Results of Operations

Net sales increased 7.7% in fiscal 2006, ended March 31, 2006, to ¥451.9 billion, a record-high level. Supporting that sales growth were strong gains in tires in Japan and in overseas markets and gains in hoses, sealants, and aircraft products. Sales benefited from price increases and from the weakening of the yen.

Cost of sales increased 9.1%, to ¥310.2 billion, reflecting unit sales growth and rising prices for natural rubber, synthetic rubber, and other raw materials. The rise in raw material prices accounted for ¥14.0 billion of the increase in cost of sales.

Selling, general and administrative expenses increased 4.6%, to ¥119.7 billion, including increased distribution costs associated with unit sales growth in tires and increased marketing expenses associated with stepped-up sales promotion.

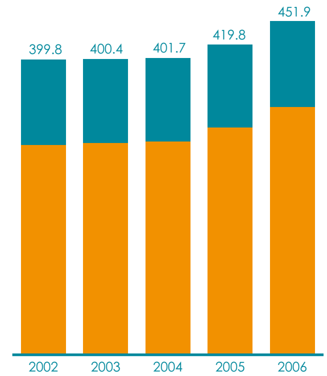
The Company abides by a strong commitment to research and development. R&D expenditures—included in cost of sales and in selling, general and administrative expenses—increased 2.0%, to ¥14.6 billion.

Operating income increased 4.7%, to ¥21.9 billion. Sales growth more than offset increases in cost of sales and in selling, general and administrative expenses.

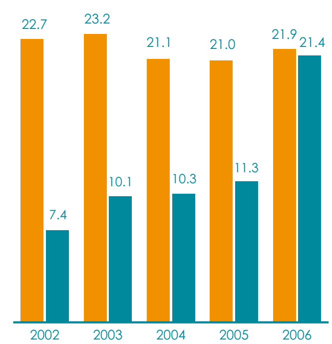
Other income and expenses amounted to a net gain of ¥726 million, compared with a net expense of ¥4.6 billion in the previous year. That gain included a ¥4.3 billion gain in connection with the Company's adoption of a defined-contribution pension plan and increases in foreign exchange gains and in dividends received.

Income before income taxes and minority interests increased 38.8%, to ¥22.7 billion, reflecting the increase in operating income and the net gain under other income and expenses. Net income increased 89.4%, to ¥21.4 billion. That increase included a tax benefit associated with earlier write-downs of the equity value of a U.S. subsidiary. Net income reached a record-high level for the third consecutive year, and net return on sales rose two percentage points, to 4.7%.

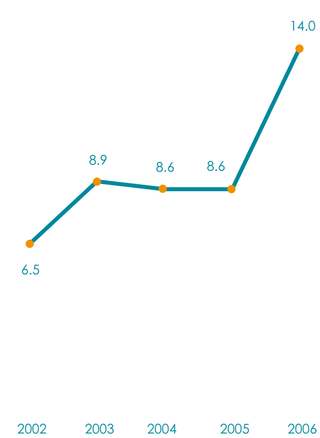
Sales by Group
(Billions of Yen)



Operating Income and Net Income
(Billions of Yen)



Return on Shareholders' Equity
(Percent)



Results by Segment

Business segments

In the Tire Group, sales increased 9.1%, to ¥335.7 billion. That increase comprised gains in Japan, where heavy snowfall occasioned strong growth in sales of winter tires, and in overseas markets, led by growth in North America. Operating income declined 0.4%, to ¥18.1 billion, because of the rise in raw material costs.

Sales in the Multiple Business Group increased 3.8%, to ¥116.2 billion. Gains in hoses, sealants, and aircraft products more than offset a sales decline in golf products. Operating income increased 41.9%, to ¥3.9 billion, supported by sales growth and by improved profitability in aircraft products and in industrial products.

Regional segments

Sales in Japan increased 5.9%, to ¥348.7 billion, including gains in the Tire Group and in the Multiple Business Group. Operating income increased 13.2%, to ¥19.6 billion, supported by improved profitability in the Multiple Business Group.

In North America, sales increased 14.0%, to ¥82.2 billion, including gains at the U.S. production subsidiary, Yokohama Tire Corporation, and at the Canadian sales company, Yokohama Tire (Canada). Operating income increased 21.7%, to ¥2.6 billion, supported by improved profitability at Yokohama Tire Corporation.

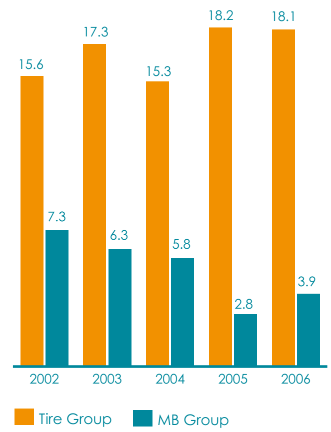
Sales in other regions increased 14.3%, to ¥21.1 billion, including gains at Yokohama Tire Philippines, a production and sales subsidiary, and at Yokohama Tyre Australia. Operating income declined 77.7%, to ¥241 million, largely because of the rise in raw material costs and because of startup expenses at Yokohama Tire Manufacturing (Thailand), a production and sales subsidiary that began operation in April 2005.

Capital Spending

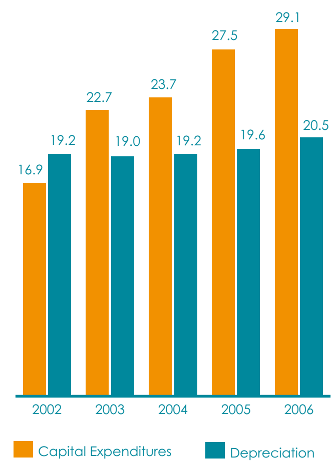
Capital spending rose 5.6%, to ¥29.1 billion. The Company funded its capital spending by supplementing internally generated funds with borrowings. In the Tire Group, capital spending increased 13.1%, to ¥25.6 billion. That investment included ¥9.9 billion at the parent company, mainly for equipment renewals and for equipment and systems for raising productivity and for ensuring high product quality. It also included ¥7.2 billion for expanding production capacity for passenger car tires at Yokohama Tire Philippines and ¥3.2 billion for inaugurating the production of truck and bus tires and passenger car and light truck tires at Yokohama Tire Manufacturing (Thailand).

In the Multiple Business Group, capital spending declined 25.6%, to ¥3.3 billion. The chief target of investment was equipment and systems for expanding the production of sealants at the parent company.

Operating Income by Group
(Billions of Yen)



Capital Expenditures and Depreciation
(Billions of Yen)



Financial Position and Cash Flow

Total assets rose 16.0%, to ¥502.0 billion at fiscal year-end. The primary component of that rise was an increase of ¥46.7 billion in investment securities. That increase resulted from growth in the market valuation of listed securities and from an inflow of securities in connection with the cancellation of the Company's tax-qualified pension plan.

Interest-bearing debt expanded 7.4%, to ¥163.0 billion, at fiscal year-end. That expansion reflected an increase in debt to finance stepped-up capital spending.

Shareholders' equity increased 25.2%, to ¥170.7 billion at fiscal year-end. That increase comprised the ¥21.4 billion in net income and a ¥20.0 billion increase in unrealized gains on securities. The ratio of shareholders' equity to total assets rose 2.5 percentage points, to 34.0% at fiscal year-end. The debt-to-equity ratio declined 0.1, to 1.0 at fiscal year-end.

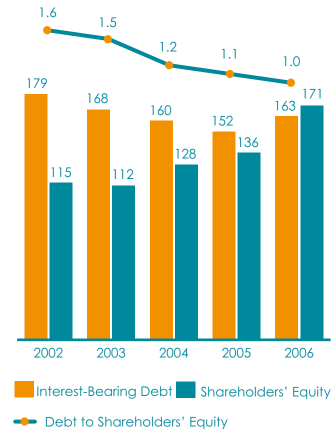
Net cash provided by operating activities declined 5.2%, to ¥31.9 billion. That decline reflected a one-time payment in connection with the Company's shift to a defined-contribution pension plan. Net cash used in investing activities increased 20.4%, to ¥29.2 billion. That increase resulted mainly from investment in expanding production capacity for tires in Asian nations other than Japan.

Free cash flow—net cash provided by operating activities less net cash used in investment activities—declined 71.4%, to ¥2.7 billion. The Company applied its free cash flow, supplemented with borrowings, to fund dividend payments and to repurchase shares. Cash and cash equivalents at year-end increased 3.3%, to ¥14.3 billion.

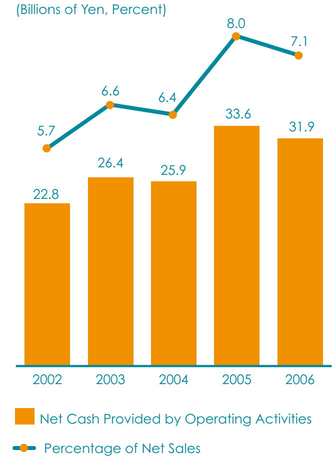
Projections for Fiscal 2007

Management projects an increase of 7.3% in net sales in fiscal 2007, to ¥485.0 billion. They expect operating income to decline 4.3%, to ¥21.0 billion, on account of the continuing upward trend in prices for raw materials. Management projects that net income—absent the tax benefit of the past fiscal year—will decline 51.0%, to ¥10.5 billion.

Interest-Bearing Debt, Shareholders' Equity, and Debt to Shareholders' Equity
(Billions of Yen, Times)



Net Cash Provided by Operating Activities and Percentage of Net Sales
(Billions of Yen, Percent)



Risk

The following text summarizes the principal kinds of risk that could substantially affect the Company's operating performance, share price, and financial position.

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 diminished demand in the Company's main markets—including Japan, North America, Europe, and Asia—could adversely affect the Company's business performance and financial position.

Competition

A loss of market share caused by a deterioration of the Company's competitive position or a decline in selling prices caused by escalating competition 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 abides by a policy of expanding its operations globally. That expansion would 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 management cannot be certain that hedging will fully offset the effect of fluctuations in currency exchange rates on the Company's business performance and financial position.

Seasonal factors

Sales of winter tires are an important contributor to the Company's sales and earnings. A later-than-usual onset of winter or lighter-than-usual snowfall could diminish demand for winter tires and thereby adversely affect the Company's business performance and financial position.

Raw material prices

The Company's principal raw materials are natural rubber and petrochemical products, including synthetic rubber and carbon black. Increases in prices for natural rubber and for crude oil have adversely affected the Company's business performance and financial position in recent years, and they could have a similar effect in the future.

Access to funds

A 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, 2006, the Company's interest-bearing debt was equivalent to 32.5% of its total assets. An increase in interest rates could adversely affect the Company's financial performance and financial position.

Securities

The Company's assets include 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 worldwide 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 condition.

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.

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.

Six-Year Summary

Fiscal Years Ended March 31

Millions of Yen

	2006	2005	2004	2003	2002	2001
Net sales	**¥451,911**	¥419,789	¥401,718	¥400,448	¥399,824	¥387,855
Operating income	**21,947**	20,955	21,073	23,184	22,701	19,845
Income before income taxes and minority interests	**22,673**	16,337	16,931	18,778	16,076	7,052
Net income	**21,447**	11,322	10,331	10,144	7,363	96
Depreciation	**20,491**	19,616	19,199	19,040	19,247	20,083
Capital expenditures	**29,067**	27,533	23,735	22,708	16,940	18,118
R&D expenditures	**14,557**	14,265	13,818	12,520	12,298	11,827
Interest-bearing debt	**163,022**	151,758	159,700	167,832	179,098	191,289
Total shareholders' equity	**170,675**	136,313	127,833	112,243	114,502	112,651
Total assets	**502,014**	432,717	429,350	412,626	437,771	448,130
Per share (yen):						
Net income: Basic	**¥ 62.75**	¥ 32.95	¥ 29.95	¥ 29.38	¥ 21.32	¥ 0.28
Shareholders' equity	**508.64**	398.24	373.23	327.61	334.24	328.81
Cash dividends	**10.00**	8.00	8.00	8.00	6.00	—
Key Financial Ratios:						
Operating margin (%)	**4.9**	5.0	5.2	5.8	5.7	5.1
Return on Shareholders' Equity (%)	**14.0**	8.6	8.6	8.9	6.5	0.1
Capital turnover (times)	**1.0**	1.0	1.0	0.9	0.9	0.9
Interest-bearing debt to Shareholders' equity (times)	**1.0**	1.1	1.2	1.5	1.6	1.7
Interest Coverage (times)	**10.1**	11.2	9.2	7.9	4.9	3.5
Number of employees	**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, 2006 and 2005

Assets	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
Current Assets:			
Cash and cash equivalents	**¥ 14,290**	¥ 13,836	**$ 121,648**
Time deposits	**15**	23	**127**
Trade receivables:			
Notes and accounts (Notes 4 and 6)	**101,240**	104,436	**861,840**
Inventories (Note 3)	**70,771**	62,450	**602,459**
Deferred income taxes (Note 13)	**9,713**	7,261	**82,686**
Other current assets	**7,273**	6,151	**61,914**
Allowance for doubtful receivables	**(1,900)**	(2,277)	**(16,173)**
Total current assets	**201,402**	191,880	**1,714,501**
Property, Plant and Equipment, at Cost (Notes 4 and 5)**:**			
Land	**33,643**	32,954	**286,399**
Buildings and structures	**121,345**	114,122	**1,032,985**
Machinery and equipment	**368,376**	336,369	**3,135,914**
Construction in progress	**7,963**	11,004	**67,786**
	531,327	494,449	**4,523,084**
Less accumulated depreciation	**(360,125)**	(335,445)	**(3,065,672)**
Total property, plant and equipment, net	**171,202**	159,004	**1,457,412**
Investments and Other Assets:			
Investment securities (Note 10)	**106,445**	59,751	**906,148**
Long-term loans receivable	**1,255**	1,135	**10,688**
Deferred income taxes (Note 13)	**2,743**	2,672	**23,352**
Other investments and other assets	**20,383**	20,111	**173,507**
Allowance for doubtful receivables	**(1,416)**	(1,836)	**(12,054)**
Total investments and other assets	**129,410**	81,833	**1,101,641**
Total assets	**¥502,014**	¥432,717	**$4,273,554**

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interests and Shareholders' Equity	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
Current Liabilities:			
Bank loans	**¥ 67,657**	¥ 71,001	**$ 575,954**
Current maturities of long-term debt (Note 4)	**16,719**	9,305	**142,322**
Commercial paper	**13,000**	—	**110,667**
Trade notes and accounts payable	**69,992**	66,357	**595,829**
Accrued income taxes	**2,016**	2,347	**17,165**
Accrued expenses	**26,012**	22,847	**221,437**
Other current liabilities	**13,275**	14,000	**113,006**
Total current liabilities	**208,671**	185,857	**1,776,380**
Long-Term Liabilities:			
Long-term debt (Note 4)	**65,646**	71,452	**558,833**
Deferred income taxes (Note 13)	**21,811**	7,818	**185,673**
Reserve for pension and severance payments (Note 12)	**21,355**	20,685	**181,794**
Other long-term liabilities	**9,922**	7,371	**84,461**
Total long-term liabilities	**118,734**	107,326	**1,010,761**
Minority Interests	**3,934**	3,221	**33,488**
Contingent liabilities (Note 6)			
Shareholders' Equity:			
Common stock:			
Authorized: 480,000,000 shares			
Issued: 342,598,162 shares	**38,909**	38,909	**331,226**
Capital surplus	**31,953**	31,953	**272,009**
Retained earnings (Note 8)	**67,439**	51,934	**574,100**
Accumulated other comprehensive income			
Unrealized gains on securities	**43,555**	23,598	**370,775**
Foreign currency translation adjustments	**(6,655)**	(9,943)	**(56,651)**
	175,201	136,451	**1,491,459**
Treasury stock, at cost: 7,142,365 shares in 2006 and 425,525 shares in 2005	**(4,526)**	(138)	**(38,534)**
Total shareholders' equity	**170,675**	136,313	**1,452,925**
Total liabilities, minority interests and shareholders' equity	**¥502,014**	¥432,717	**$4,273,554**

Consolidated Statements of Income

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2006, 2005 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2006	2005	2004	**2006**
Net sales	**¥451,911**	¥419,789	¥401,718	**$3,847,041**
Cost of sales (Note 7)	**310,232**	284,369	269,030	**2,640,946**
Gross profit	**141,679**	135,420	132,688	**1,206,095**
Selling, general and administrative expenses (Note 7)	**119,732**	114,465	111,615	**1,019,260**
Operating income	**21,947**	20,955	21,073	**186,835**
Other income (expenses)				
Interest and dividends income	**1,034**	930	852	**8,801**
Interest expense	**(2,270)**	(1,948)	(2,384)	**(19,328)**
Other—net	**1,962**	(3,600)	(2,610)	**16,704**
	726	(4,618)	(4,142)	**6,177**
Income before income taxes and minority interests	**22,673**	16,337	16,931	**193,012**
Income taxes (Note 2):				
Current	**2,722**	4,390	7,481	**23,173**
Deferred	**(1,871)**	215	(1,095)	**(15,928)**
	851	4,605	6,386	**7,245**
Minority interests in net income of consolidated subsidiaries	**(375)**	(410)	(214)	**(3,190)**
Net income	**¥ 21,447**	¥ 11,322	¥ 10,331	**$ 182,577**

Per Share Amounts:	Yen			U.S. Dollars (Note 1)
Net income: Basic	**¥62.75**	¥32.95	¥29.95	**$0.53**
Net income: Diluted	—	—	—	—
Cash dividends	**¥10.00**	¥ 8.00	¥ 8.00	**$0.09**

See accompanying Notes to Consolidated Finacial Statements.

Consolidated Statements of Shareholders' Equity

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2006, 2005, 2004 and 2003

	Shares of Common Stock	Millions of Yen					
		Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at March 31, 2003	342,598,162	¥38,909	¥31,893	¥36,562	¥ 4,946	¥ (67)	¥112,243
Decrease in retained earnings due to change in scope of consolidation	—	—	—	(45)	—	—	(45)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(168)	—	—	(168)
Net income	—	—	—	10,331	—	—	10,331
Cash dividends paid	—	—	—	(2,738)	—	—	(2,738)
Bonuses to directors and corporate auditors	—	—	—	(76)	—	—	(76)
Purchase of treasury stock	—	—	—	—	—	(22)	(22)
Other comprehensive income							
Unrealized gains on securities	—	—	—	—	10,019	—	10,019
Foreign currency translation adjustments	—	—	—	—	(1,711)	—	(1,711)
Balance at March 31, 2004	342,598,162	38,909	31,893	43,866	13,254	(89)	127,833
Increase in capital surplus due to merger	—	—	60	—	—	—	60
Decrease in retained earnings due to change in scope of consolidation	—	—	—	(1)	—	—	(1)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(256)	—	—	(256)
Net income	—	—	—	11,322	—	—	11,322
Cash dividends paid	—	—	—	(2,738)	—	—	(2,738)
Bonuses to directors and corporate auditors	—	—	—	(77)	—	—	(77)
Decrease in retained earnings due to merger	—	—	—	(60)	—	—	(60)
Decrease in retained earnings due to change in accounting standards of a consolidated subsidiary	—	—	—	(122)	—	—	(122)
Purchase of treasury stock	—	—	—	—	—	(49)	(49)
Other comprehensive income							
Unrealized gains on securities	—	—	—	—	783	—	783
Foreign currency translation adjustments	—	—	—	—	(382)	—	(382)
Balance at March 31, 2005	342,598,162	38,909	31,953	51,934	13,655	(138)	136,313
Decrease in retained earnings due to change in scope of consolidation	—	—	—	(9)	—	—	(9)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(1,013)	—	—	(1,013)
Net income	—	—	—	21,447	—	—	21,447
Cash dividends paid	—	—	—	(4,106)	—	—	(4,106)
Bonuses to directors and corporate auditors	—	—	—	(45)	—	—	(45)
Decrease in retained earnings due to change in accounting standards of a consolidated subsidiary	—	—	—	(769)	—	—	(769)
Purchase of treasury stock	—	—	—	—	—	(4,388)	(4,388)
Other comprehensive income							
Unrealized gains on securities	—	—	—	—	19,957	—	19,957
Foreign currency translation adjustments	—	—	—	—	3,288	—	3,288
Balance at March 31, 2006	342,598,162	¥38,909	¥31,953	¥67,439	¥36,900	¥(4,526)	¥170,675

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at March 31, 2005	$331,226	$272,009	$442,107	$116,246	$ (1,183)	$1,160,405
Decrease in retained earnings due to change in scope of consolidation	—	—	(78)	—	—	(78)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	(8,623)	—	—	(8,623)
Net income	—	—	182,577	—	—	182,577
Cash dividends paid	—	—	(34,952)	—	—	(34,952)
Bonuses to directors and corporate auditors	—	—	(387)	—	—	(387)
Decrease in retained earnings due to change in accounting standards of a consolidated subsidiary	—	—	(6,544)	—	—	(6,544)
Purchase of treasury stock	—	—	—	—	(37,351)	(37,351)
Other comprehensive income						
Unrealized gains on securities	—	—	—	169,890	—	169,890
Foreign currency translation adjustments	—	—	—	27,988	—	27,988
Balance at March 31, 2006	$331,226	$272,009	$574,100	$314,124	$(38,534)	$1,452,925

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2006, 2005 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2006	2005	2004	**2006**
Operating Activities:				
Income before income taxes and minority interests	**¥22,673**	¥16,337	¥16,931	**$193,012**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation (Note 5)	**20,491**	19,616	19,199	**174,437**
Reserve for pension and severance payments	**731**	(832)	(236)	**6,221**
Gain on change of pension and severance plan (Note 12)	**(4,251)**	—	—	**(36,192)**
Funding for defined contribution pension plan	**(7,747)**	—	—	**(65,947)**
Other, net	**(295)**	656	2,673	**(2,517)**
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	**5,327**	(1,596)	(2,286)	**45,350**
Inventories	**(5,454)**	1,165	(2,815)	**(46,425)**
Notes and accounts payable	**2,877**	3,089	2,757	**24,490**
Other, net	**1,838**	2,290	89	**15,650**
Interest and dividends received	**1,045**	1,002	786	**8,900**
Interest paid	**(2,227)**	(1,951)	(2,362)	**(18,962)**
Income taxes paid	**(3,147)**	(6,167)	(8,844)	**(26,792)**
Net cash provided by operating activities	**31,861**	33,609	25,892	**271,225**
Investing Activities:				
Purchases of property, plant and equipment	**(28,107)**	(26,493)	(23,496)	**(239,271)**
Purchases of marketable securities and investment securities	**(1,618)**	(411)	(1,211)	**(13,777)**
Proceeds from sales of marketable securities, investment securities and property	**771**	3,278	4,345	**6,559**
Other, net	**(230)**	(611)	(872)	**(1,953)**
Net cash used in investing activities	**(29,184)**	(24,237)	(21,234)	**(248,442)**
Financing Activities:				
Decrease in short-term bank loans and current maturities of long-term debt	**(5,481)**	(18,281)	(3,122)	**(46,660)**
(Decrease) increase in commercial paper	**13,000**	(9,000)	(5,000)	**110,666**
Proceeds from long-term debt	**10,749**	26,026	8,512	**91,503**
Decrease in long-term debt	**(10,881)**	(5,977)	(6,388)	**(92,631)**
Payment of cash dividends	**(4,102)**	(2,733)	(2,733)	**(34,916)**
Other, net	**(6,399)**	(2,042)	3,982	**(54,469)**
Net cash used in financing activities	**(3,114)**	(12,007)	(4,749)	**(26,507)**
Effect of exchange rate changes on cash and cash equivalents	**789**	(8)	(202)	**6,718**
(Decrease) increase in cash and cash equivalents	**352**	(2,643)	(293)	**2,994**
Cash and cash equivalents at beginning of year	**13,836**	16,473	15,769	**117,783**
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	**102**	6	997	**871**
Cash and cash equivalents at end of year	**¥14,290**	¥13,836	¥16,473	**$121,648**

See accompanying Notes to Consolidated Financial Statements.

1. Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company") and 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 Securities 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 in order to present these statements in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include additional information which 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 ¥117.47 = US$1.00, the approximate exchange rate prevailing on March 31, 2006.

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 has been 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.

The resulting exchange adjustments are recorded in shareholders' equity and minority interests.

(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, whose fair value is readily determinable, are carried at fair value with unrealized gains or losses included as a component of shareholders' equity, 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 are stated at cost determined by the moving average method, except that the finished products of certain subsidiaries are valued by the most recent purchase price method.

(g) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided at an estimated amount of probable bad debts plus the amount which is based on the 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 non-contributory 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.

The transition obligation of consolidated subsidiaries is amortized over 5 years. The transition obligation of the Company was written down by contributing the holding securities to the pension trust.

In addition to providing pension and severance benefits, certain foreign subsidiaries sponsor several unfounded defined benefit postretirement plans which provide certain health care and life insurance benefits to eligible employees and, in 1993, adopted Statement of Financial Accounting Standard No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

(j) Income Taxes

Income taxes in Japan comprise a corporation tax, 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.

(k) Revenue Recognition

Sales of products are recognized upon shipments to customers.

(l) Research and Development Costs

Research and development costs are charged to income as incurred.

(m) 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 for the years ended March 31, 2006, 2005 and 2004.

(n) Leases

Finance leases, other than those lease agreements which stipulate the transfer of ownership of the leased property, are accounted for as operating leases.

(o) Adoption of New Accounting Standards

Effective April 1, 2005, the Company adopted the new standard "Impairment of Fixed Assets," which requires that tangible and intangible fixed assets be carried at cost less depreciation and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The effect of adopting this standard resulted in a decrease of income before income taxes by ¥128 million ($1,097 thousand).

3. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Finished products	**¥46,540**	¥42,175	**$396,184**
Work in process	**11,958**	10,704	**101,796**
Raw materials and supplies	**12,273**	9,571	**104,479**
	¥70,771	¥62,450	**$602,459**

4. Long-Term Debt

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
1.3425% straight bonds due 2007	**¥10,000**	¥10,000	**$ 85,128**
0.62% straight bonds due 2008	**10,000**	10,000	**85,128**
0.84% straight bonds due 2010	**10,000**	10,000	**85,128**
Loans, principally from banks and insurance companies	**52,365**	50,757	**445,771**
	82,365	80,757	**701,155**
Less current maturities	**16,719**	9,305	**142,322**
	¥65,646	¥71,452	**$558,833**

Assets pledged to secure bank loans and long-term debt at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Notes receivable	**¥ 440**	¥ 541	**$ 3,749**
Property, plant and equipment	**71,025**	73,688	**604,621**
	¥71,465	¥74,229	**$608,370**

5. Depreciation

Depreciation charges were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	**2006**
Selling, general and administrative expenses	**¥ 2,712**	¥ 2,819	¥ 2,856	**$ 23,087**
Manufacturing costs	**¥17,779**	¥16,797	¥16,343	**$151,350**

6. Contingent Liabilities

Contingent liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Notes discounted and endorsed	**¥775**	¥481	**$6,600**
Guarantees	**¥ —**	¥112	**$ —**

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, 2006, 2005 and 2004 were ¥14,557 million ($123,921 thousand), ¥14,265 million and ¥13,818 million, respectively.

8. Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount stated in the non-consolidated financial statements of the Company. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semiannual interim dividends may be made by resolution of the Board of Directors, subject to the limitations imposed by the Commercial Code.

9. Leases

An analysis of leased property under finance leases, which are accounted for as operating leases, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Acquisition costs	**¥5,555**	¥6,065	**$47,288**
Accumulated depreciation	**2,471**	2,823	**21,033**
Net book value	**¥3,084**	¥3,242	**$26,255**

The Companies have future lease payments under finance leases as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Within one year	**¥ 803**	¥ 906	**$ 6,833**
After one year	**2,281**	2,336	**19,422**
	¥3,084	¥3,242	**$26,255**

Lease expenses under finance leases, which are accounted for as operating leases, for the years ended March 31, 2006 and 2005 aggregated approximately ¥982 million ($8,367 thousand) and ¥1,182 million, respectively.

Future rental payments under non-cancellable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Within one year	**¥1,006**	¥1,188	**$ 8,566**
After one year	**3,850**	4,171	**32,770**
	¥4,856	¥5,359	**$41,336**

10. Securities

Cost, carrying amount and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen							
	2006				2005			
	Cost	Carrying amount	Unrealized gains	Unrealized losses	Cost	Carrying amount	Unrealized gains	Unrealized losses
Securities classified as:								
Available-for-sale:								
Stocks	**¥27,615**	**¥100,616**	**¥73,025**	**¥(24)**	¥14,427	¥54,003	¥39,583	¥(7)

	Thousands of U.S. Dollars			
	2006			
	Cost	Carrying amount	Unrealized gains	Unrealized losses
Securities classified as:				
Available-for-sale:				
Stocks	**$235,082**	**$856,524**	**$621,649**	**$(207)**

Sales of securities classified as available-for-sale securities amounted to ¥153 million ($1,308 thousand), with an aggregate gain of ¥85 million ($731 thousand) for the year ended March 31, 2006.

The corresponding amounts for the year ended March 31, 2005 were ¥2,334 million, ¥1,636 million and an aggregate loss of ¥16 million.

11. Derivative Instruments

Fair value information of derivative instruments at March 31, 2006 and 2005 was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			**2006**		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized gains (losses)
Forward exchange contracts:									
EURO	**¥2,576**	**¥2,658**	**¥ (83)**	¥3,660	¥3,731	¥ (72)	**$21,928**	**$22,631**	**$(703)**
U.S. dollar	**2,332**	**2,357**	**(25)**	2,228	2,278	(50)	**19,851**	**20,065**	**(214)**
Others	**1,416**	**1,408**	**8**	1,466	1,518	(50)	**12,057**	**11,988**	**69**
	¥6,324	**¥6,424**	**¥(100)**	¥7,354	¥7,527	¥(172)	**$53,836**	**$54,684**	**$(848)**

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			**2006**		
	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses
Interest rate swap agreements	**¥65**	**¥(0)**	**¥(0)**	¥73	¥(2)	¥(2)	**$553**	**$(0)**	**$(0)**
	¥—	**¥(0)**	**¥(0)**	¥—	¥(2)	¥(2)	**$ —**	**$(0)**	**$(0)**

12. Pension and Severance Plans

(a) The projected benefit obligations, plan assets and composition of amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Projected benefit obligations	**¥(33,432)**	¥(46,437)	**$(284,607)**
Fair value of plan assets	**19,408**	25,096	**165,223**
Funded status	**(14,024)**	(21,341)	**(119,384)**
Unrecognized transition obligation	**—**	—	**—**
Unrecognized actuarial losses	**(8,276)**	237	**(70,458)**
Unrecognized prior service cost	**945**	419	**8,048**
Net amount recognized	**¥(21,355)**	¥(20,685)	**$(181,794)**

(b) The components of net pension and severance costs for the year ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥2,290**	¥2,465	**$19,498**
Interest cost	**918**	1,033	**7,814**
Expected return on plan assets	**(24)**	(39)	**(208)**
Amortization of transition obligation	**—**	510	**—**
Recognized actuarial losses	**296**	432	**2,521**
Recognized prior service cost	**58**	22	**494**
Net periodic benefit cost	**¥3,538**	¥4,423	**$30,119**
Gain on change of pension and severance plan	**(4,251)**	—	**(36,192)**
Contribution of defined contribution benefit plan	**137**	—	**1,167**
	¥ (576)	¥4,423	**$ (4,906)**

(c) Assumptions used as of March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate	**2.5%**	2.5%
Expected return rate on plan assets	**0.75%**	0.75%

13. Deferred Income Taxes

(a) Significant components of the deferred income tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Liabilities for pension and severance payments	**¥13,324**	¥14,721	**$113,425**
Net operating loss carryforwards	**18,237**	8,304	**155,252**
Unrealized profits	**3,434**	3,950	**29,238**
Accrued expenses	**2,377**	2,300	**20,233**
Other	**2,685**	2,841	**22,855**
Gross deferred tax assets	**40,057**	32,116	**341,003**
Less valuation allowance	**(11,292)**	(8,163)	**(96,131)**
Total deferred tax assets	**28,765**	23,953	**244,872**
Deferred tax liabilities:			
Unrealized gains on securities	**(29,403)**	(15,931)	**(250,305)**
Liabilities for pension and severance payments	**(3,447)**	(3,455)	**(29,339)**
Gain on receipt of stock set by pension plan	**(3,155)**	—	**(26,862)**
Property, plant and equipment	**(2,025)**	(2,175)	**(17,242)**
Other	**(152)**	(320)	**(1,294)**
Total deferred tax liabilities	**(38,182)**	(21,881)	**(325,042)**
Net deferred tax assets	**¥ (9,417)**	¥ 2,071	**$ (80,170)**

(b) A reconciliation of the statutory income tax rates to the effective income tax rates was as follows:

	Years ended March 31	
	2006	2005
Statutory income tax rate in Japan	**40.3%**	40.3%
Valuation allowance recognized on current losses of subsidiaries	**(1.5)**	(2.0)
Permanently nondeductible expenses	**2.1**	3.0
Permanently nontaxable income	**(0.9)**	(1.1)
Tax credits	**0.0**	(1.8)
Consolidation adjustments	**(37.9)**	(10.9)
Other	**1.7**	0.7
Effective income tax rate	**3.8%**	28.2%

14. Segment Information

The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2006, 2005 and 2004 are outlined as follows:

Business Segments

Millions of Yen

	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
Year ended March 31, 2006					
Sales to third parties	**¥335,734**	**¥116,177**	**¥451,911**	**¥ —**	**¥451,911**
Intergroup sales and transfers	**68**	**16,484**	**16,552**	**(16,552)**	**—**
Total sales	**335,802**	**132,661**	**468,463**	**(16,552)**	**451,911**
Operating expenses	**317,693**	**128,720**	**446,413**	**(16,449)**	**429,964**
Operating income	**¥ 18,109**	**¥ 3,941**	**¥ 22,050**	**¥ (103)**	**¥ 21,947**
Total assets at end of year	**¥344,743**	**¥145,399**	**¥490,142**	**¥ 11,872**	**¥502,014**
Depreciation	**¥ 15,999**	**¥ 4,154**	**¥ 20,153**	**¥ 338**	**¥ 20,491**
Impairment loss	**¥ 75**	**¥ 53**	**¥ 128**	**¥ —**	**¥ 128**
Capital expenditures	**¥ 25,623**	**¥ 3,317**	**¥ 28,940**	**¥ 127**	**¥ 29,067**
Year ended March 31, 2005					
Sales to third parties	¥307,861	¥111,928	¥419,789	¥ —	¥419,789
Intergroup sales and transfers	30	17,606	17,636	(17,636)	—
Total sales	307,891	129,534	437,425	(17,636)	419,789
Operating expenses	289,714	126,757	416,471	(17,637)	398,834
Operating income	¥ 18,177	¥ 2,777	¥ 20,954	¥ 1	¥ 20,955
Total assets at end of year	¥297,900	¥140,147	¥438,048	¥ (5,330)	¥432,717
Depreciation	¥ 15,323	¥ 3,940	¥ 19,263	¥ 354	¥ 19,616
Capital expenditures	¥ 22,659	¥ 4,456	¥ 27,115	¥ 418	¥ 27,533
Year ended March 31, 2004					
Sales to third parties	¥288,629	¥113,089	¥401,718	¥ —	¥401,718
Intergroup sales and transfers	75	15,224	15,299	(15,299)	—
Total sales	288,704	128,313	417,017	(15,299)	401,718
Operating expenses	273,424	122,554	395,978	(15,333)	380,645
Operating income	¥ 15,280	¥ 5,759	¥ 21,039	¥ 34	¥ 21,073
Total assets at end of year	¥289,696	¥147,742	¥437,438	¥ (8,088)	¥429,350
Depreciation	¥ 15,040	¥ 3,839	¥ 18,879	¥ 320	¥ 19,199
Capital expenditures	¥ 19,607	¥ 3,776	¥ 23,383	¥ 352	¥ 23,735

Thousands of U.S. Dollars

	Tires	Multiple Business	Total	Eliminations and Corporate	Consolidated
Year ended March 31, 2006					
Sales to third parties	**$2,858,045**	**$ 988,996**	**$3,847,041**	**$ —**	**$3,847,041**
Intergroup sales and transfers	**581**	**140,321**	**140,902**	**(140,902)**	**—**
Total sales	**2,858,626**	**1,129,317**	**3,987,943**	**(140,902)**	**3,847,041**
Operating expenses	**2,704,466**	**1,095,766**	**3,800,232**	**(140,026)**	**3,660,206**
Operating income	**$ 154,160**	**$ 33,551**	**$ 187,711**	**$ (876)**	**$ 186,835**
Total assets at end of year	**$2,934,732**	**$1,237,758**	**$4,172,490**	**$101,064**	**$4,273,554**
Depreciation	**$ 136,196**	**$ 35,360**	**$ 171,556**	**$ 2,881**	**$ 174,437**
Impairment loss	**$ 639**	**$ 451**	**$ 1,090**	**$ —**	**$ 1,090**
Capital expenditures	**$ 218,124**	**$ 28,240**	**$ 246,364**	**$ 1,079**	**$ 247,443**

Geographical Areas

	Millions of Yen					
	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
	Year ended March 31, 2006					
Sales to third parties	**¥348,666**	**¥82,186**	**¥21,059**	**¥451,911**	**¥ —**	**¥451,911**
Interarea sales and transfers	**39,162**	**675**	**7,553**	**47,390**	**(47,390)**	**—**
Total sales	**387,828**	**82,861**	**28,612**	**499,301**	**(47,390)**	**451,911**
Operating expenses	**368,206**	**80,299**	**28,371**	**476,876**	**(46,912)**	**429,964**
Operating income	**¥ 19,622**	**¥ 2,562**	**¥ 241**	**¥ 22,425**	**¥ (478)**	**¥ 21,947**
Total assets at end of year	**¥407,532**	**¥55,281**	**¥43,539**	**¥506,352**	**¥ (4,338)**	**¥502,014**
	Year ended March 31, 2005					
Sales to third parties	¥329,282	¥72,086	¥18,421	¥419,789	¥ —	¥419,789
Interarea sales and transfers	30,644	1,529	3,953	36,126	(36,126)	—
Total sales	359,926	73,615	22,374	455,915	(36,126)	419,789
Operating expenses	342,590	71,510	21,294	435,394	(36,560)	398,834
Operating income	¥ 17,336	¥ 2,105	¥ 1,080	¥ 20,521	¥ 434	¥ 20,955
Total assets at end of year	¥379,330	¥50,496	¥26,325	¥456,151	¥(23,434)	¥432,717
	Year ended March 31, 2004					
Sales to third parties	¥319,152	¥67,078	¥15,488	¥401,718	¥ —	¥401,718
Interarea sales and transfers	28,182	1,986	3,535	33,703	(33,703)	—
Total sales	347,334	69,064	19,023	435,421	(33,703)	401,718
Operating expenses	328,368	67,932	18,224	414,524	(33,879)	380,645
Operating income	¥ 18,966	¥ 1,132	¥ 799	¥ 20,897	¥ 176	¥ 21,073
Total assets at end of year	¥380,392	¥50,472	¥19,434	¥450,298	¥(20,948)	¥429,350

	Thousands of U.S. Dollars					
	Japan	North America	Other	Total	Eliminations and Corporate	Consolidated
	Year ended March 31, 2006					
Sales to third parties	**$2,968,130**	**$699,635**	**$179,276**	**$3,847,041**	**$ —**	**$3,847,041**
Interarea sales and transfers	**333,384**	**5,747**	**64,293**	**403,424**	**(403,424)**	**—**
Total sales	**3,301,514**	**705,382**	**243,569**	**4,250,465**	**(403,424)**	**3,847,041**
Operating expenses	**3,134,468**	**683,574**	**241,518**	**4,059,560**	**(399,354)**	**3,660,206**
Operating income	**$ 167,046**	**$ 21,808**	**$ 2,051**	**$ 190,905**	**$ (4,070)**	**$ 186,835**
Total assets at end of year	**$3,469,245**	**$470,601**	**$370,639**	**$4,310,485**	**$ (36,931)**	**$4,273,554**

Overseas Sales

	Millions of Yen		
	North America	Other	Total
	Year ended March 31, 2006		
(A) Overseas sales	**¥87,601**	**¥70,879**	**¥158,480**
(B) Consolidated net sales			**¥451,911**
(C) (A)/(B) × 100	**19.4%**	**15.7%**	**35.1%**
	Year ended March 31, 2005		
(A) Overseas sales	¥75,651	¥64,919	¥140,570
(B) Consolidated net sales			¥419,789
(C) (A)/(B) × 100	18.0%	15.5%	33.5%
	Year ended March 31, 2004		
(A) Overseas sales	¥69,259	¥53,825	¥123,084
(B) Consolidated net sales			¥401,718
(C) (A)/(B) × 100	17.2%	13.4%	30.6%

	Thousands of U.S. Dollars		
	North America	Other	Total
	Year ended March 31, 2006		
(A) Overseas sales	**$745,737**	**$603,376**	**$1,349,113**
(B) Consolidated net sales			**$3,847,041**
(C) (A)/(B) × 100	**19.4%**	**15.7%**	**35.1%**

Ernst & Young ShinNihon

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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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 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

June 29, 2006