than the average remaining service period of employees.

Unrecognized prior service cost is amortized by the straight-line method over 10 years.

**j. Allowance for Loss on Disaster**

The allowance for loss on disaster is provided at an estimated amount for expenses related to the restoration and repair of tangible fixed assets damaged due to the Great East Japan Earthquake.

**k. Income Taxes**

Income taxes in Japan comprise a corporate tax, an enterprise tax and prefectural and municipal inhabitants' taxes.

Provision is made for deferred income taxes arising from temporary differences between assets or liabilities for financial and tax reporting purposes.

**l. Revenue Recognition**

Sales of products are recognized upon product shipments to customers.

**m. Research and Development Costs**

Research and development costs are charged to income as incurred.

**n. Earnings per Share**

Basic net income per share is computed by dividing net income available to common shareholders by the average number of common shares outstanding during each period. Diluted net income per share is not disclosed because there were no dilutive securities in the years ended March 31, 2011, 2010, and 2009.

**o. Adoption of New Accounting Standards**

**(1) "Accounting Standard for Asset Retirement Obligations"**

Effective as of the fiscal year ended March 31, 2011, the Company adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and revised implementation guidance "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008) and made requisite adjustments.

The effect of these changes on the consolidated financial statements was immaterial.

**(2) "Accounting Standard for Presentation of Comprehensive Income"**

Effective as of the fiscal year ended March 31, 2011, the Company adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010). In accordance with this new standard, consolidated statements of comprehensive income for the year ended March 31, 2010 and 2009 are not presented. The comparative information for the year ended March 31, 2010 is disclosed in Note 10. However, the amounts of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income"

are stated at the amounts of "Valuation and translation adjustments" and "Total valuation and translation adjustments".

**p. Changes in Presentation**

Effective as of the fiscal year ended March 31, 2011, the Company adopted the "Cabinet Office Ordinance Partially Revising Regulations on Terminology, Form and Presentation of Financial Statements" (Cabinet Office Ordinance No. 5, March 24, 2009) based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008). As a result, "Income before minority interests" is presented on the consolidated statements of operations.

## 3. Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Finished products | **¥44,838** | ¥47,229 | **$539,239** |
| Work in process | **8,184** | 7,523 | **98,426** |
| Raw materials and supplies | **15,413** | 12,860 | **185,369** |
| | **¥68,435** | ¥67,612 | **$823,034** |

## 4. Long-Term Debt

Long-term debt at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| 0.84% straight bonds due 2010 | **¥ —** | ¥10,000 | **$ —** |
| 1.688% straight bonds due 2013 | **10,000** | 10,000 | **120,265** |
| 1.68% straight bonds due 2014 | **10,000** | 10,000 | **120,265** |
| Loans, principally from banks and insurance companies | **53,424** | 49,904 | **642,507** |
| | **73,424** | 79,904 | **883,037** |
| Less current maturities | **8,220** | 13,295 | **98,859** |
| | **¥65,204** | ¥66,609 | **$784,178** |

Assets pledged to secure bank loans and long-term debt at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Property, plant and equipment | **¥51,832** | ¥58,479 | **$623,352** |

## 5. Depreciation and Amortization

Depreciation and amortization expenses for the years ended March 31, 2011, 2010 and 2009 were allocated as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** |
| Selling, general and administrative expenses | **¥ 2,649** | ¥ 2,964 | ¥ 3,137 | **$ 31,866** |
| Manufacturing costs | **¥23,236** | ¥25,220 | ¥25,547 | **$279,445** |

## 6. Contingent Liabilities

Contingent liabilities at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Guarantees | **¥3,662** | ¥1,912 | **$44,040** |

## 7. Research and Development Expenses

Research and development expenses charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2011, 2010, and 2009 were ¥12,748 million ($153,309 thousand), ¥13,280 million and ¥15,277 million, respectively.

## 8. Loss on Disaster

Loss on disaster related to the Great East Japan Earthquake for the year ended March 31, 2011 included the following:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2011** | **2011** |
| Repair expenses | **¥ 399** | **$ 4,797** |
| Costs on suspended operations | **210** | **2,530** |
| Others | **394** | **4,731** |
| | **¥1,003** | **$12,058** |

The provision for allowance for loss on disaster was ¥453 million ($5,449 thousand) as of March 31, 2011.

## 9. Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Corporate Law of Japan is based on the amount stated in the nonconsolidated financial statements of the Company. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year for which the dividends are applicable.

## 10. Other Comprehensive Income

The other comprehensive income for the year ended March 31, 2010 for comparative purpose consisted of the following:

| | Millions of Yen |
|---|---|
| | **2010** |
| Unrealized gains on securities | **¥ 8,439** |
| Foreign currency translation adjustments | **1,693** |
| Adjustment related to pension obligations of consolidated overseas subsidiaries | **664** |
| Share of other comprehensive income of associates accounted for by the equity method | **14** |
| Total other comprehensive income | **10,810** |
| Comprehensive income | **22,668** |
| Comprehensive income attributable to owners of the Company | **22,054** |
| Comprehensive income attributable to minority interests | **614** |

## 11. Supplementary Cash Flow Information

A reconciliation of cash and deposits presented in the consolidated balance sheets as of March 31, 2011, 2010 and 2009 and cash and cash equivalents reported in the consolidated statements of cash flows for the years ended March 31, 2011, 2010 and 2009 was as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | **2011** | 2010 | 2009 | **2011** |
| Cash and deposits | **¥28,161** | ¥11,561 | ¥16,274 | **$338,678** |
| Time deposits with maturities of more than three months | **(0)** | (2) | (35) | **(0)** |
| Cash and cash equivalents | **¥28,161** | ¥11,559 | ¥16,239 | **$338,678** |

## 12. Leases

Leased assets under finance lease agreements include molds and warehouse equipment. Depreciation of leased assets is computed by the straight-line method over the term of the leases.

Future lease obligations under noncancelable operating leases subsequent to March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Within one year | **¥ 692** | ¥ 741 | **$ 8,320** |
| After one year | **2,318** | 3,033 | **27,881** |
| | **¥3,010** | ¥3,774 | **$36,201** |

## 13. Financial Instruments

### a. Policies for the Status of Financial Instruments

The Companies raise funds through bank loans and the issuance of corporate bonds, mainly in accordance with their capital investment plans for manufacturing and selling tires, and raise short-term working capital through commercial paper.

Derivative transactions are carried out to reduce risks, as mentioned below, and not for speculative trading.

### b. Matters and Risks of Financial Instruments

Trade receivables, which are notes and accounts receivable, are subject to customer credit risk. Also, some trade receivables denominated in foreign currencies as a result of global business are subject to exchange rate fluctuation risk. Therefore, the Companies use forward exchange contracts for hedging purposes.

Securities, principally corporate equities, are subject to market price fluctuation risk.

Trade liabilities, which are notes and accounts payable, are mostly due within one year. Some trade liabilities denominated in foreign currencies in relation to imported raw materials are subject to exchange rate fluctuation risk.

Bank loans and corporate bonds are for the purpose of capital investment. The longest maturity is five and half years after March 31 2011. Some of the bank loans and corporate bonds have floating interest rates and are subject to interest rate fluctuation risk.

Derivative transactions are forward exchange contracts and currency swaps for the purpose of hedging against exchange rate fluctuation risk in relation to trade receivables and trade liabilities denominated in foreign currencies and interest rate swaps for the purpose of hedging against interest rate fluctuation risk in relation to bank loans.

### c. Risk Management of Financial Instruments

#### (1) Credit Risk Management (Customer Credit Default)

Under credit management standards, the Companies manage due dates and balances of trade receivables for customers to assess and reduce collection risks.

Derivative transactions are only carried out with highly rated financial institutions to reduce credit risks.

The amounts of the largest credit risks as of March 31, 2011 and 2010 are indicated in the balance sheets as part of allowance for doubtful receivables.

**(2) Market Risk Management (Fluctuation Risk of Foreign Currency Exchange Rates and Interest Rates and Others)**
The Company and some of its consolidated subsidiaries use forward exchange contracts and currency swaps to hedge against exchange rate fluctuation risk in connection with trade receivables and trade liabilities denominated in foreign currencies.

They assess the amount of risk monthly by currency. Some consolidated subsidiaries also use interest swaps to hedge against interest rate fluctuation risk in connection with bank loans.

The Companies regularly assess the fair market value of their holdings of securities issued by entities with which they have business relationships. They also assess the financial condition of the issuers of those securities and review the holdings in light of the status of their business relationships with the issuers.

Derivative transactions are carried out under internal regulations that specify trading authority and limits, and details of transactions are reported to the responsible executive officers. Consolidated subsidiaries also manage their derivative transactions in accordance with the regulations.

**(3) Liquidity Risk in Fund-Raising Management (Risk of Being Unable to Make Payment at Due Date)**
Based on reports from each department, the corporate finance and accounting department prepares a cash flow plan and revises as appropriate to reduce liquidity risk.

**d. Supplementary Information about the Fair Value of Financial Instruments**
The fair value of financial instruments is the market price or, for instruments that do not have a market price, a value calculated by appropriate means. The calculation of fair values incorporates variables, and the values are therefore subject to change, depending on diverse factors. The contract amounts for derivative transactions cited in "15. Derivative Instruments" do not indicate the market risk related to derivative transactions.

**e. Fair Value of Financial Instruments**
The book value and fair value of financial instruments and the differences between them as of March 31, 2011 and 2010 were as follows.

However, financial instruments whose fair value is extremely difficult to ascertain are not included in the table below (see Note 2).

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | | 2010 | | |
| | Book Value | Fair Value | Difference | Book Value | Fair Value | Difference |
| (1) Cash and deposits | **¥ 28,161** | **¥ 28,161** | **¥ —** | ¥ 11,561 | ¥ 11,561 | ¥ — |
| (2) Trade receivables: Notes and accounts | **111,702** | **111,702** | **—** | 103,400 | 103,400 | — |
| (3) Investment securities | **53,928** | **53,928** | **—** | 53,727 | 53,727 | — |
| Total assets | **193,791** | **193,791** | **—** | 168,688 | 168,688 | — |
| (1) Trade notes and accounts payable | **79,611** | **79,611** | **—** | 69,858 | 69,858 | — |
| (2) Short-term loans payable | **78,569** | **78,569** | **—** | 88,065 | 88,065 | — |
| (3) Accrued expenses | **28,961** | **28,961** | **—** | 25,457 | 25,457 | — |
| (4) Commercial paper | **3,000** | **3,000** | **—** | — | — | — |
| (5) Bonds | **20,000** | **20,315** | **315** | 30,000 | 30,075 | 75 |
| (6) Long-term loans payable | **53,424** | **53,991** | **567** | 49,904 | 50,020 | 116 |
| (7) Long-term deposits received | **3,194** | **3,498** | **304** | 3,194 | 3,450 | 256 |
| Total liabilities | **266,759** | **267,945** | **1,186** | 266,478 | 266,925 | 447 |
| Derivative transactions (*) | **(283)** | **(283)** | **—** | (62) | (62) | — |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2011 | | |
| | Book Value | Fair Value | Difference |
| (1) Cash and deposits | $ 338,678 | $ 338,678 | $ — |
| (2) Trade receivables: Notes and accounts | 1,343,374 | 1,343,374 | — |
| (3) Investment securities | 648,560 | 648,560 | — |
| Total assets | 2,330,612 | 2,330,612 | — |
| (1) Trade notes and accounts payable | 957,433 | 957,433 | — |
| (2) Short-term loans payable | 944,907 | 944,907 | — |
| (3) Accrued expenses | 348,293 | 348,293 | — |
| (4) Commercial paper | 36,079 | 36,079 | — |
| (5) Bonds | 240,529 | 244,323 | 3,794 |
| (6) Long-term loans payable | 642,507 | 649,320 | 6,813 |
| (7) Long-term deposits received | 38,414 | 42,075 | 3,661 |
| Total liabilities | 3,208,162 | 3,222,430 | 14,268 |
| Derivative transactions (*) | (3,400) | (3,400) | — |

* The net amount of the assets and liabilities arising from derivatives is shown. If the net amount is a liability it is presented in parentheses.

Note 1. Method of fair value of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits and (2) trade receivables: notes and accounts

The fair value of these assets is approximately equivalent to their book value because of short-term settlement, so the book values are indicated.

(3) Investment securities

The fair value of securities is based on the market price on the stock exchanges.

See "14. Securities" regarding the variances between the amounts booked on the consolidated balance sheets and the acquisition costs.

Liabilities

(1) Trade notes and accounts payable, (2) short-term loans payable, (3) accrued expenses, and (4) commercial paper

The fair value of these liabilities is approximately equivalent to their book values because of short-term settlement, so the book values are indicated.

(5) Bonds

The fair value of bonds is calculated based on the present value of the sum of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and credit risk.

(6) Long-term loans payable

The fair value of long-term loans payable is calculated based on the present value of the sum of principal and interest discounted by an interest rate determined taking into account the remaining period of each loan and credit risk.

(7) Long-term deposits received

The fair value of long-term deposits received is calculated based on the present value of the sum of principal and interest, which are handled together with currency swaps, discounted by an interest rate determined taking into account the remaining period of each deposit and credit risk, because long-term deposits received is the subject of the allocation method of currency swaps.

Derivative transactions

See "15. Derivative instruments".

Note 2. Financial instruments whose fair value is extremely difficult to ascertain were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| | Book Value | Book Value | Book Value |
| Unlisted stocks and others | **¥5,432** | ¥5,530 | **$65,328** |

Note: These financial instruments are not included in "(3) Investment securities". It is extremely difficult to ascertain the fair values because they do not have market prices.

Note 3. The amount of monetary claims and securities with maturities to be redeemed after the consolidated closing date was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| | Within One Year | Within One Year | Within One Year |
| Deposits | **¥ 27,244** | ¥ 11,556 | **$ 327,655** |
| Trade receivables: Notes and accounts | **111,702** | 103,400 | **1,343,374** |
| Total | **¥138,946** | ¥114,956 | **$1,671,029** |

Note 4. The amount of bonds, long-term loans payable and other liabilities with interest to be repaid after the consolidated closing date was as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | | | | |
| | Within One Year | Over One Year within Two Years | Over Two Years within Three Years | Over Three Years within Four Years | Over Four Years within Five Years | Over Five Years |
| Bonds | **¥ —** | **¥ —** | **¥10,000** | **¥10,000** | **¥ —** | **¥ —** |
| Long-term loans payable | **8,220** | **8,567** | **6,565** | **22,394** | **2,608** | **5,070** |
| Other liabilities with interest | **73,349** | **—** | **—** | **3,194** | **—** | **—** |
| Total | **¥81,569** | **¥8,567** | **¥16,565** | **¥35,588** | **¥2,608** | **¥5,070** |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | | | |
| | Within One Year | Over One Year within Two Years | Over Two Years within Three Years | Over Three Years within Four Years | Over Four Years within Five Years | Over Five Years |
| Bonds | ¥ 10,000 | ¥ — | ¥ — | ¥10,000 | ¥10,000 | ¥ — |
| Long-term loans payable | 13,295 | 8,599 | 6,372 | 6,067 | 6,908 | 8,663 |
| Other liabilities with interest | 88,065 | — | — | — | 3,194 | — |
| Total | ¥111,360 | ¥8,599 | ¥6,372 | ¥16,067 | ¥20,102 | ¥8,663 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | | | | |
| | Within One Year | Over One Year within Two Years | Over Two Years within Three Years | Over Three Years within Four Years | Over Four Years within Five Years | Over Five Years |
| Bonds | $ — | $ — | $120,265 | $120,265 | $ — | $ — |
| Long-term loans payable | 98,859 | 103,032 | 78,954 | 269,322 | 31,362 | 60,977 |
| Other liabilities with interest | 882,128 | — | — | 38,414 | — | — |
| Total | $980,987 | $103,032 | $199,219 | $428,001 | $31,362 | $60,977 |

The "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and the "Guidance on Disclosures about the Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 10, 2008) were adopted from the consolidated fiscal year ended March 31, 2010.

## 14. Securities

Cost, carrying amount and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | | | | 2010 | | | |
| | Cost | Carrying Amount | Unrealized Gains | Unrealized Losses | Cost | Carrying Amount | Unrealized Gains | Unrealized Losses |
| Securities classified as available for sale: | | | | | | | | |
| Stock | **¥26,400** | **¥53,928** | **¥28,322** | **¥(794)** | **¥26,278** | ¥53,727 | ¥27,647 | ¥(198) |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | **2011** | | | |
| | Cost | Carrying Amount | Unrealized Gains | Unrealized Losses |
| Securities classified as available for sale: | | | | |
| Stock | **$317,495** | **$648,560** | **$340,608** | **$(9,543)** |

Sales of securities classified as available-for-sale securities and an aggregate gain and loss for the year ended March 31, 2011 are immaterial.

The corresponding amounts for the year ended March 31, 2010, were ¥896 million, with an aggregate gain of ¥718 million and loss of ¥32 million.

Note: Unlisted stock, whose book value as of March 31, 2011 on the consolidated balance sheet is ¥1,246 million ($14,991 thousand), is not included in the above table. It is extremely difficult to ascertain the fair values because they do not have market prices.

In the preceding table for fiscal year 2011, "cost" is the book value after impairment. Loss for the year ended March 31, 2011 from revaluation of securities is immaterial.

The corresponding amount for the year ended March 31, 2010 was ¥33 million.

## 15. Derivative Instruments

Fair value information of derivative instruments, for which deferral hedge accounting has not been applied, at March 31, 2011 and 2010 was as follows:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | | 2010 | | | **2011** | | |
| | Contract Amount | Fair Value | Unrealized Losses | Contract Amount | Fair Value | Unrealized Gains (Losses) | Contract Amount | Fair Value | Unrealized Losses |
| Forward exchange contracts: | | | | | | | | | |
| Ruble | **¥2,296** | **¥(103)** | **¥(103)** | ¥ — | ¥ — | ¥ — | **$27,611** | **$(1,241)** | **$(1,241)** |
| Euro | **2,485** | **(95)** | **(95)** | 3,114 | 109 | 109 | **29,886** | **(1,138)** | **(1,138)** |
| U.S. dollar | **1,452** | **(25)** | **(25)** | 3,761 | (110) | (110) | **17,468** | **(303)** | **(303)** |
| Others | **1,590** | **(60)** | **(60)** | 1,560 | (60) | (60) | **19,124** | **(718)** | **(718)** |
| | **¥7,823** | **¥(283)** | **¥(283)** | ¥8,435 | ¥ (61) | ¥ (61) | **$94,089** | **$(3,400)** | **$(3,400)** |

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | | 2010 | | | **2011** | | |
| | Contract Amount | Fair Value | Unrealized Losses | Contract Amount | Fair Value | Unrealized Losses | Contract Amount | Fair Value | Unrealized Losses |
| Interest rate swap agreements | **¥25** | **¥(0)** | **¥(0)** | ¥33 | ¥(1) | ¥(1) | **$301** | **$(5)** | **$(5)** |
| | **¥—** | **¥(0)** | **¥(0)** | ¥— | ¥(1) | ¥(1) | **$ —** | **$(5)** | **$(5)** |

Fair value information of derivative instruments, for which deferral hedge accounting has been applied, at March 31, 2011 and 2010 was as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | | | | 2010 | | | |
| Forward exchange contracts with allocation method: | Contract Amount | Over One Year | Fair Value | Unrealized Losses | Contract Amount | Over One Year | Fair Value | Unrealized Losses |
| Long-term deposits received | **¥3,194** | **¥3,194** | * | ¥— | ¥3,194 | ¥3,194 | * | ¥— |
| Total | **¥ —** | **¥ —** | **¥—** | ¥— | ¥ — | ¥ — | ¥— | ¥— |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | **2011** | | | |
| Forward exchange contracts with allocation method: | Contract Amount | Over One Year | Fair Value | Unrealized Losses |
| Long-term deposits received | **$38,414** | **$38,414** | **$—** | **$—** |
| Total | **$ —** | **$ —** | **$—** | **$—** |

*Amounts settled by the allocation method of currency swaps are handled together with long-term deposits received regarded as the hedged items. See "13. Financial instruments" for their fair value.

## 16. Pension and Severance Plans

a. The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Projected benefit obligations | **¥(28,429)** | ¥(29,564) | **$(341,895)** |
| Fair value of plan assets | **10,461** | 10,462 | **125,806** |
| Funded status | **(17,968)** | (19,102) | **(216,089)** |
| Unrecognized actuarial gain and loss | **1,240** | 1,642 | **14,910** |
| Unrecognized prior service cost | **447** | 547 | **5,381** |
| Net amount recognized | **¥(16,281)** | ¥(16,913) | **$(195,798)** |

b. The components of net pension and severance costs for the years ended March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Service cost | **¥1,767** | ¥1,851 | **$21,252** |
| Interest cost | **575** | 604 | **6,915** |
| Expected return on plan assets | **—** | — | **—** |
| Recognized actuarial losses | **402** | 577 | **4,844** |
| Recognized prior service cost | **100** | 100 | **1,198** |
| Net periodic benefit cost | **2,844** | 3,132 | **34,209** |
| Contribution of defined contribution benefit plan | **496** | 492 | **5,960** |
| | **¥3,340** | ¥3,624 | **$40,169** |

c. Assumptions used as of March 31, 2011 and 2010 were as follows :

| | **2011** | 2010 |
|---|---|---|
| Discount rate | **2.5%** | 2.5% |
| Expected return rate on plan assets | **0.00%** | 0.00% |

## 17. Deferred Income Taxes

a. Significant components of the deferred income tax assets and liabilities at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | 2011 |
| Deferred tax assets: | | | |
| Liabilities for pension and severance payments | **¥11,384** | ¥11,615 | **$136,909** |
| Net operating loss carry forwards | **1,098** | 3,650 | **13,210** |
| Unrealized profits | **3,085** | 4,489 | **37,102** |
| Accrued expenses | **2,375** | 2,389 | **28,561** |
| Loss on revaluation of investment securities | **54** | 51 | **653** |
| Other | **7,251** | 7,886 | **87,197** |
| Gross deferred tax assets | **25,247** | 30,080 | **303,632** |
| Less valuation allowance | **(3,364)** | (4,549) | **(40,455)** |
| Total deferred tax assets | **21,883** | 25,531 | **263,177** |
| Deferred tax liabilities: | | | |
| Unrealized gains on securities | **(11,040)** | (11,025) | **(132,777)** |
| Liabilities for pension and severance payments | **(3,446)** | (3,446) | **(41,449)** |
| Gain on receipt of stock set by pension plan | **(2,103)** | (2,103) | **(25,288)** |
| Property, plant and equipment | **(1,610)** | (1,684) | **(19,365)** |
| Other | **(1,510)** | (1,786) | **(18,150)** |
| Total deferred tax liabilities | **(19,709)** | (20,044) | **(237,029)** |
| Net deferred tax assets | **¥ 2,174** | ¥ 5,487 | **$ 26,148** |

b. A reconciliation of the statutory income tax rate to the effective income tax rates for the year ended March 31, 2011 and 2010 was as follows:

| | Years ended March 31 | |
|---|---|---|
| | **2011** | 2010 |
| Statutory income tax rate | **40.3%** | 40.3% |
| Valuation allowance for net operating loss carry forwards | **—** | (1.7) |
| Permanently nondeductible expenses | **1.4** | 2.5 |
| Permanently nontaxable income | **(1.6)** | (5.7) |
| Valuation allowance | **(5.4)** | 0.6 |
| Other | **(2.3)** | 1.5 |
| Effective income tax rate | **32.4%** | 37.5% |

## 18. Business Combinations

Transactions under common control for the year ended March 31, 2011

A domestic consolidated subsidiary, Yokohama Rubber MBE Co., Ltd. and seven other domestic consolidated subsidiaries that sell industrial products merged on October 1, 2010. An outline of the merger is as follows:

a. Outline of the business combination

1. Name of the company
   Yokohama Rubber MBE Co., Ltd. and seven other consolidated subsidiaries
2. Description of the business
   Sales of various industrial products
3. Date of the business combination
   October 1, 2010
4. Legal form of the business combination
   The business combination was a merger by absorption, with Yokohama Rubber MBE Co., Ltd. as the surviving company
5. Name of the company after the business combination
   Yokohama Industrial Products Japan Co., Ltd. (a consolidated subsidiary)
6. Reason for the business combination
   The purpose of this business combination is to reinforce its domestic sales performance by reorganizing eight subsidiaries and a part of the industrial sales department of the Company.
   This merger improves customer service, establishes a more strategic management system, and reinforces sales connected to communities by introducing an in-house company system.

b. Outline of accounting method

Based on "Accounting Standard for Business Combinations" (ASBJ statement No. 21, December 26, 2008) and revised implementation guidance "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008), the above business combination is accounted for as transactions under common control.

Transactions under common control for the year ended March 31, 2010

A consolidated subsidiary, Yokohama Tire Sales Tokyo Co., Ltd. and eighteen other domestic tire sales companies that are also consolidated subsidiaries merged on July 1, 2009. An outline of the merger is as follows:

a. Outline of the business combination

1. Name of the company
   Yokohama Tire Sales Tokyo Co., Ltd. and eighteen other consolidated subsidiaries
2. Description of the business
   Sales of tires and related goods
3. Date of the business combination
   July 1, 2009
4. Legal form of the business combination
   The business combination was a merger by absorption, with Yokohama Tire Sales Kanagawa Co., Ltd. as the surviving company
5. Name of the company after the business combination
   Yokohama Tire Japan Co., Ltd. (a consolidated subsidiary)
6. Reason for the business combination
   The Company is gradually carrying out the reorganization of its domestic replacement tire sales and marketing business for the purpose of reinforcing its sales system and network and effective management.
   As the first step, Yokohama Tire Japan Co., Ltd. has been established by merging eighteen domestic tire sales companies and one marketing company.

b. Outline of accounting method

Based on "Accounting Standard for Business Combinations" (the Business Accounting Council issued on October 31, 2003) and revised implementation guidance "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, November 15, 2007), the above business combination is accounted for as transactions under common control.

## 19. Segment Information

(1) Outline of reportable segments

The Company's reportable segments are the organizational units for which the Company is able to obtain individual financial information in order for the Board of Directors to regularly review performance to determine distribution of management resources and evaluate its business results.

The Company classifies organizational units by products and services. Each organizational unit plans domestic or overseas general strategies for its products and services and operates its business. Therefore, the Company is organized by business segments, and its reportable segments are "Tires" and "Industrial Products".

(2) Methods of calculating the amount of sales, income (loss), assets, liabilities, and other items by reportable segments

Accounting methods for reportable segments are mostly the same as "2. Summary of Significant Accounting Policies".

Profits from reportable segments are operating income, and inter-segment income and transfers are based on prevailing markets prices.

(3) Information concerning the amount of sales, income (loss), assets, liabilities, and other items by reportable segments for the years ended March 31, 2011 and 2010 were outlined as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Tires | Industrial Products | Reportable Segment Total | Others | Total | Adjustments | Consolidated Amount |
| | **Year ended March 31, 2011** | | | | | | |
| Sales to third parties | **¥411,574** | **¥83,835** | **¥495,409** | **¥24,333** | **¥519,742** | **¥ —** | **¥519,742** |
| Intergroup sales and transfers | **1,798** | **79** | **1,877** | **4,310** | **6,187** | **(6,187)** | **—** |
| Total sales | **413,372** | **83,914** | **497,286** | **28,643** | **525,929** | **(6,187)** | **519,742** |
| Segment income | **¥ 24,953** | **¥ 3,034** | **¥ 27,987** | **¥ 1,519** | **¥ 29,506** | **¥ (15)** | **¥ 29,491** |
| Segment assets | **¥368,083** | **¥59,316** | **¥427,399** | **¥64,519** | **¥491,918** | **¥(13,002)** | **¥478,916** |
| Other items | | | | | | | |
| Depreciation and amortization | **¥ 21,340** | **¥ 3,214** | **¥ 24,554** | **¥ 845** | **¥ 25,399** | **¥ 486** | **¥ 25,885** |
| Investment in equity method affiliates | **¥ 1,161** | **—** | **¥ 1,161** | **—** | **¥ 1,161** | **—** | **¥ 1,161** |
| Increase of tangible and intangible fixed assets | **¥ 22,221** | **¥ 2,297** | **¥ 24,518** | **¥ 138** | **¥ 24,656** | **¥ 288** | **¥ 24,944** |
| | Year ended March 31, 2010 | | | | | | |
| Sales to third parties | ¥367,571 | ¥73,967 | ¥441,538 | ¥24,820 | ¥466,358 | ¥ — | ¥466,358 |
| Intergroup sales and transfers | 1,639 | 93 | 1,732 | 4,391 | 6,123 | (6,123) | — |
| Total sales | 369,210 | 74,060 | 443,270 | 29,211 | 472,481 | (6,123) | 466,358 |
| Segment income | ¥ 20,647 | ¥ 580 | ¥ 21,227 | ¥ 219 | ¥ 21,446 | ¥ 9 | ¥ 21,455 |
| Segment assets | ¥353,681 | ¥59,234 | ¥412,915 | ¥75,596 | ¥488,511 | ¥(21,538) | ¥466,973 |
| Other items | | | | | | | |
| Depreciation and amortization | ¥ 23,113 | ¥ 3,511 | ¥ 26,624 | ¥ 1,031 | ¥ 27,655 | ¥ 529 | ¥ 28,184 |
| Investment in equity method affiliates | ¥ 1,303 | — | ¥ 1,303 | — | ¥ 1,303 | — | ¥ 1,303 |
| Increase of tangible and intangible fixed assets | ¥ 14,708 | ¥ 2,116 | ¥ 16,824 | ¥ 272 | ¥ 17,096 | ¥ 375 | ¥ 17,471 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Tires | Industrial Products | Reportable Segment Total | Others | Total | Adjustments | Consolidated Amount |
| | Year ended March 31, 2011 | | | | | | |
| Sales to third parties | $4,949,782 | $1,008,238 | $5,958,020 | $292,636 | $6,250,656 | $ — | $6,250,656 |
| Intergroup sales and transfers | 21,625 | 954 | 22,579 | 51,828 | 74,407 | (74,407) | — |
| Total sales | 4,971,407 | 1,009,192 | 5,980,599 | 344,464 | 6,325,063 | (74,407) | 6,250,656 |
| Segment income | $ 300,091 | $ 36,488 | $ 336,579 | $ 18,268 | $ 354,847 | $ (177) | $ 354,670 |
| Segment assets | $4,426,733 | $ 713,357 | $5,140,090 | $775,940 | $5,916,030 | $(156,371) | $5,759,659 |
| Other items | | | | | | | |
| Depreciation and amortization | $ 256,650 | $ 38,655 | $ 295,305 | $ 10,159 | $ 305,464 | $ 5,847 | $ 311,311 |
| Investment in equity method affiliates | $13,967 | — | $ 13,967 | — | $ 13,967 | — | $ 13,967 |
| Increase of tangible and intangible fixed assets | $ 267,234 | $ 27,633 | $ 294,867 | $ 1,656 | $ 296,523 | $ 3,469 | $ 299,992 |

Notes:

1. The "Others" category incorporates operations not included in reportable segments, including aircraft products and sports products.

2. Adjustments are as follows:
   (1) Segment income adjustments are the elimination of inter-segment transactions.
   (2) Segment assets adjustments for the year ended March 31, 2011 of ¥13,002 million ($156,371 thousand) were the elimination of inter-segment transactions of ¥35,485 million ($426,760 thousand) and "Corporate" assets of ¥22,483 million ($270,389 thousand). "Corporate" assets primarily consist of accumulated working capital and investments in securities.
   The corresponding amounts for the year ended March 31, 2010 of ¥21,538 million ($259,023 thousand) were the elimination of inter-segment transactions of ¥40,329 million ($485,018 thousand) and "Corporate" assets of ¥18,791 million ($225,995 thousand). "Corporate" assets primarily consist of accumulated working capital and investments in securities.

3. Segment income was adjusted with operating income presented in the consolidated statements of income. The "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17, March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008) were adopted from the fiscal year ended March 31, 2011.

Related information for the year ended March 31, 2011

1. Product and service information
   Information has been omitted, as the classification is the same as that for reportable segments.

2. Information about geographic areas
   (1) Sales

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2011 | 2011 |
| Japan | ¥281,330 | $3,383,407 |
| The United States of America | 105,961 | 1,274,330 |
| Others | 132,451 | 1,592,919 |
| Total | ¥519,742 | $6,250,656 |

Note: Sales are based on the location of clients and classified by country.

(2) Property, plant and equipment

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2011** | **2011** |
| Japan | **¥113,000** | **$1,358,996** |
| Thailand | **23,357** | **280,900** |
| Others | **41,013** | **493,242** |
| Total | **¥177,370** | **$2,133,138** |

3. External customer information
The Company is not required to disclose information on external customers, since there are no sales to a single external customer amounting to 10% or more of the Company's net sales.

Impairment losses on fixed assets by reportable segment for the year ended March 31, 2011
The Company omitted this information because of its immateriality.

Amortization of goodwill and the remaining amounts by reportable segment for the year ended March 31, 2011
The Company omitted this information because of its immateriality.

Gains on negative goodwill by reportable segment for the year ended March 31, 2011
The Company omitted this information because of its immateriality.

Segment information under the previous accounting standard
The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2010 and 2009 are outlined as follows:

**Business Segments**

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | Tires | Multiple Business | Total | Eliminations and Corporate | Consolidated |
| | Year ended March 31, 2010 | | | | |
| Sales to third parties | ¥367,517 | ¥ 98,841 | ¥466,358 | ¥ — | ¥466,358 |
| Intergroup sales and transfers | 48 | 11,497 | 11,545 | (11,545) | — |
| Total sales | 367,565 | 110,338 | 477,903 | (11,545) | 466,358 |
| Operating expenses | 347,103 | 109,458 | 456,561 | (11,658) | 444,903 |
| Operating income | ¥ 20,462 | ¥ 880 | ¥ 21,342 | ¥ 113 | ¥ 21,455 |
| Total assets at end of year | ¥351,715 | ¥133,754 | ¥485,469 | ¥(18,496) | ¥466,973 |
| Depreciation and amortization | ¥ 23,404 | ¥ 4,486 | ¥ 27,890 | ¥ 294 | ¥ 28,184 |
| Capital expenditures | ¥ 14,832 | ¥ 2,394 | ¥ 17,226 | ¥ 245 | ¥ 17,471 |
| | Year ended March 31, 2009 | | | | |
| Sales to third parties | ¥399,729 | ¥117,534 | ¥517,263 | ¥ — | ¥517,263 |
| Intergroup sales and transfers | 73 | 19,113 | 19,186 | (19,186) | — |
| Total sales | 399,802 | 136,647 | 536,449 | (19,186) | 517,263 |
| Operating expenses | 389,912 | 133,228 | 523,140 | (18,685) | 504,455 |
| Operating income | ¥ 9,890 | ¥ 3,419 | ¥ 13,309 | ¥ (501) | ¥ 12,808 |
| Total assets at end of year | ¥362,011 | ¥132,867 | ¥494,878 | ¥(21,502) | ¥473,376 |
| Depreciation and amortization | ¥ 23,669 | ¥ 4,615 | ¥ 28,284 | ¥ 400 | ¥ 28,684 |
| Capital expenditures | ¥ 38,425 | ¥ 5,309 | ¥ 43,734 | ¥ (393) | ¥ 43,341 |

## Geographical Areas

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Asia | Other | Total | Eliminations and Corporate | Consolidated |
| | Year ended March 31, 2010 | | | | | | |
| Sales to third parties | ¥324,015 | ¥90,551 | ¥21,966 | ¥29,826 | ¥466,358 | ¥ — | ¥466,358 |
| Inter-area sales and transfers | 53,761 | 38 | 31,950 | — | 85,749 | (85,749) | — |
| Total sales | 377,776 | 90,589 | 53,916 | 29,826 | 552,107 | (85,749) | 466,358 |
| Operating expenses | 360,934 | 88,430 | 50,512 | 29,343 | 529,219 | (84,316) | 444,903 |
| Operating income | ¥ 16,842 | ¥ 2,159 | ¥ 3,404 | ¥ 483 | ¥ 22,888 | ¥ (1,433) | ¥ 21,455 |
| Total assets at end of year | ¥382,593 | ¥55,277 | ¥71,286 | ¥17,051 | ¥526,207 | ¥(59,234) | ¥466,973 |
| | Year ended March 31, 2009 | | | | | | |
| Sales to third parties | ¥359,319 | ¥101,789 | ¥23,640 | ¥32,515 | ¥517,263 | ¥ — | ¥517,263 |
| Inter-area sales and transfers | 71,154 | 392 | 40,849 | — | 112,395 | (112,395) | — |
| Total sales | 430,473 | 102,181 | 64,489 | 32,515 | 629,658 | (112,395) | 517,263 |
| Operating expenses | 426,031 | 98,144 | 62,495 | 30,972 | 617,642 | (113,187) | 504,455 |
| Operating income | ¥ 4,442 | ¥ 4,037 | ¥ 1,994 | ¥ 1,543 | ¥ 12,016 | ¥ 792 | ¥ 12,808 |
| Total assets at end of year | ¥388,034 | ¥ 57,586 | ¥72,170 | ¥14,204 | ¥531,994 | ¥(58,618) | ¥473,376 |

## Overseas Sales

| | Millions of Yen | | |
|---|---|---|---|
| | North America | Other | Total |
| | Year ended March 31, 2010 | | |
| (A) Overseas sales | ¥97,570 | ¥110,336 | ¥207,906 |
| (B) Consolidated net sales | | | ¥466,358 |
| (C) (A) / (B) × 100 | 20.9% | 23.7% | 44.6% |
| | Year ended March 31, 2009 | | |
| (A) Overseas sales | ¥ 105,040 | ¥ 122,733 | ¥ 227,773 |
| (B) Consolidated net sales | | | ¥ 517,263 |
| (C) (A) / (B) × 100 | 20.3% | 23.7% | 44.0% |

ERNST & YOUNG

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# Report of Independent Auditors

The Board of Directors and Shareholders
The Yokohama Rubber Co., Ltd.

We have audited the accompanying consolidated balance sheets of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2011 and consolidated statement of comprehensive income for the year ended March 31, 2011, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, expressed in Japanese yen, present fairly, in all material respects, the consolidated financial position of The Yokohama Rubber Co., Ltd. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC

June 29, 2011

# Principal Operations in Japan


## Production Facilities

| | | |
|---|---|---|
| 1 | Mie Plant | Tires for trucks, buses, light trucks, passenger cars |
| 2 | Mishima Plant | Tires for passenger cars and light trucks, racing tires |
| 3 | Onomichi Plant | Off-the-road tires |
| 4 | Shinshiro Plant | Tires for passenger cars and light trucks |
| 5 | Shinshiro-Minami Plant | Tires for passenger cars |
| 6 | Hiratsuka Factory | Industrial products, aerospace products, sporting goods |
| 7 | Hamatite Plant | Sealing materials, adhesives |
| 8 | Hiratsuka-Higashi Plant | Couplings for air-conditioning equipment, oil pressure hose joints, oil pressure hose assemblies |
| 9 | Ibaraki Plant | High-pressure hoses, sealing materials |
| 10 | Nagano Plant | Oil pressure hose joints, oil pressure hose assemblies |

## Head Office and Principal Marketing Subsidiaries and Affiliates

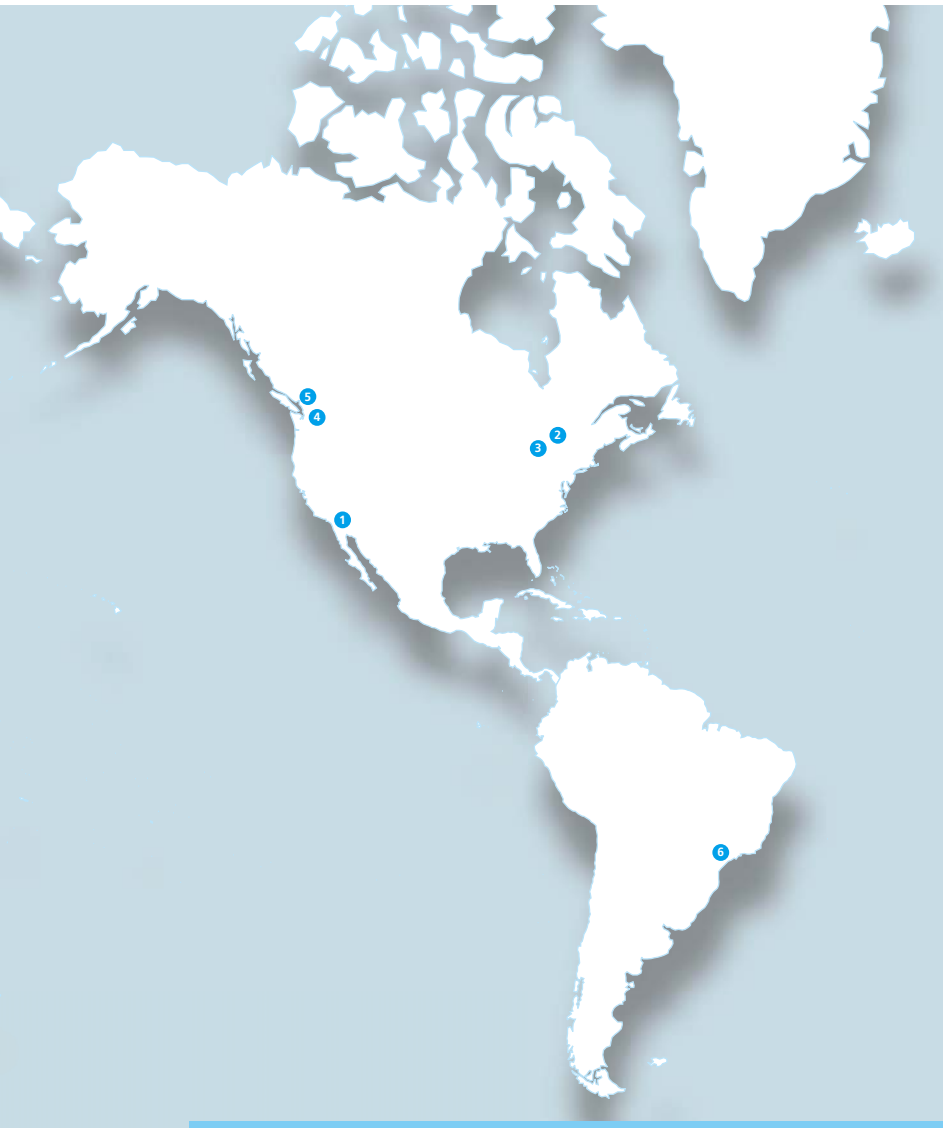
| | | |
|---|---|---|
| 11 | Head Office | |
| 12 | Yokohama Continental Tire Co., Ltd. | Comprehensive import sales distributor for Continental AG |
| 13 | Yokohama Tire Japan Co., Ltd. | Sales of tires and related products |
| 14 | Yokohama Industrial Products Japan Co., Ltd. | Sales of industrial products and related products |

## Proving Grounds

| | | |
|---|---|---|
| 15 | D-PARK | Comprehensive tire proving ground |
| 16 | T*MARY | Comprehensive tire proving ground |

# Overseas Subsidiaries and Affiliates


| | | |
|---|---|---|
| **Americas** | | |
| **United States** | 1 Yokohama Tire Corporation | Production and sales of tires and related products |
| | 2 SAS Rubber Company | Production and sales of hoses |
| | 3 YH America, Inc. | Production and sales of windshield sealants and hoses |
| | 4 Yokohama Aerospace America, Inc. | Sales of aircraft components |
| **Canada** | 5 Yokohama Tire (Canada) Inc. | Sales of tires and related products |
| **Brazil** | 6 Yokohama Rubber Latin America Indústria e Comércio Ltda. | Marketing support and services for Latin American distributors |
| **Europe** | | |
| **United Kingdom** | 7 Yokohama H.P.T Ltd. | Sales of tires and related products |
| **Switzerland** | 8 Yokohama Suisse SA | Sales of tires and related products |
| **Sweden** | 9 Yokohama Scandinavia AB | Sales of tires and related products |
| **Germany** | 10 Yokohama Reifen GmbH | Sales of tires and related products |
| | 11 Yokohama Europe GmbH | Marketing support and services for European distributors |
| | 12 Yokohama Industrial Products Europe, Gmbh | Sales of hoses and marine products |
| **Austria** | 13 Yokohama Austria GmbH | Sales of tires and related products |
| **Denmark** | 14 Yokohama Danmark A/S | Sales of tires and related products |
| **Spain** | 15 Yokohama Iberia, S.A. | Sales of tires and related products |
| **Russia** | 16 Yokohama Russia L.L.C. | Sales of tires and related products |
| **Belgium** | 17 N.V. Yokohama Belgium S.A. | Sales of tires and related products |
| **Middle East** | | |
| **Dubai** | 18 Dubai Head Office | Business coordination |
| **Saudi Arabia** | 19 Jeddah Office | Business coordination |




## Asia

| | | |
|---|---|---|
| **China** | 20 Hangzhou Yokohama Tire Co., Ltd. | Production and sales of tires and related products |
| | 21 Yokohama Hoses & Coupling (Hangzhou) Co., Ltd. | Production and sales of hoses |
| | 22 Yokohama Hamatite (Hangzhou) Co., Ltd. | Production and sales of windshield sealants |
| | 23 Suzhou Yokohama Tire Co., Ltd. | Production and sales of tires and related products |
| | 24 Yokohama Tire Sales (Shanghai) Co., Ltd. | Sales of tires and related products |
| | 25 Yokohama Rubber (China) Co., Ltd. | Management company for Chinese operations |
| | 26 Yokohama Industrial Products Sales - Shanghai Co., Ltd. | Sales of hoses, sealants, conveyor belts, and related products |
| | 27 Shandong Yokohama Rubber Industrial Products Co., Ltd. | Production and sales of conveyor belts |
| **Taiwan** | 28 Yokohama Tire Taiwan Co., Ltd. | Sales of tires and related products |
| | 29 SC Kingflex Corporation | Production and sales of hoses |
| **South Korea** | 30 Yokohama Tire Korea Co., Ltd. | Sales of tires and related products |
| **Philippines** | 31 Yokohama Tire Philippines, Inc. | Production and sales of tires and related products |
| | 32 Yokohama Tire Sales Philippines, Inc. | Sales of tires and related products |
| **Thailand** | 33 Yokohama Tire Sales (Thailand) Co., Ltd. | Sales of tires and related products |
| | 34 Yokohama Asia Co., Ltd. | Marketing support and services for Asian distributors |
| | 35 Yokohama Tire Manufacturing (Thailand) Co., Ltd. | Production and sales of tires and related products |
| | 36 Yokohama Rubber (Thailand) Co., Ltd. | Production and sales of windshield sealants and hoses |
| | 37 Tire Test Center of Asia | Comprehensive tire proving ground |
| | 38 Y.T. Rubber Co., Ltd. | Processing of natural rubber |
| **India** | 39 Yokohama India Pvt. Ltd. | Sales of tires and related products |
| **Vietnam** | 40 Yokohama Tyre Vietnam Inc. | Production and sales of tires and related products |
| **Singapore** | 41 Singapore Branch | Business coordination |

## Oceania

| | | |
|---|---|---|
| **Australia** | 42 Yokohama Tyre Australia Pty., Ltd. | Sales of tires and related products |

# Investor Information

As of March 31, 2011

**Company Name:**
The Yokohama Rubber Co., Ltd.

**Head Office:**
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan

**Established:**
October 13, 1917

**Paid-in Capital:**
¥38,909 million

**Fiscal Year-end:**
March 31 (changing in 2011 to December 31)

**General Meeting of Shareholders:**
June (changing in 2012 to March)

**Transfer Agent:**
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

**Stock Exchange Listings:**
Tokyo, Osaka, Nagoya

**Contact Points for Investors:**
PR/IR section, Corporate Communications Dept.
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan
Phone: 81-(0)3-5400-4531 Facsimile: 81-(0)3-5400-4570

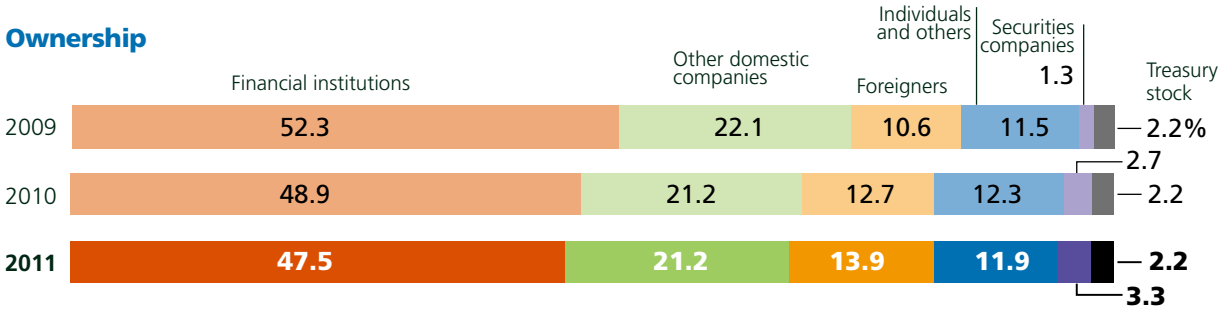
**Investor Relations Web Site:**
http://www.yrc-pressroom.jp/ir_en/

# Stock Information

As of March 31, 2011

| | |
|---|---|
| Authorized number of shares: | 700,000,000 |
| Number of shares issued and outstanding: | 342,598,162 (Unchanged from fiscal 2010 year-end) |
| Number of shareholders: | 15,855 (down 902 from fiscal 2010 year-end) |

## Ownership



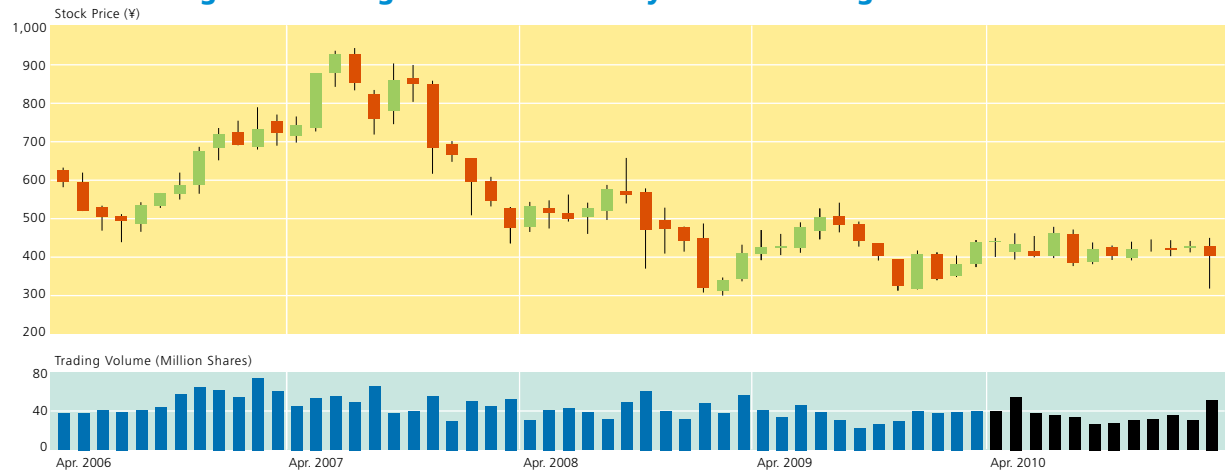

## Principal Shareholders

| Name | Percentage of Voting Rights |
|---|---|
| ASAHI MUTUAL LIFE INSURANCE COMPANY | 8.0% |
| Japan Trustee Services Bank, Ltd. (trust account) | 7.5 |
| ZEON CORPORATION | 7.1 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 4.7 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 3.5 |

## Common Stock Price Trends

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Stock Price (Yen): | | | | | |
| High | **¥ 480** | ¥ 542 | ¥ 658 | ¥ 944 | ¥ 790 |
| Low | **318** | 314 | 301 | 436 | 439 |
| Fiscal Year-End | **403** | 440 | 409 | 477 | 724 |
| Shares of Common Stock Issued and Outstanding | **342,598,162** | 342,598,162 | 342,598,162 | 342,598,162 | 342,598,162 |

## Stock Price Range and Trading Volume on the Tokyo Stock Exchange



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