

# YOKOHAMA AT A GLANCE

## TIRE GROUP

¥335.7 billion—74.3% of net sales



## MULTIPLE BUSINESS GROUP

¥116.2 billion—25.7% of net sales

## ● TIRE GROUP

### PRINCIPAL PRODUCTS

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



### A Focus on Environmentally Friendly Tires

Yokohama's DNA line of fuel-saving tires anchors the company's product portfolio in Japan. DNA tires contribute to fuel economy—and to minimizing the output of carbon dioxide—while providing superior performance in regard to the fundamental criteria of handling and comfort. Recent progress in extending DNA tires' useful life has further increased their environmental benefits.

### Global Scope in High-Performance Tires

We began marketing our high-performance ADVAN tires worldwide in 2005 as a global brand for raising our market profile. ADVAN tires feature state-of-the-art advances in maximizing every aspect of tire value. They are a true showcase of Yokohama's leadership in tire technology.

Fiscal 2006 net sales: **¥451.9 billion**

## ● MULTIPLE BUSINESS GROUP

### PRINCIPAL PRODUCTS

Hoses, sealants and adhesives, conveyor belts, anti-seismic products, marine hoses, pneumatic marine fenders, aircraft products, golf products



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

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

### A world leader in marine hoses and marine fenders

Yokohama 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.

### Lightweight, high-strength aircraft products

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.

## PROFILE

The Yokohama Rubber Co., Ltd., is a leading manufacturer in the global tire industry. In addition, the company applies original strengths in rubber polymer technology in successful lines of diversified business, including hoses, sealants and adhesives, other industrial products, aircraft products, and golf products. A commitment to anticipating and satisfying customer needs has steered Yokohama since the company's establishment in 1917.

Global demand for tires has grown steadily in recent years, and Yokohama has added and expanded tire plants in Asian nations besides Japan to serve that growth. The company has also increased its Asian production capacity outside Japan for hoses, sealants, and conveyor belts in support of its global business expansion.

## CONTENTS

Yokohama at a Glance	2
Profile	4
Financial Highlights	5
To Our Shareholders	6
Our New Management Plan: Grand Design 100	8
Fertile Research and Development	12
Environmental Protection	12
Review of Operations	14
Tire Group	14
Multiple Business Group	18
Financial Section	21
Corporate Governance	45
Ethical Compliance	46
Directors, Corporate Auditors, and Corporate Officers	47
Global Network	48
Investor Information	50
Share Information	51

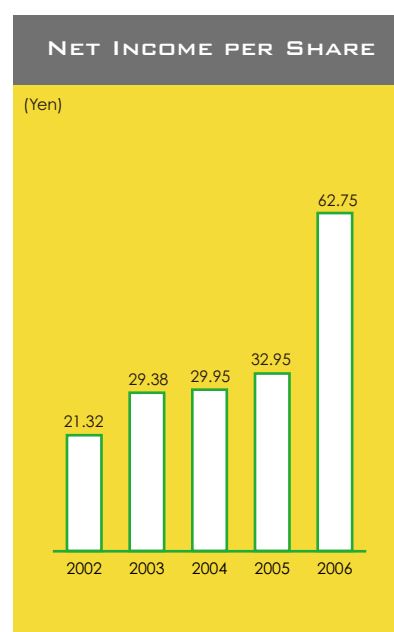
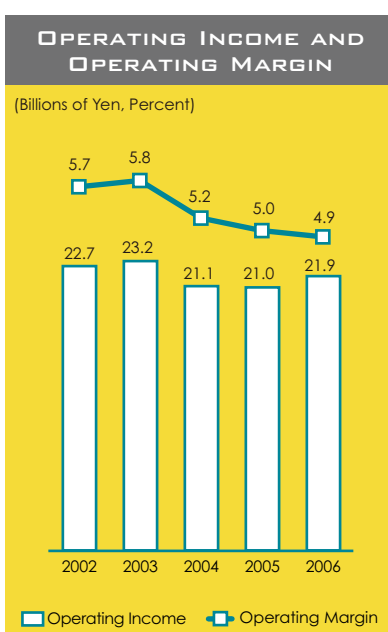
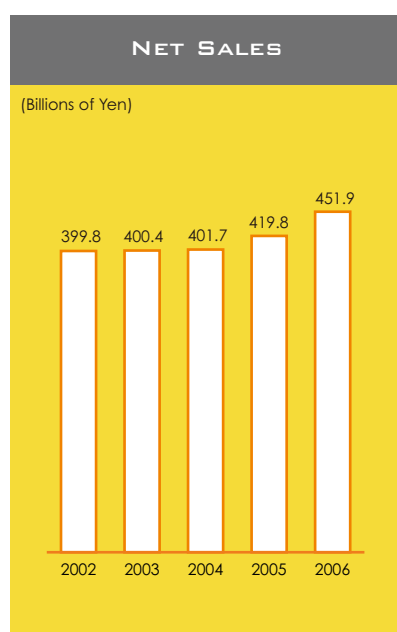
### Disclaimer

*This annual report contains "forward-looking statements": estimates and forecasts based on current plans, which are subject to unquantifiable risks and uncertainties. Readers should understand that Yokohama's actual business results may differ substantially from the estimates and forecasts presented on the following pages.*

## FINANCIAL HIGHLIGHTS

Years ended March 31,	Millions of Yen		Percent change	Thousands of U.S. Dollars
	2006	2005		2006
Net sales	<b>¥451,911</b>	¥419,789	7.7 %	<b>\$3,847,041</b>
Operating income	<b>21,947</b>	20,955	4.7	<b>186,835</b>
Income before income taxes and minority interests	<b>22,673</b>	16,337	38.8	<b>193,012</b>
Net income	<b>21,447</b>	11,322	89.4	<b>182,577</b>
			Change	
Total assets	<b>¥502,014</b>	¥432,717	¥69,297	<b>\$4,273,554</b>
Total shareholders' equity	<b>170,675</b>	136,313	34,362	<b>1,452,925</b>
	Yen		U.S. Dollars	
	2006	2005	2006	
Per share:				
Net income: basic	<b>¥62.75</b>	¥32.95	¥29.80	<b>\$0.53</b>
Cash dividends	<b>10.00</b>	8.00	2.00	<b>0.09</b>

Note: All U.S. dollar amounts in this report have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥117.47 = US\$1.00, the exchange rate on March 31, 2006.



## TO OUR SHAREHOLDERS

### *Aiming for ¥1 trillion in sales by fiscal 2018*

Our net sales and net income at Yokohama reached record-high levels in fiscal 2006, ended March 31, 2006. We accomplished those results despite high and rising prices for crucial raw materials: natural rubber and petrochemical products, including synthetic rubber and carbon black. We made the most of expanding demand for tires, largely in overseas markets.

Net sales rose 7.7%, to ¥451.9 billion, supporting a 4.7% increase in operating income, to ¥21.9 billion. We offset the adverse effect on earnings of rising raw material prices by achieving unit sales growth in tires, by raising prices, and by cutting costs. Sales and earnings also benefited from the weakening of the yen. Contributing additionally to after-tax earnings was a tax benefit associated with earlier write-downs of our equity holding in a U.S. subsidiary. Net income rose 89.4%, to ¥21.4 billion.

Our strong sales and earnings performance prompted a ¥2 increase in the annual dividend, to ¥10. The annual dividend comprised an interim dividend of ¥4 and a year-end dividend of ¥6.

In fiscal 2007, we project an increase of 7.3% in net sales, to ¥485.0 billion. Prices for raw materials are rising even faster, however, and a decline in earnings is likely. We expect operating



*Yasuo Tominaga (right) and Tadanobu Nagumo*

income to decline 4.3%, to ¥21.0 billion, and we expect net income—absent the tax benefit of the past fiscal year—to decline 51.0%, to ¥10.5 billion. We plan to maintain the annual dividend at ¥10, comprising—as in the past fiscal year—an interim dividend of ¥4 and a year-end dividend of ¥6.

### *New and Old Management Plans*

The past fiscal year concluded the three-year management plan that we adopted in 2003 as Grand Design 10. Our sales growth of 7.7% exceeded the plan's third-year target of 5%, but our capital turnover and our operating margin, at 0.97 and 4.9%, fell short of our targets of 1 and 8%. The shortfall in capital turnover is attributable to our decision to undertake more capital spending than originally planned. The lower-than-targeted

operating profitability resulted from greater-than-expected increases in prices for raw materials.

We have adopted a management plan for the 12 years to fiscal 2018. Yokohama's centenary is in 2017, and we have dubbed our new management plan Grand Design 100. The plan calls for achieving net sales of ¥1 trillion, operating income of ¥100 billion, and an operating margin of 10% by the year to March 2018.

Grand Design 100 comprises four three-year segments. Phase One, the first segment, spans from the present fiscal year to fiscal 2009. Our chief emphasis in Phase One is on profitable growth. That emphasis stems from careful reflection on the results of Grand Design 10 and from our determination to lay a solid foundation for achieving the overall targets of Grand Design 100. The chief quantitative targets in Phase One are to increase net sales 23.9% over the past fiscal year, to ¥560.0 billion by the year to March 31, 2009, and to increase operating income 59.8%, to ¥35.0 billion by that year.

We have articulated a corporate vision in Grand Design 100 that emphasizes evoking a distinctive global identity in building corporate value and in building a strong market presence. Our basic policy for fulfilling that vision centers on delivering the best products at competitive prices and on time and on asserting world-class strengths in technologies for protecting the

environment. We will promote lasting corporate vitality by fostering a customer-oriented corporate culture that honors rigorous standards of corporate ethics.

As always, we are grateful for the support and understanding of our shareholders. We will continue doing everything possible to fulfill your highest expectations of our company.

June 2006



**Yasuo Tominaga**  
*Chairman and Representative Director*



**Tadanobu Nagumo**  
*President and Representative Director*