

Tire Group

Sales in the Tire Group rose 11.0%, to ¥372.7 billion in the fiscal year ended March 31, 2007. Leading the sales growth were strong gains in the replacement markets of North America, Europe, and Asian nations besides Japan and in the original-equipment market in Japan. High and rising prices for natural rubber and other raw materials undercut profitability, and operating income declined 19.0%, to ¥14.7 billion.

Management is targeting an 8.1% increase in sales in the Tire Group, to ¥403.0 billion, in the fiscal year to March 31, 2008. Underlying that projection is the company's progress in expanding production capacity, mainly through plant-expansion projects in Thailand and the Philippines. Management expects the projected sales growth to support a 39.7% increase in operating income, to ¥20.5 billion.

JAPAN

Strong original-equipment demand fueled by growth in vehicle exports

We posted overall growth in unit sales of tires in Japan. An increase in deliveries to automakers offset weakness in the replacement market. Our business in the original-equipment market benefited from the overall unit growth in vehicle production in Japan. We achieved especially strong sales gains in high-value business in tires for sport-utility vehicles and in large tires for passenger cars. In replacement tires, weak sales of winter tires due to historically light snowfall offset sales gains in summer tires.

An environmental emphasis characterizes our recent and upcoming product launches. A good example was the February 2007 launch of the GRAND map addition to our DNA family of fuel-saving tires. The GRAND map tires are for large minivans and help provide a quiet ride and stable handling. Our all-new ZEN tires, for trucks and buses, debuted in April 2007. They accompany improved fuel economy with a quantum leap in durability.

In July 2007, we will augment our DNA family with the dB super E-spec tires. We have reduced the petrochemical content of those tires to only 20%, by weight, while achieving new gains in fuel economy and in quiet ride. Promoting sales of our global flagship brand, ADVAN, remains a high priority. Our efforts to strengthen our brand image and increase sales center on high-value, high-performance products.

NORTH AMERICA

Sales growth despite weakening demand

Our subsidiary Yokohama Tire Corporation produces and markets tires in North America. In calendar 2006, it recorded sales growth of 15.5% over the previous year, to \$618 million. It achieved that growth despite an overall decline in demand on the strength of such high-value products as the comfort-oriented AVID TRZ and the sporty AVS ES100. Our tire sales in North America also benefited from progress in cultivating business with small and medium-sized tire retailers and with car dealers.

We posted gains in profitability, too, in North America. The rising cost of raw materials and escalating logistics costs presented challenges. But we succeeded in bolstering profitability through improvements in our sales mix, unit sales growth, and price increases.

ASIAN NATIONS BESIDES JAPAN

Sales gains in China

Sales gains in China drove our unit sales growth in Asian markets outside Japan. Our unit volume in China increased 20% over the previous year. Contributing to that growth was the first full year of operation at our new sales subsidiary based in Shanghai. Our Chinese business was especially robust in truck and bus tires. We expanded business in those tires with increased imports from Japan while preparing to begin producing truck and bus tires in March 2008 at Suzhou Yokohama Tire, in Jiangsu Province. In passenger-car tires, we expanded production at Hangzhou Yokohama Tire, in Zhejiang Province. That subsidiary supplies tires to the Chinese plants of Japanese vehicle manufacturers, as well as serving the replacement market.



The DNA Grand map tires, for large minivans, provide a reassuring, quiet ride.



Yokohama continues to win fitments for its ADVAN Sport tires on high-performance passenger cars from prominent European manufacturers. New fitments in 2006 included the Audi S8 (left) and the Brabus Rocket (below).



Our tire business also expanded solidly in Thailand, where we posted a 16% increase over the previous year in unit sales. Producing tires since April 2005 at our Thai subsidiary has raised our profile in the Thai market, and we have fortified our presence there by strengthening relationships with distributors and by expanding our retail network. Strong sales of high-performance tires drove sales expansion for us in the Republic of Korea despite flagging demand in that market.

In Southeast Asian nations other than Thailand and in Taiwan, our sales were generally weak. We have shifted our marketing emphasis throughout the region to high-performance tires, and we highlighted that emphasis with the 2006 launches of the S.drive tires for sporty passenger cars and the GEOLANDAR A/T-S tires for sport-utility vehicles. Our supply capacity was insufficient, however, to keep up with demand. We supply high-performance tires mainly from our plants in Japan, and we are counting on expanded production capacity in Japan to help rebuild sales momentum in Southeast Asia and Taiwan.

Focusing on China and India

Our sales momentum in China remains strong in calendar 2007. Expanded marketing channels are generating increased sales of truck and bus tires, and our business in passenger-car tires is expanding in the replacement market and in

the original-equipment market. A third phase of construction is adding a production line at our Hangzhou plant to support our growing sales volume.

We are also bolstering our marketing presence in India's fast-growing economy. That has included establishing a tire marketing subsidiary in New Delhi in April 2007. The new company provides local coordination for the marketing function, which we formerly handled through a Singapore-based marketing company. It will focus initially on marketing, but the new company is a potential management platform for other Indian initiatives. Under study are a plant for producing tires and possible business in hoses and sealants.

EUROPE

Continuing growth led by Russia and Germany

Unit sales continued to increase in Europe, supported by general economic expansion there. Our unit sales nearly doubled over the previous year in Russia, where vehicle ownership is growing rapidly. Our Russian sales company, established in 2005, enabled that growth by developing new sales channels. We also posted strong sales growth in Germany, Austria, and Switzerland. The growth in Germany was stimulated by new German regulations that

make winter tires mandatory. Leading our overall sales growth in Europe were robust sales gains for our top-end ADVAN tires and other of our high-performance tires. We raised our market profile in the high-performance sector by supplying tires for prominent racing series, including the World Touring Car Championship, the German F3, the Italian Touring Car Championship, and the Russian Touring Car Championship. Our strengthening association with high-performance tires contributed visibly to our European sales growth.

Measures for bolstering our sales momentum in Europe have included launching our W.drive tires in the fast-growing winter-tire segment. We expect sales to gain further impetus from the increasingly pan-European sweep of large tire retailers. Motorsports, meanwhile, remain an emphasis in our strategy of building a strong brand identification with high-performance tires. We have contracted to continue to supply tires for the World Touring Car Championship in calendar 2007, and we also furnish tires for a growing range of local racing series in European nations.

Strengthened marketing in Russia

Tire demand appears certain to continue rising in Russia, and we are strengthening our Russian marketing. In the fiscal year to March 2007, we posted solid sales gains in studded winter tires and in newly introduced studless winter tires. Studless tires provide a quieter, more-comfortable ride than studded tires, and Yokohama is promoting them widely in the Russian market.

Supplying tires for the Russian Touring Car Championship has strengthened our identification in Russia with high-performance tires. Our sales are surging in high-value-added products, most notably in ADVAN tires for high-performance passenger cars and in

PARADA Spec-X tires for sport-utility vehicles, which feature a distinctive design.

We are stepping up our promotional efforts in Russia in calendar 2007. In addition to continuing our high-profile support for motorsports, we are undertaking extensive advertising for our high-value-added products in print and broadcast media and on outdoor billboards. We also continue to expand our sales channels in Russia. That will include developing broadened business with car dealers and customizers while reinforcing our newly developed ties with large tire-retailing chains.

OTHER REGIONS

Our unit sales in the Middle East were basically unchanged in fiscal 2007 from the previous year. Profitability improved, however, thanks to price increases and the weakening yen. We registered growth in unit sales and in sales value in Australia and other markets of Oceania. Adding outlets to our Tyres & More retail chain reinforced our sales momentum in the region. Our tire business expanded in Latin America, led by unit sales growth in Brazil and Argentina.



A distinctive tread pattern has contributed to the popularity of Yokohama's PARADA Spec-X tires, for sport-utility vehicles.

Further increase in expansion program for tire production capacity

We have announced a further increase in our program for expanding production capacity for tires. The latest increase adds 300,000 tires a year to the capacity expansion that we announced in May 2006. It will raise our annual capacity to 56.85 million tires by March 2009, from 49.95 million in March 2007.

At the heart of our ongoing capacity expansion is our Thai plant. We will increase the production capacity for passenger-car and light truck tires at that plant to 2.6 million tires annually by March 2009, from 700,000 in March 2007.

Capacity expansion is also under way in Japan. The focus of expansion in Japan is our Shinshiro-Minami Plant, which produces high-performance tires for passenger cars and sport-utility vehicles near Nagoya. We will increase the production capacity there to 2.6 million tires annually by March 2009, from 1 million in March 2007. The increase in production capacity at the Shinshiro-Minami Plant will center on 16-inch and larger tires, for which demand is growing especially rapidly.

Yokohama's off-the-road tire business

Benefiting from surging demand in the mining sector

Global demand for off-the-road tires is growing rapidly. Underlying that growth is surging demand in the mining sector and harbor sector, occasioned by bustling activity in extracting and shipping mineral raw materials. The growing demand for off-the-road tires also includes mounting demand in the construction sector, reflecting a building boom in China, Southeast Asia, and the Middle East.

EXPANDING PRODUCTION CAPACITY

Our annual sales of off-the-road tires increased 80% over the three years to March 2007, and the operating profit margin on sales in that product category has reached double digits. We are moving to capitalize on the growing demand for off-the-road tires by increasing our production capacity for those tires. Our production platform for off-the-road tires is our Onomichi Plant, near Hiroshima, and we will expand that plant's production capacity 50% by calendar 2009, compared with 2006. In addition, we are evaluating the potential for adding ultralarge radial tires to our product portfolio.

GLOBAL DEMAND GROWING 7% ANNUALLY

The world market for large off-the-road tires totaled about 400,000 tons in calendar 2006. Demand in that product category has grown about 7% a year since calendar 2004—faster than the market expansion in passenger-car tires and in

truck and bus tires. We expect demand to continue to expand for more than 10 years. The global construction sector appears to have entered a new long-term growth phase in 2003. And the general economic expansion in the large-population emerging economies of China, India, Russia, and Brazil promises to generate demand for a full range of off-the-road tires.

MAKING BOLD MOVES AT THE ONOMICHI PLANT

The expansion work at the Onomichi Plant has included investing ¥3.5 billion in a second production line for off-the-road tires. That line will produce radial tires in inner-diameter sizes of 25, 33, and 35 inches, which are equivalent to outer-diameter sizes of 1.5 meters to 2.2 meters. It began operation in November 2006, starting with 25-inch inner-diameter tires. We will begin the production of 33- and 35-inch tires on the line in stages. Our plans call for monthly production volume on the line to increase about 50%, to



Growing activity in resources development is spawning increased demand for off-the-road tires for dump trucks in the world's mines.

TIRE PRODUCTION CAPACITY (THOUSANDS OF TIRES)

	PLANT	PRODUCT CATEGORY	March 31, 2007	March 31, 2008	March 31, 2009
Japan	Mie	Truck and bus, passenger car, light truck	6,000	6,050	6,100
	Mishima	Passenger car	13,700	13,800	13,800
	Shinshiro	Passenger car	14,100	14,500	14,500
	Shinshiro-Minami	Passenger car	1,000	1,100	2,600
U.S.A.	Yokohama Tire Corporation	Passenger car	5,500	5,500	5,500
	GTY Tire Company	Truck and bus	500	500	500
Philippines	Yokohama Tire Philippines	Passenger car	6,100	7,000	7,500
China	Hangzhou Yokohama Tire	Passenger car	2,000	2,000	2,700
	Suzhou Yokohama Tire	Truck and bus	—	—	350
Thailand	Yokohama Tire Manufacturing (Thailand)	Truck and bus	350	400	700
		Passenger car, light truck	700	1,300	2,600
Total			49,950	52,150	56,850

1,620 tons in calendar 2009, compared with 1,100 tons presently.

FOCUSING ON DISTINCTIVE STRENGTHS IN BIAS TIRES

We will continue to produce bias tires for off-the-road equipment even as we expand our production of radial off-the-road tires. Bias tires offer compelling advantages over radials, for example, in harbor equipment and in underground mining equipment. Yokohama is the world's leading brand in bias tires for gantry cranes used to load and unload containers at port terminals and for large forklifts of a capacity in excess of 40 tons.

MAINTAINING DOUBLE-DIGIT PROFITABILITY

We are aiming for sales of off-the-road tires in the year to March 2010 that would be three times greater than our sales in the year to March 2004. Our 80% sales growth in off-the-road tires since the year to March 2004 has raised operating return on sales above 10%. That exceeds our overall profitability target for the fiscal year to March 2009 under our Grand Design 100 medium-range management plan. Our emphasis on profitability has prompted us to concentrate on inner-diameter sizes of 25 inches and greater at the Onomichi Plant.

PREPARING FOR A MOVE INTO ULTRALARGE RADIALS

The 33-inch inner-diameter tires to be produced at the Onomichi Plant will be our largest

off-the-road tires ever. And we are developing off-the-road radial tires that will have an inner diameter of 49 inches and larger, which is equivalent to an outer diameter of 2.7 meters and more. We plan to put those ultralarge radials into production during the second phase of Grand Design 100, which will span the three years to March 2012.



The big off-the-road tire in the photo has an inner diameter of 35 inches. A passenger-car tire puts the matter of size in perspective.