TIRE GROUP

Main Products
Tires for passenger cars, trucks and buses, light trucks, mining and construction equipment, industrial vehicles and aircraft, and aluminum alloy wheels

Manufacturing and Sales Organization
Yokohama manufactures and markets tires in Japan through 141 sales subsidiaries, including Yokohama Tire Tokyo Hanbai Co., Ltd. Overseas, our tires are produced and sold in the United States by Yokohama Tire Corporation (YTC), and in Asia by Yokohama Tire Philippines, Yokohama Tyre Vietnam Company and Hangzhou Yokohama Tire. In addition, GTY Tire, a joint venture with Continental and Toyo Tire & Rubber, handles a portion of our U.S. manufacturing. In Europe, we maintain eight sales subsidiaries, including Yokohama Reifen GmbH in Germany and Yokohama HPT Ltd. in the United Kingdom.

MB GROUP

Main Products
Hoses, marine hoses, conveyor belts, sealants, adhesives, anti-seismic rubber bearings for bridges and buildings, golf products, aircraft components, and other products

Manufacturing and Sales Organization
In Japan, we manufacture industrial products at Yokohama and YOKOHAMA HYDEX. Yokohamagomu Multiple Business East Co., Ltd., YOKOHAMA HYDEX, and eight other sales subsidiaries market these products. In the United States, SAS Rubber Company and YH America, Inc., handle manufacturing and sales. We make golf products that PRGR Co., Ltd., sells in Japan and Asia. We also manufacture aircraft components in Japan for marketing on a global scale.
In fiscal 2004, the Tire Group reported sales of ¥288.6 billion, up 0.6% from fiscal 2003. Despite a strong yen, sales of tires were favorable, especially in Europe, Asia, and Oceania. Surging natural rubber prices and higher export shipping costs offset our gains, lowering operating income 11.5%, to ¥15.3 billion.

Japan accounts for the largest proportion of the Tire Group’s revenues. In fiscal 2004, original equipment (OE) sales of tires for new vehicles increased, but sales of replacement tires remained largely unchanged amid depressed domestic demand. As a result, domestic tire sales were flat.

Sales of OE tires for passenger cars were sluggish, owing to a decline in vehicle production. In contrast, demand rose for new trucks and buses under new gas emission regulations, boosting sales of OE tires. As a result, while sales volume of OE tires decreased slightly, sales in value terms increased from the previous year.

Despite an unprecedented 3.2% fall in overall demand for replacement tires, sales volume and value were unchanged, helping us increase market share. We expanded our range of Inch-Up tires, which have been very popular in recent years. We also broadened our lineup of distinctive products, including the DNA line of eco-friendly tires, which help reduce fuel consumption.

Our policy of focusing marketing on highly profitable products not subject to price competition...
began to bear fruit. Sales were brisk for the DNA ECOS range of Inch-Up tires, a mainstay product in the DNA series, and for flagship ADVANCEOVA AD07 sports tires launched in the second half of fiscal 2003. During the year, we released “DNA dB ES501,” which enhances driving comfort and quietness. In fiscal 2005, we will continue marketing these and other high-performance, high-margin products.

Sales of replacement tires for trucks and buses increased, centering on all-season and studless models, thus boosting market share. Sales were healthy for PRO FORCE Tough TY787 tires, which provide an excellent balance of performance with high abrasion and offset abrasion resistance. Other strong sellers included the PRO FORCE studless SY797, unveiled in October 2003, which offers the ideal balance of icy surface performance and wear resistance.

NORTH AMERICA
Back in the Black
Our operations in North America center on local production at YTC.

Despite losing $550,000 in 2002, YTC returned to profitability in 2003 with net income of $780,000. Although unit sales of passenger car tires declined, YTC increased the ratio of high-value-added Yokohama-brand tires. Unit-based sales of tires for trucks and buses increased, reflecting new products and an economic recovery. Higher prices of raw materials and a decline in production volume increased costs, although YTC offset these rises by lowering selling, general and administrative and interest expenses. YTC aims to remain profitable in calendar 2004, supported by higher sales volumes following the release of new products, a shift to high-value-added offerings, and improved productivity.

The Yokohama GEOLANDAR H/T-S family of all-season highway tires for SUVs, pickup trucks, and vans, popular in the United States, combines comfort, handling, and year-round traction, even in light snow.
ASIA
Sales Favorable throughout the Region

Local plants are the prime providers of tires we sell in China, the Philippines, and Vietnam, while we also export throughout Asia from plants in Japan and the Philippines.

Despite the outbreak of Severe Acute Respiratory Syndrome early in 2003, regional sales increased, particularly in Malaysia, Thailand, Taiwan, and China. Demand was particularly favorable for such high-performance tires as the A.V.S ES100 for small and medium-sized sports sedans, the ADVANCEOVA AD07 for high-performance sports cars, and the A.V.S V550 premium comfort tire, which is also popular in Europe.

We launch new products in Asia every year, with the focus on high-performance models. Strong marketing has contributed greatly to our sales growth. We work closely with our distributors in our marketing. Billboard advertising and motor sports are key tools for reinforcing our brand image. For the past 21 years, we have been the exclusive tire supplier for the Macau Grand Prix, Asia’s top motor sports event.

We aim to keep increasing sales throughout Asia by expanding our lineup of high-performance tires and establishing concept shops specializing in Yokohama tires. In 2004, we plan to locally offer “C.drive,” which enhances driving comfort and is already popular in Europe.

EUROPE
Sales up 20%

In Europe, we sell tires from Japanese and Philippine plants, marketing them through subsidiaries in Austria, Belgium, Denmark, Germany, Italy, Sweden, Switzerland, and the United Kingdom, as well as through regional retail outlets.

In the year under review, demand for replacement tires in Europe remained largely unchanged, but the market for OE tires contracted, triggering intense competition and falling prices. Nevertheless, our sales volumes increased 20%, resulting in a significant sales gain in value terms with the support of a higher euro. Our performance benefited from the launch of such

The A.V.S V550 offers a quiet and comfortable ride over the entire service life.
new products as “C.drive” and “winter-T” tires, as well as robust sales of the high-grade A.V.S dB tire. During the year, we commenced sales activities in Russia and Poland, which also helped boost European revenues.

We worked hard to bolster marketing. For example, we formed N.V. Yokohama Belgium S.A., which is responsible for sales in Belgium and Luxembourg. We also established more Yokohama Club concept stores and expanded OE tire supplies to European car manufacturers. The 18-inch version of the A.V.S Sport, which is standard on Aston Martin’s V12 Vanquish, is an authorized option for Alpha Romeo’s Alpha 147GTA.

**Active Introduction of New Products**

In fiscal 2005, we will introduce more products, centering on high-performance models, and we will increase the number of Yokohama Club stores in Europe. We plan to participate in motor shows and racing events and run television commercials and other campaigns to boost brand awareness, thereby raising sales and market share.

**OTHER REGIONS**

**Australia**

Sales in Australia soared on a strong economy, firm market demand, and aggressive marketing by Yokohama Tyre Australia Pty. Ltd.

**Middle East**

In the Middle East, where demand for tires is strong, unit-based sales of tires for trucks, buses, off-road vehicles, and passenger cars increased. However, the value of these sales was mostly unchanged from the previous year under the effects of foreign exchange fluctuations.
FISCAL 2004 IN REVIEW

MB Group sales slipped 0.3%, to ¥113.1 billion, while operating income fell 9.0% to ¥5.8 billion. Demand was solid for high-pressure hoses and sealants, and sales of golf products increased. In contrast, a slump in public works spending in Japan saw a drop in antiseismic rubber bearings for bridges. Sales of aircraft components were also weak, owing to a downturn in aircraft production.

HOSES

Healthy Sales of Construction Equipment and Automotive Hoses

Yokohama leads the Japanese market for hydraulic hoses for construction equipment. Our power-steering and air-conditioning hoses for automobiles also maintain high domestic market shares.

In fiscal 2004, overall sales of hoses increased, owing mainly to strong exports of hydraulic hoses for construction equipment in China. We also reported robust sales of automotive hoses following a rise in the number of vehicles incorporating our brand.

In recent years, we have worked to pioneer new applications for our offerings. In the year under review, we developed hoses for automotive fuel cells. We are developing hoses for fuel cells used in household water heaters.

Until recently, Yokohama manufactured hoses, while YOKOHAMA HYDEX handled assembly and sales. We decided to absorb that subsidiary, effective October 2004, to accelerate business expansion through an integrated command chain.

(Above) Hydraulic hoses for construction equipment.

(Below) Yokohama’s sealants for buildings are used in Shinagawa Intercity, one of the largest multi-skyscraper development projects in Japan.
SEALANTS AND ADHESIVES
Insulation Glass Sealants Lead the Way
Yokohama markets sealants, adhesives and coatings under the HAMATITE® brand. We boast the top share of the Japanese market for building sealants, as well as for windshield sealants, which we supply to automakers on an OE basis.

In the year under review, sales in the HAMATITE® line increased. A major factor was the adoption among leading glass makers of our insulation glass sealant, which is popular for its weather resistance and adhesive performance.

Sales of mainstay building sealants improved, owing to solid OE sales to housing companies, which outweighed sluggish growth in sealants used in commercial buildings.

We also increased sales of windshield sealants. Amid strong calls for cost reductions, we increased our lineup to encompass new low-density versions that help reduce vehicle weight.

CONVEYOR BELTS
Sales Unchanged Despite Price Declines
Unit-based sales of conveyor belts were up, reflecting strong overseas demand. We did particularly well in products for steel foundries in China. We released the energy-efficient ECOTEX conveyor belt, which reduces electricity consumption by about 30% from comparable conventional production lines, and attracted an order for 9.5 kilometers of this product for a limestone mine. The value of sales was largely unchanged, however, because of lower prices.

ANTISEISMIC RUBBER BEARINGS AND JOINTS
Big Joint Turns in Strong Performance
In fiscal 2004, we strove to boost sales of antiseismic rubber bearings for bridges by introducing environmentally friendly products that reduce vibration and noise. Despite these efforts, prices dropped amid a decline in public-sector spending in Japan, leading to a substantial fall in sales and weaker profits. In fiscal 2005, we will counter low prices by prioritizing price management over order volume.

Sales of rubber joints increased amid healthy demand for our Big Joint product, which fits between girders and can handle spaces as wide as 60 centimeters. We have received numerous inquiries about YS-II, unveiled in July 2003, which reduces noise more than previous models and lasts longer. We expect sales of this offering to increase in fiscal 2005.

PNEUMATIC FENDERS AND MARINE HOSES
Large Orders Boost Sales
We enjoy a large share of the global market for pneumatic fenders and marine hoses, which we mainly export. In fiscal 2004, sales in both of these categories increased. Sales of pneumatic fenders were particularly strong as, for the first time, they were chosen for use on wharves in Pearl Harbor, Hawaii.

Sales of marine hoses advanced in Asia and the Middle East, as rising oil prices prompted renewed activity in oil fields.

(Left) The ECOTEX conveyor belt offers excellent energy savings.

(Right) Yokohama pneumatic fenders built onto a wharf.
AIRCRAFT COMPONENTS
Serving Boeing and Airbus
Sales of aircraft components declined, the result of a
downturn in aircraft production amid the lingering
effects of the war in Iraq and the outbreak of Severe
Acute Respiratory Syndrome. At the same time, we
began supplying lavatory modules for the Boeing 737
in 2003. We are scheduled to supply water tanks and
waste tanks for the Airbus A380 in 2005. We therefore
anticipate a recovery in this category.

GOLF PRODUCTS
New Driver a Hit
Sales of golf products increased on higher sales of
mainstay golf clubs. Launched in January
2003, the DUO series of composite-
head drivers—featuring a combi-
nation of titanium and carbon
fiber-reinforced plastics—
generated robust sales. We have
sold more than 100,000 DUO
drivers in the Japanese market,
where between 30,000 and 50,000 units
is normally a great success. Our 900 series of
irons also sold well, while sales of the DUO
HIT fairway wood have expanded steadily since
its release in February 2004.

OVERSEAS PRODUCTION
New Orders from Major American
Automakers
Our overseas production focuses on manufacturing
hoses and sealants in the United States and Asia.

YH America, which makes hose assemblies
and windshield sealants, began assembling hydraulic
hoses for construction equipment in 2003. This
subsidiary reported a decline in hose sales after some
Japanese automakers discontinued local production of
some models. Still, YH America again enjoyed healthy
sales of windshield sealants and hotmelt sealants for
automotive lamps. The subsidiary attracted major
orders, including one from General Motors Corpora-
tion for a new, primer-free sealant. YH America
expects to supply automotive hoses to leading
companies in fiscal 2005.

At SAS Rubber Company, sales of automotive
hoses declined owing to lower demand from Ford
Motor Company and DaimlerChrysler and decreased
aftermarket sales.

Booming Sales in Asia
SC Kingflex Corporation, our Taiwanese hose
production and sales subsidiary, posted record
sales on increased exports to China and the
United States. Yokohama Rubber (Thailand) Co.,
Ltd., which makes hose assemblies and windshield
sealants, reported healthy sales of construction
equipment hoses in Southeast Asia. Sales of hoses for
Japanese carmakers increased, significantly raising
overall sales of hoses. Meanwhile, sales of windshield
sealants to Thailand rose on a recovery in local vehicle
production. Exports also increased to Indonesia and
other countries, resulting in a surge in windshield
sealant sales in fiscal 2004.

In the year under review, we decided to build
a new windshield sealant plant in China, where auto-
mobile demand is huge. The plant will begin opera-
tions in January 2005, with an initial annual capacity
of 1,000 metric tons that we plan to double by 2007.