

Tire Group



Sales in the Tire Group increased 9.1% in fiscal 2006, to ¥335.7 billion. Our tire business expanded in Japan as heavy snowfall occasioned strong growth in sales of winter tires. We posted even-stronger sales growth in tires in overseas markets, led by vigorous sales in North America. Operating income in the Tire Group declined 0.4%, to ¥18.1 billion, as surging raw material costs depressed profitability.

JAPAN

Our unit sales rose in original equipment tires as automakers expanded production in Japan, largely to serve export demand. Growth was especially pronounced in passenger car tires of large sizes and in tires for sport-utility vehicles.

We also registered unit sales growth in replacement tires. A winter tire that we launched in July 2005, Ice Guard Black, proved highly popular. The success of that product enabled us to benefit from the surge in demand for winter tires.

Sales remained strong in the replacement market for our DNA series of fuel-saving summer tires. A DNA tire developed especially for Japan's vibrant minivan segment, DNA map-RV, contributed notably to sales growth. We launched a successor to that product at the end of the fiscal year, in February 2006. The new tire, the DNA map ES340, features the trademark quiet ride of its predecessor and provides longer tire life, and it has been hugely successful. We combined fuel-saving performance and excellent grip in another DNA tire, the DNA S.drive, which we launched in January 2005 for sporty cars. That product introduction was also successful.

Two products posted the highest-ever one-year sales for Yokohama tires in the truck and bus sector in fiscal 2006: the TY687 truck tire and the RY237eco tire for tour buses. Both feature fuel-saving performance.

Strengthening our network of affiliated retailers has been a core emphasis in our Japanese marketing in recent years. Sales through that network continued to grow in the past fiscal year. We have sharpened our identity in the replacement marketplace by consolidating our retail branding. Our retailers formerly operated in three differently named channels. We have integrated all three channels in the Tire Garden retail network and have continued to add outlets to that network. Retail outlets in the integrated network each offer a rich selection of products and serve a broad clientele.

A Boeing 777-300. Boeing Company equips the 777-300 with Yokohama's state-of-the-art ADVAN AC Y-255 tires.



NORTH AMERICA

Improvements in our product mix and cost-cutting measures produced a marked improvement in profitability in our North American tire operations in fiscal 2006. That improvement occurred despite the increase in raw material costs and distribution costs. Our tire business in North America centers on products manufactured locally by Yokohama Tire Corporation. Sales at that subsidiary increased 8.4% in its latest fiscal year (January to December 2005), to \$535 million (¥59.0 billion), and net income increased 2.9-fold, to \$16 million (¥1.7 billion). Yokohama Tire Corporation's unit tire sales were basically unchanged from the previous year, but sales of high-value-added products increased. Those products include the AVID TRZ line of touring tires and the ADVAN NEOVA line of high-performance tires.

Our North American business also includes truck and bus tires, and our North American sales of those tires also grew in the past fiscal year. We began

supplying tires to the largest U.S. manufacturer of heavy-duty trucks and buses, Freightliner LLC.

ASIA

We achieved continued growth in unit sales of tires in Asian nations besides Japan in fiscal 2006, though surging oil prices affected tire demand adversely. Our unit sales increased more than 10% in Thailand and also grew strongly in Taiwan and in the Republic of Korea. We began marketing tires in India in the latter half of the fiscal year, and that business also contributed to our Asian sales growth.

New-product launches, especially in high-performance tires, bolstered our sales momentum in Asian markets. We supplemented ADVAN, our global high-performance brand, with Asian launches of our GEOLANDAR H/T-S tires for light trucks and sport-utility vehicles and of our A.drive R1 tires for sporty cars.

The DNA map ES340 tire. This tire is a popular choice on minivans in Japan.



Also contributing to business expansion were strong sales of our ES501 tires. We introduced the ES501 in the latter half of the previous fiscal year as a tire distinguished by quiet ride. In support of the product launches, we held high-profile announcement events for dealers and journalists, complete with test-drive sessions.

Fortifying our network of affiliated retailers is strengthening our marketing in Asia. We have recruited retailers in China, the Philippines, and Thailand who devote priority to our tires in their sales efforts, and we began building retail networks in the Republic of Korea in the past fiscal year. In January 2006, we established Yokohama Tire Sales (Shanghai) to coordinate our Chinese marketing locally.

EUROPE

Our unit sales of tires in the European market continued to grow in fiscal 2006. Heavier-than-average snowfall stimulated demand for winter tires, and we achieved our largest-ever European sales volume in that product category. Another highlight in Europe was strong sales growth at our Russian sales company, which we established in the previous fiscal year.

Our sales performance in Europe also benefited from growth in high-value-added tires, which we have been promoting vigorously there in recent years. We began offering our top-of-the-line ADVAN tires in a full range of sizes. And we rounded out our European offerings in the "drive" series of high-performance tires. We complemented the comfort-oriented C.drive and the general-purpose

Motorsports. Every team in the FIA World Touring Car Championship series is racing on Yokohama's ADVAN tires in 2006, and Yokohama will remain the exclusive tire supplier for that series in 2007.



A.drive with the sporty car-oriented S.drive. Our original equipment business in Europe broadened as Porsche adopted our ADVAN Sport as standard equipment on the 911 Carrera 4.

Strengthening our European marketing channels is a high priority. That means expanding and upgrading our Yokohama Club network of tire shops and increasing sales through large retailers that operate large-volume outlets throughout Europe. Our target is to increase the number of Yokohama Club shops to 1,100 by 2010, from 550 at the end of fiscal 2006.

We are reinforcing our retailing effort in Europe by raising our brand visibility through original equipment fitments on high-performance cars and through expanded activity in motorsports. Posters and other promotional materials on display in our affiliated retailers highlight our success in racing, and we are preparing an advertising campaign to run on television channels that carry racing events.

Broadened activity in European motorsports will call attention to the ultrahigh-performance capabilities of our ADVAN tires. ADVAN became the exclusive tire in the Fédération Internationale de l'Automobile (FIA) World Touring Car Championship series in the 2006 season. That racing series ranks with Formula One and World Rally Championship competition as one of the three leading series in international motorsports. ADVAN is also the sole tire in 2006 for the Italian Touring Car Championship and for the Russian Touring Car Championship.

OTHER REGIONS

MIDDLE EAST

We posted unit sales growth in the Middle East. Oil-producing nations presented vigorous demand for truck and bus tires in the past fiscal year as they undertook large infrastructure projects, and demand

for passenger car tires was also strong. We registered unit sales growth in truck and bus tires even while sharpening our focus on high-value business, and we also achieved unit sales growth in passenger car tires. Our unit sales in tires for construction and mining equipment were little changed from the previous year.

OCEANIA

Our unit sales increased in fiscal 2006 in Australia and the other markets of Oceania. Sales increased in truck and bus tires and in passenger car and light truck tires. We succeeded in maintaining our price structure in truck and bus tires despite competition from low-cost suppliers in Asian nations, and we augmented our supply capacity with imports from our Thai plant. Business also expanded in tires for construction and mining equipment despite supply constraints.

In the passenger car and light truck sector, our comfort-oriented C.drive series, launched in the previous fiscal year, led our sales gains. Also contributing to sales growth were our A.drive line of general-purpose tires, launched in fiscal 2006, and our GEOLANDAR H/T-S tires for sport-utility vehicles.

LATIN AMERICA

Demand was generally strong throughout Latin America in fiscal 2006, and our unit sales in the region increased, led by growth in Brazil and Argentina. In passenger car and light truck tires, we augmented our product portfolio with our first offerings in important categories: the GEOLANDAR H/T-S for sport-utility vehicles and the A.drive R1 for sporty vehicles. Both of those product launches were highly successful. We served the growing demand for truck and bus tires, partly with imports from our Thai plant, but we struggled to keep up with demand in the construction and mining sectors.

Multiple Business Group

Sales in the Multiple Business Group increased 3.8% in fiscal 2006, to ¥116.2 billion. Leading that growth were gains in hoses, sealants, and aircraft products, which more than offset a sales decline in golf products. Operating income in the Multiple Business Group increased 41.9%, to ¥3.9 billion. The strong growth in operating income reflected progress in improving the structure of earnings in aircraft products and industrial products.

HOSES

We registered 5.6% growth in sales of hoses in fiscal 2006, to ¥37.8 billion. Our core products in this category are hydraulic hoses for construction equipment, and we posted strong sales growth in those hoses in North America, Europe, China, and Southeast Asia. Our sales of hoses for construction

equipment grew in Japan, too, led by expansion in original equipment business. We also recorded growth in sales of automotive hoses, including products for power steering systems and air conditioners.

To fortify profitability, we raised prices, improved our product mix, and developed business in sectors besides hydraulic hoses. Products launched in fiscal 2006 include a convoluted-type addition to our line of corrosion- and heat-resistant Teflon-coated hoses. The new hose provides superior flexibility. It reflects our emphasis on expanding our offerings in high-value-added hose products. We also launched an aeration hose for systems for improving water quality in lakes and reservoirs.

Increasing production capacity is a strategic emphasis for us in hoses. In fiscal 2007, we will expand production capacity at our Ibaraki Plant, in Japan, and step up coordination in allocating production among our hose plants in the United States, China, Taiwan, and Thailand.

Fiscal 2006 sales at Yokohama Rubber (Thailand), which supplies automotive hoses to Japanese-affiliated vehicle plants, increased more



High-pressure performance. Yokohama is a leading supplier of high-pressure hoses for construction equipment, industrial vehicles, machine tools, and plant systems.

than 60% over the previous year. Sales also increased at YH America, which began supplying power steering hoses to DaimlerChrysler during the year.

Weak demand from the Big Three U.S. automakers depressed sales at SAS Rubber, another U.S. hose subsidiary. Sales declined at SC Kingflex, in Taiwan, on account of economic sluggishness. Yokohama Hoses and Coupling (Hangzhou), a new Chinese subsidiary, began supplying hose assemblies in fiscal 2006 to Japanese-affiliated manufacturers of construction equipment.

INDUSTRIAL PRODUCTS

Our sales in industrial products, mainly conveyor belts and marine hoses, expanded 2.5% in fiscal 2006, to ¥24.8 billion. With an eye to strengthening profitability, we revised our price structure and took measures to raise productivity and lower costs.

CONVEYOR BELTS

We posted sales gains in conveyor belts in Japan and, especially, in overseas markets. Those gains included increased shipments to customers in Brazil and Australia. They also included large orders in North America and Indonesia, two markets where we have stepped up our sales efforts in recent years.

International manufacturing is an important part of our business strategy in conveyor belts. We established Shandong Yokohama Rubber Industrial Products in January 2006 to manufacture and market conveyor belts, and that company began operation in June 2006. It supplies conveyor belts to customers in China and in export markets.

MARINE HOSES AND MARINE FENDERS

Sales of marine hoses rose greatly in fiscal 2006 as oil field production increased worldwide amid surging



High-performance fenders. Yokohama's Fender Watch system for pneumatic marine fenders allows for remote monitoring of the air pressure in the fenders with the sensor and monitor shown here. That simplifies maintenance work greatly at offshore oil rigs and at other marine settings.

prices for crude oil. Careful after-sales support for established customers enabled us to secure a large share of their orders for replacement hoses. Sales declined in marine fenders, reflecting a global slump in demand and a downturn in prices.

We launched important products in the past fiscal year that differentiate our product line advantageously in marine hoses and marine fenders. The new products include our Globuoy line of surface and underwater buoys for offshore oil fields and for ships and our Super Stream Hose, which features special sheathing between the hose joints to simplify reeling the hose in floating production, storage, and offloading work. We are promoting the new products aggressively and expect them to contribute greatly to sales in the present fiscal year.

RUBBER BEARINGS

Our sales volume in anti-seismic rubber-and-steel bearings for bridges in fiscal 2006 was approximately the same as in the previous year. We maintained sales momentum in those products by focusing successfully on high-value business. Our sales volume in rubber joints for road surfaces on bridges declined.



Reliable sealing. Sealant supplied by Yokohama renders service in the 42-story Mori Tower at the Atago Green Hills complex, in Tokyo. That building has captured attention for its advanced anti-seismic protection.

SEALANTS AND ADHESIVES

Sales in sealants and adhesives rose 7.4% in fiscal 2006, to ¥24.7 billion. Business volume was basically unchanged for our main product line in the construction sector, sealants, but business expanded in urethane waterproofing for buildings and in sealants for insulation glass. Our business in urethane sealants benefited from a successful marketing effort that included guidance in cost-saving application systems and products.

In the automotive sector, sales grew strongly in windshield sealants. Sales benefited from the unit growth in vehicle production at Japanese automakers' operations worldwide. We augmented our offerings in windshield sealants with a product that requires no primer, and the new product contributed to sales growth. Eliminating the need for applying primer before applying the windshield sealant raises productivity for automakers by streamlining work.

Our overseas production volume in windshield sealant expanded solidly in fiscal 2006. Two production and sales subsidiaries for that product, YH America and Yokohama Rubber (Thailand), posted strong growth in shipments to Japanese automakers' operations in North America and in Southeast Asia. Yokohama Hamatite

(Hangzhou) began producing windshield sealants in June 2005 for Japanese-affiliated vehicle plants in China.

AIRCRAFT PRODUCTS

In aircraft products, sales grew 10.6% in fiscal 2006, to ¥17.8 billion. Sales expanded in products for civil aviation aircraft, notably in lavatory modules for the Boeing 737 and in drinking-water tanks and wastewater tanks for a broad range of aircraft. Profitability improved in this product category, supported by growth in replacement products in lavatory modules and tanks and by progress in raising efficiency in manufacturing.

GOLF PRODUCTS AND OTHER PRODUCTS

Sales declined 13.3% in golf products and other products in fiscal 2006, to ¥11.1 billion. We revamped our main line of golf clubs and launched the T³ series in December 2005. The T³ provides superior distance while accommodating the Japan Golf Association's new limits on the springlike effect of driver faces. Demand for golf clubs was weak in the Japanese market, however, and the new products failed to gain sales momentum there. Exports expanded, though, led by strong sales in the Republic of Korea.

The head of Yokohama's T³ club is a precisely configured combination of three kinds of titanium, each of a different hardness. That combination helps deliver increased range without resorting to a highly sprung face. The company offers the T³ model 105 for professionals and serious amateurs and the T³ model 305 for weekend golfers.

