



GRAND DESIGN 100:

A FOUR-STAGE PROGRAM

FOR ASSERTING A DISTINCTIVE GLOBAL IDENTITY

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.

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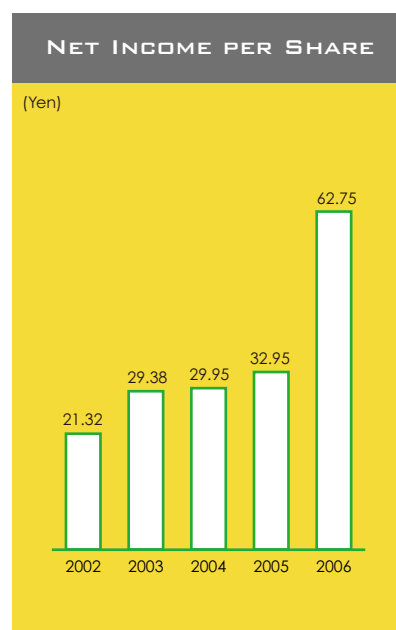
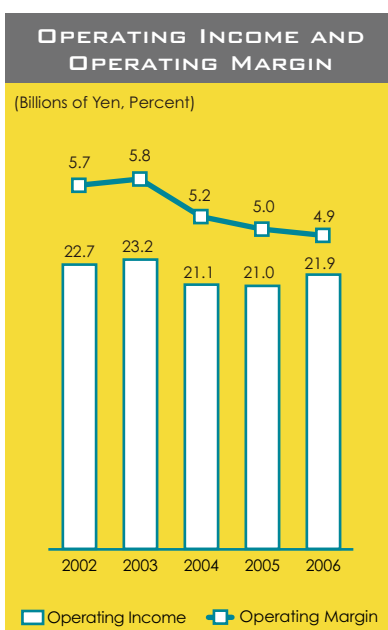
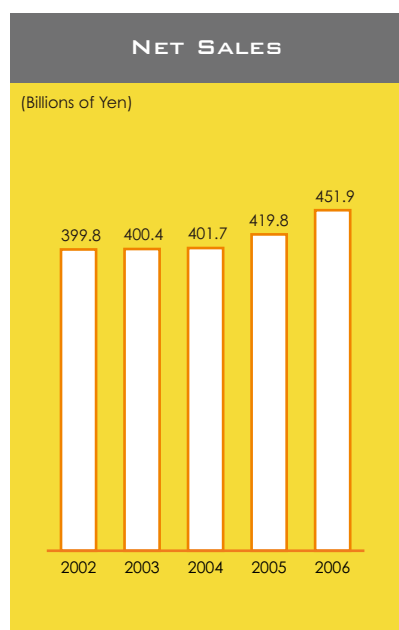
Disclaimer

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

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



Our New Management Plan: **Grand Design 100**

As noted elsewhere, our new management plan for the 12 years to fiscal 2018 calls for increasing net sales to ¥1 trillion by that year. Our principal goals in the initial three-year segment of the plan, which focuses on profitable growth, are to increase net sales 24% over fiscal 2006, to ¥560.0 billion by fiscal 2009, and to increase operating income 60%, to ¥35.0 billion.

VISION

Evoke a distinctive global identity in building corporate value and in building a strong market presence.

LONG-TERM FINANCIAL TARGETS (YEAR TO MARCH 31, 2018)

Net sales	¥1 trillion
Operating income	¥100 billion
Operating margin	10%

BASIC POLICY FOR FULFILLING VISION

- Deliver the best products at competitive prices and on time.
- Assert world-class strengths in technologies for protecting the environment.
- Foster a customer-oriented corporate culture that honors rigorous standards of corporate ethics.

Fiscal 2009 Targets

BILLIONS OF YEN, PERCENT, TIMES

	Fiscal 2006 result	Fiscal 2009 target	Percent increase
Net sales	¥451.9	¥560	23.9%
Tires	¥335.7	¥433	29.0%
Multiple Business	¥116.2	¥127	9.3%
Operating income	¥ 21.9	¥ 35	59.8%
Tires	¥ 18.1	¥ 28	54.7%
Multiple Business	¥ 3.9	¥ 7	79.5%

	Fiscal 2006 result	Fiscal 2009 target
Operating income on assets	4.7 %	More than 6.0%
Interest-bearing debt	¥163.0	Less than ¥180
Capital turnover	0.97	More than 1
Interest-bearing debt to Shareholders'equity	0.96	Less than 1



ADVAN tires. Yokohama's ADVAN brand is an increasingly prominent presence in the original equipment market. That includes a growing range of fitments on high-performance cars and on airliners.

PHASE ONE STRATEGY

TIRE GROUP

Strengthening our position in high-value-added products and building a strong global brand

We will work to expand our business in high-value-added tire products, largely by building global momentum for our premium brand, ADVAN. Our efforts will include working to secure new original equipment fitments for ADVAN tires on high-visibility, high-performance vehicle models, as well as promoting ADVAN tires in the replacement market. Expanded activity in motorsports will highlight the technological excellence of the ADVAN brand.

We will support sales growth in high-performance tires by developing new materials and by creating and deploying

technology for high-quality, high-precision manufacturing. Raising efficiency in manufacturing is another emphasis. We will adopt integrated product specifications that we can accommodate at tire plants worldwide.

In support of our planned sales growth, we will expand our production capacity, mainly in Asian nations besides Japan. Our target is to increase our annual production capacity by 11 million tires, to 57 million, by fiscal 2009. We will deploy compact, integrated production platforms that will be flexible and cost-competitive in accommodating a broad range of tire specifications in small volumes.

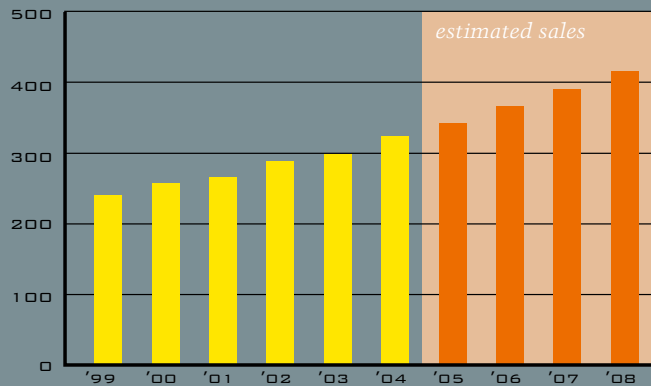
Growing Global Demand for Tires

Unit volume poised to continue expanding

The world market for tires shows every sign of continuing to grow for the foreseeable future. J.D. Power-LMC Automotive Forecasting Services projects that vehicle ownership worldwide will increase 8.7% over the three years to 2008, to 958 million vehicles. It projects that annual demand for tires will increase 11.6% over the same time span, to 1.5 billion units. The prominent market research firm predicts especially strong growth in Asia. It projects that Asian demand for tires will increase 21.7% over the three years, to 416 million tires in 2008.

Tire Sales in Asia

(MILLIONS OF UNITS, CALENDAR YEARS)

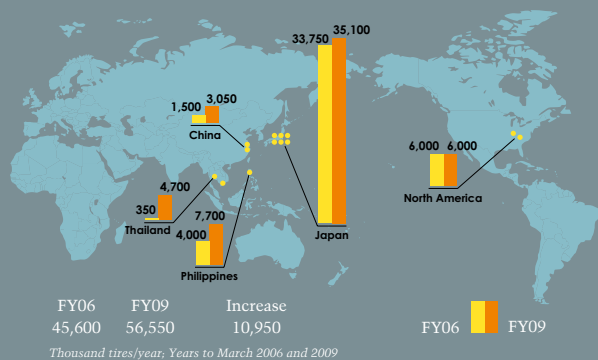


Increasing Production Capacity in Southeast Asia and China 2.6-fold by Fiscal 2009

We are expanding our tire production capacity in Southeast Asia and in China to serve growing local demand and to serve export markets. Our plans call for increasing our aggregate production capacity in those regions to 15.45 million tires in fiscal 2009, from 5.85 million in fiscal 2006.

Yokohama Tire Manufacturing (Thailand) began producing truck and bus tires in April 2005, and it will begin producing passenger car and light truck tires in November 2006. In China, Suzhou Yokohama Tire will begin producing truck and bus tires in October 2007. We expect to expand the production capacity of both of those plants in step with trends in demand. Projects for expanding the production capacity of existing plants are under way at Yokohama Tire Philippines and in China at Hangzhou Yokohama Tire.

Three-Year Increase in Production Capacity



Yokohama Tire Manufacturing (Thailand). This and other production subsidiaries in Southeast Asia and China are the focus of Yokohama's moves to increase production capacity in tires.

MULTIPLE BUSINESS GROUP

Allocating resources strategically

In diversified business, we have identified eight product categories for allocating assets on a priority basis: hydraulic hoses, automotive hoses, construction sealants, automotive sealants, conveyor belts, civil engineering materials, civil aviation aircraft products, and self-defense aircraft and ship products. Along with concentrating resources on those sectors, we will work aggressively to raise profitability. Our efforts will include working in Asian nations besides Japan to expand sales of products that have strong market positions in Japan. Those products include hydraulic hoses, automotive hoses, automotive sealants, and conveyor belts.

We will also work to strengthen our position in sports business. A technology newly developed at Yokohama provides unprecedented precision in analyzing golfers' swings and in identifying optimal clubs for different kinds of swings. That technology will help differentiate our club products advantageously and raise profitability in global products.

To set the stage for long-range growth, we will launch products in promising new sectors. Those sectors include electrical, electronic, and optical materials and alternative energies.

TECHNOLOGY STRATEGY

Asserting core technological strengths to create new materials and new technologies

Our core technological strengths are in chemical synthesis and modification and in rubber and oligomer compounding. We will work to develop new kinds of natural materials, nanomaterials,

modified polymers, electrically conductive polymers, and other new materials. We will also undertake development work on nanocontrol and precision processing. Along with deploying these kinds of new materials and new technologies in established products in the Tire Group and in the Multiple Business Group, we will use them in working to develop completely new business in information technologies, in electrical and electronic materials, and in other promising sectors.

ENVIRONMENTAL MANAGEMENT

Asserting world-class strengths

We will strive to assert world-class strengths in technologies for protecting the environment. One, we will adopt consistent environmental management at our operations worldwide. Two, we will adopt environmental technologies in all of our products. And three, we will work to recycle waste completely at our operations everywhere.

In products, we will launch showcase environmental tires. As part of our efforts to reuse and otherwise recycle all waste at our plants everywhere, we will install cogeneration systems. We will undertake thoroughgoing measures to reduce our output of carbon dioxide, including initiatives for reducing paper consumption.

FERTILE RESEARCH AND DEVELOPMENT

Improving the performance of truck and bus tires with a new mixing process

A low-temperature, high-torque mixing process developed at Yokohama raises efficiency and quality in producing rubber compound for tires. The method of mixing rubber with carbon black and other raw materials affects the characteristics of the resultant rubber compound and thus affects the durability and wear resistance of tires. Durability and wear resistance are overriding considerations in truck and bus tires, and our new mixing technology is especially promising in that product category.

Our new technology is notable for permitting mixing at low temperatures. Traditional mixing takes place at high temperatures in fixed-speed mixers, but heat can cause the deterioration of rubber quality. We employ a variable-speed mixer in our new process. Our mixer helps prevent the temperature of the rubber from rising and therefore helps maintain the integrity of the compound. The molecular weight is even throughout the compound, and the polymer chains are extremely long. The dispersion of the carbon chains is also even.

ENVIRONMENTAL PROTECTION

Eliminating landfill waste one year ahead of schedule

All eight of our tire plants and diversified products plants in Japan stopped outputting waste for landfill disposal by the end of March 2006. We accomplished that goal one year ahead of schedule.

By March 2005, less than 1% of the solid waste generated in our production processes went into landfill. The small amount of material that had proved stubbornly difficult to recycle and that still required landfill disposal consisted of sulfur, sulfur-contaminated sludge, and talc-containing rubber scrap. Employing improved technology for separating the different substances enabled us to recycle all our plant waste and to eliminate landfill disposal completely.

CASE STUDY: COGENERATION

New system at Mie Plant to reduce output of carbon dioxide by more than one-fifth

We aim to reduce our output of carbon dioxide and other greenhouse gases at least 12% from the 1990 level by 2010. Tire manufacturing consumes a great deal of energy, especially in generating steam for the curing process. Our measures for reducing the output of carbon dioxide thus center on raising energy efficiency at our tire plants.

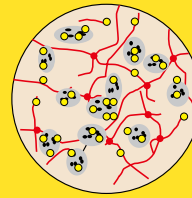
Cogeneration, which supplies electric power and steam, is ideally suited to tire manufacturing. We started up a cogeneration system in January 2006 at our Mie Plant, in Japan. The system comprises two generating units and has an aggregate generating capacity of 14,460 kilowatts. It converts the energy potential of its fuel into electricity at the extremely high rate of 33%. We expect the system to reduce the plant's output of carbon dioxide 22%. The Mie Plant is the third of our six tire plants in Japan where we have installed a cogeneration system.



In truck and bus tires, our new mixing process results in an improvement of 10% to 15% in resistance to chipping and an improvement of 5% to 10% in resistance to wear. The new technology also reduces lead time greatly—some 90%—in mixing and therefore shrinks inventories of work in process. Heat builds up rapidly in traditional mixing and requires repeated interruption of the mixing process to let the compound cool. Our low-temperature mixing allows for conducting the mixing swiftly in a single, uninterrupted process.

RUBBER STRUCTURE MODEL

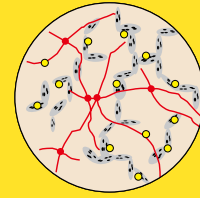
TRADITIONAL MIXING



Soft, less-stretchable rubber

- Polymer molecules are short and irregular
- Carbon dispersion is uneven
- Dioxide occurs extensively

NEW LOW-TEMPERATURE, HIGH-TORQUE MIXING



Strong, more-stretchable rubber

- Polymer molecules are long and regular
- Carbon dispersion is even
- Little dioxide occurs



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.



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FINANCIAL REVIEW

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—including in cost of sales and in selling, general and administrative expenses—increased 2.0%, to ¥14.6 billion.

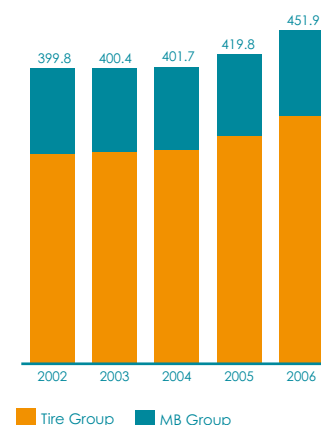
Operating income increased 4.7%, to ¥21.9 billion. Sales growth more than offset increases in cost of sales and in selling, general and administrative expenses.

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%.

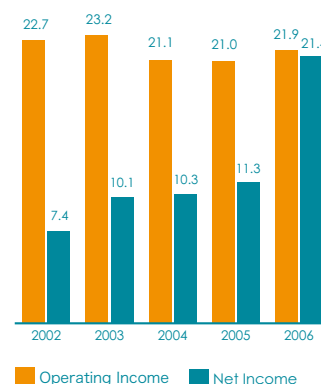
Sales by Group

(Billions of Yen)



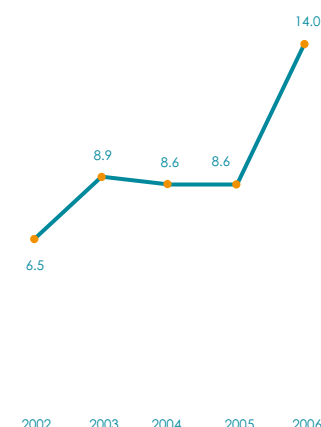
Operating Income and Net Income

(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

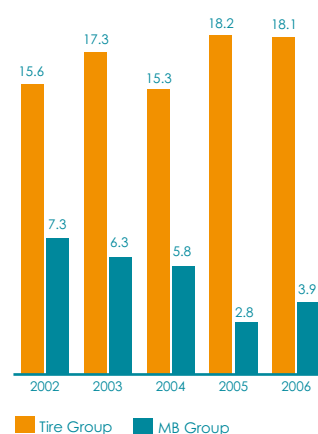
Capital spending rose 5.6%, to ¥29.1 billion. The Company funded its capital spending by supplementing internally generated funds with borrowings.

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.

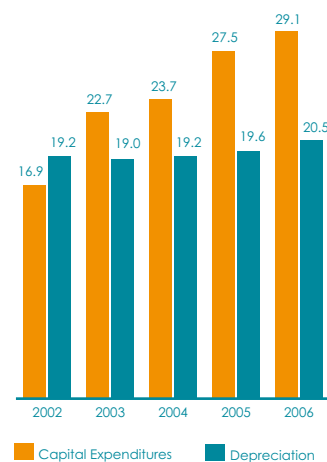
Operating Income by Group

(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.

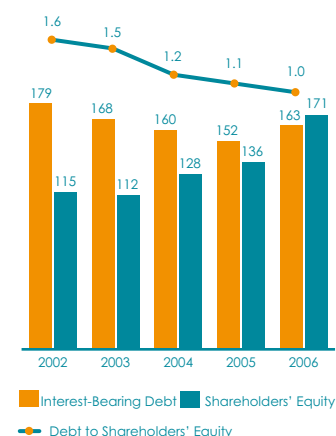
Net cash provided by operating activities declined 5.2%, to ¥31.9 billion. That decline reflected a one-time payment in connection with the Company's shift to a defined-contribution pension plan. Net cash used in investing activities increased 20.4%, to ¥29.2 billion. That increase resulted mainly from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

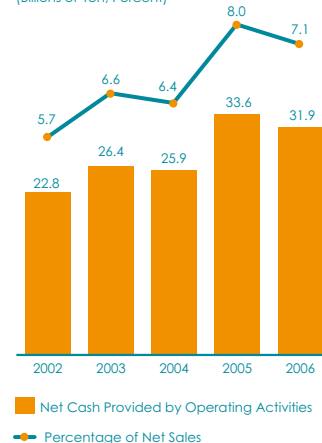
Projections for Fiscal 2007

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2006	2005	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		Thousands of U.S. Dollars (Note 1)
	2006	2005	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 Financial 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

	Millions of Yen						
	Shares of Common Stock	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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries

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%



Certified Public Accountants

Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03-3503-1100

Fax: 03-3503-1197

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.

A handwritten signature in blue ink that reads 'Ernst & Young ShinNihon' in a cursive script.

June 29, 2006

CORPORATE GOVERNANCE

Management at the Company regards strengthening governance as absolutely essential to earning the confidence of shareholders and other stakeholders. In that spirit, management is working to increase speed and transparency in the decision-making process.

Management structure

The Company adopted the corporate officer system in 2004 to differentiate clearly between operational responsibility, invested in the corporate officers, and oversight responsibility, invested in the Board of Directors. Dividing responsibilities in that manner was a measure for increasing speed in making decisions and in putting the decisions into practice. The Board of Directors is thus responsible for making management decisions and for overseeing the performance of the corporate officers in carrying out those decisions. Presently, the Board of Directors comprises the chairman; the president; and six other members, including members who serve concurrently as corporate officers, and the corporate officers, not including officers who serve concurrently as directors, number sixteen.

The Company's Management Council, established in 2004, has strengthened senior management's capabilities in formulating strategy. The council comprises the chairman, president, other selected members of the Board of Directors, and other executives. It reviews overall operational policy, matters crucial to the performance of work, and matters crucial to risk management from the perspective of fundamental management policy.

Corporate Officer and Director Personnel/Remuneration Committee

Transparency and fairness are core emphases in appointing corporate officers and directors and in determining their compensation. Appointments and compensation receive thorough consideration by the Corporate Officer and Director Personnel/Remuneration Committee and then go to the Board of Directors for a decision.

Corporate auditors

The Company has four corporate auditors, including two from outside the company. To strengthen the auditing function, the Company will add a third "outside auditor" and thus increase the number of corporate auditors to five. That addition is in accordance with a motion passed at the General Meeting of Shareholders in June 2006. Apart from retaining the oversight services of the outside auditors, the Company engages in no business transactions with those individuals.

The standing corporate auditors attend meetings of the Board of Directors and of the Management Council and other important gatherings. They voice their opinions at those gatherings and monitor activity in principal sectors at the parent company and at subsidiaries in accordance with their auditing program. The Company supports the auditing function by assigning an assistant to the corporate auditors. In addition, the auditors maintain close communication with the independent public accounting firm retained by the Company and exchange opinions with that firm in regard to pertinent matters. They also review the results of the accounting and operational audits performed by the Company's Audit Office in accordance with the office's annual program.

Independent public accounting firm

Presently, the Company retains Ernst & Young ShinNihon as its independent public accountants. No common interests of any financial significance exist between the Company and its independent public accounting firm, and the Company engages in no business transactions with the firm or with any of its members apart from the accounting services performed by the firm for the Company.

ETHICAL COMPLIANCE

Rigorous compliance with the highest standards of corporate ethics is the cornerstone of transparent and effective corporate governance. It is the defining element of commitment to fulfilling corporate social responsibility. The Company undertook multiple measures in the past fiscal year to reinforce its framework for ensuring ethical compliance.

Organization

Established in 2003 and chaired by the president of the Company, the Company's Compliance Committee oversees activity at the Company with an eye to ensuring compliance with laws and regulations. It also conducts consciousness-raising activities in the name of promoting ethical behavior.

The Company established its Corporate Compliance Department in 2005 to strengthen the framework for ensuring ethical compliance at operations worldwide. In the same year, the Company established a hotline to allow employees to raise concerns and questions about corporate ethics anonymously. That hotline is accessible to employees from inside or outside the Company's workplaces. The Company expanded the hotline in April 2006 to accommodate queries and notifications from employees of affiliated companies and from employees of suppliers and other business partners.

Monitors

Each sector of operations at the parent company and each subsidiary has named a compliance monitor in connection with the establishment of the compliance hotline. The monitors take part in stepped-up efforts to detect ethical breaches, to deal effectively with problems that occur, and to prevent the recurrence of problems. Each monitor submits a monthly report to the compliance secretariat at the Company's headquarters. That reporting helps ensure an up-to-date grasp of issues and potential issues and a prompt response to ethical issues that require attention.

Training

The compliance monitors receive training in regard to compliance guidelines, and they conduct training in corporate ethics for groups of employees in each sector of operations. Corporate ethics, meanwhile, became part of the parent company's online learning program for employees in 2006.

DIRECTORS, CORPORATE AUDITORS, AND CORPORATE OFFICERS

As of June 29, 2006

Board of Directors

Yasuo Tominaga
Chairman and Representative Director

Tadanobu Nagumo
President and Representative Director

Keigo Ueda
Director and Senior Managing Corporate Officer
*General Manager of Hoses and Coupling Division, President of Sports Group,
General Manager of Hiratsuka Factory, Chairman of YH America, Inc.,
Chairman of SAS Rubber Company*

Takashi Sugimoto
Director and Senior Managing Corporate Officer
*In charge of business development in BRICs, Chairman of Yokohama Rubber
(China) Co., Ltd.*

Takashi Yamashita
Director and Senior Managing Corporate Officer
*President of Tire Group, General Manager of Original Equipment Tire Sales
Division*

Tetsuya Mizoguchi
Director and Managing Corporate Officer
President of Multiple Business Group

Tatsunari Kojima
Director and Managing Corporate Officer
*In charge of Secretariat, Corporate Planning Department, Corporate
Communications Department, Corporate Finance & Accounting Department,
MIS Department, Internal Audit Department*

Tooru Kobayashi
Director and Corporate Officer
*General Manager of Tire Planning Division, General Manager of Tire Planning
Department, in charge of Off-the-Road Tire & Aircraft Tire Division,
Chairman of Yokohama Tire Philippines, Inc., General Manager of MD
Promotion Department*

Corporate Auditors

Masaaki Kushida

Seiichi Suzuki

Junnosuke Furukawa

Yuzuru Fujita

Naozumi Furukawa

Corporate Officers (not on the Board of Directors)

Toshihiko Shiraki
Managing Corporate Officer
General Manager of Tire Domestic Sales & Marketing Division

Masamichi Danjo
Managing Corporate Officer
*In charge of Quality Assurance, Environmental Conservation Department,
General Manager of R&D Center*

Akihisa Takayama
Managing Corporate Officer
General Manager of Tire Production Division

Michio Yuge
Corporate Officer
*In charge of Corporate Purchasing Department, Corporate General Affairs
Department, General Manager of Corporate Purchasing Department, General
Manager of Corporate Compliance Department*

Toshio Izawa
Corporate Officer
*In charge of MB Production, General Manager of MB Production Technology
Department, Deputy General Manager of Hoses and Coupling Division,
General Manager of Hiratsuka East Plant*

Yasuhiro Mizumoto
Corporate Officer
General Manager of Shinshiro Plant

Shinichi Suzuki
Corporate Officer
Vice President of Yokohama Tire Corporation

Koichi Tanaka
Corporate Officer
President of Yokohama Tire Chubu Sales Co., Ltd.

Takashi Fukui
Corporate Officer
General Manager of Tire Overseas Sales & Marketing Division

Toshihiko Suzuki
Corporate Officer
General Manager of Tire Technical Division

Norio Karashima
Corporate Officer
*President of Yokohama Tire Corporation, President of
Yokohama Corporation of America*

Hideo Fujiwara
Corporate Officer
*General Manager of Corporate Finance & Accounting Department, in charge
of Corporate Personnel Department*

Ichiro Kondo
Corporate Officer
*President of Yokohama Rubber (China) Co., Ltd., Chairman of Yokohama
Tire Sales (Shanghai) Co., Ltd., Chairman of Hangzhou Yokohama Tire Co.,
Ltd., Chairman of Suzhou Yokohama Tire Co., Ltd.*

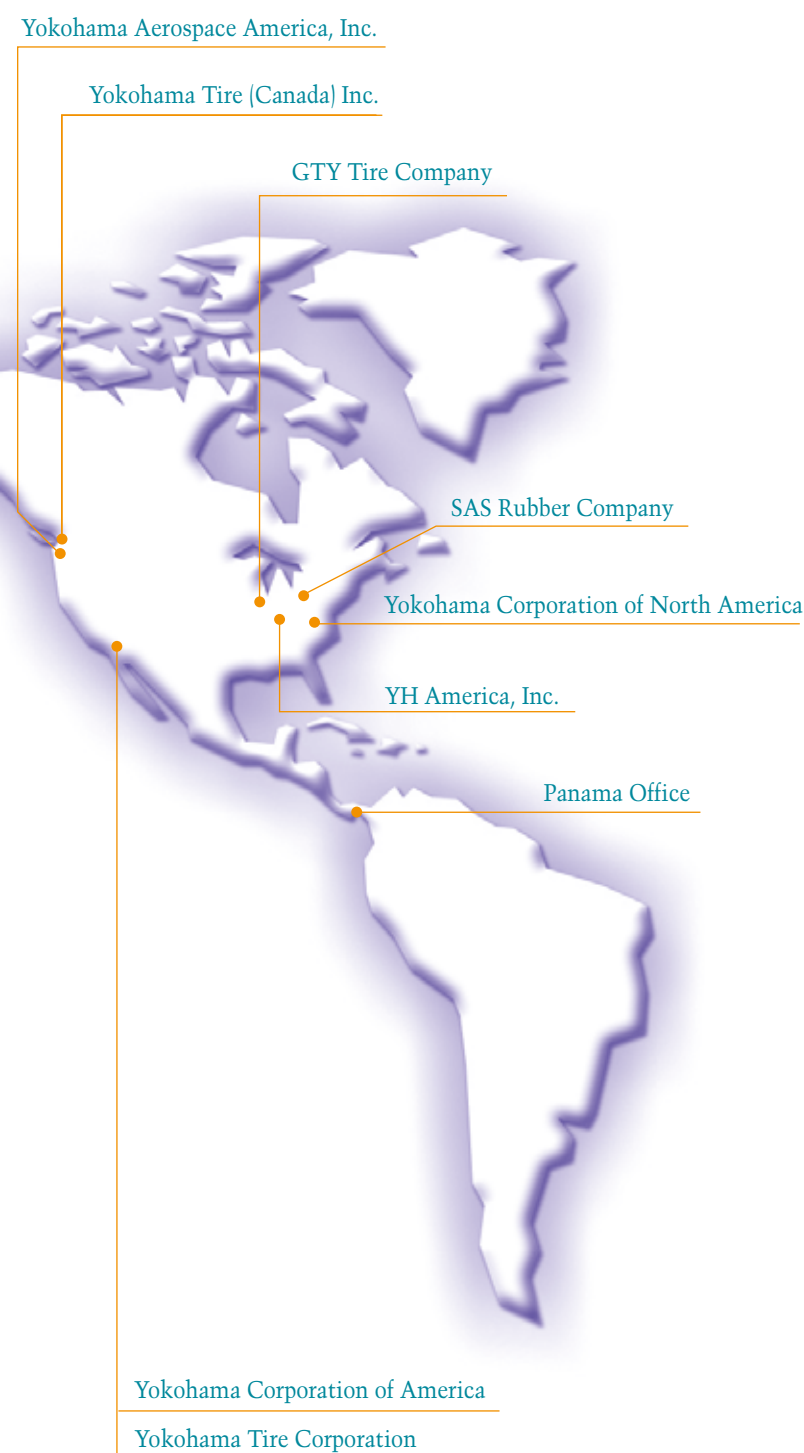
Hajime Yamazaki
Corporate Officer
*In charge of MB Technical, General Manager of Hamatite Division,
General Manager of MB Business Development Center*

Seiji Takai
Corporate Officer
General Manager of Aerospace Division

Yuji Goto
Corporate Officer
*In charge of TB Tire Business, General Manager of TB Tire Product Planning
Department*

GLOBAL NETWORK





Overseas Subsidiaries and Affiliates

Production and sales of tires and related products

Yokohama Tire Corporation
 Hangzhou Yokohama Tire Co., Ltd.
 Yokohama Tire Philippines, Inc.
 Yokohama Tyre Vietnam Company
 Yokohama Tire Manufacturing (Thailand) Co., Ltd.
 GTY Tire Company

Sales of tires and related products

Yokohama Tire (Canada) Inc.
 Yokohama Corporation of America
 Yokohama Tyre Australia Pty. Ltd.
 Yokohama HPT Ltd.
 Yokohama Italia SPA
 Yokohama (Suisse) SA
 Yokohama Scandinavia AB
 Yokohama Reifen GmbH
 Yokohama Austria GmbH
 Yokohama Danmark A/S
 Yokohama Russia L.L.C.
 N.V. Yokohama Belgium S.A.
 Yokohama Tire Sales (Shanghai) Co., Ltd.
 Yokohama Tire Sales Philippines, Inc.
 Yokohama Tire Taiwan Co., Ltd.

Holding company for shares of YTC and other companies

Yokohama Corporation of North America

Marketing support and services for European sales company

Yokohama Europe GmbH

Overall control of Yokohama Rubber's subsidiaries in the tire and MB market in China

Yokohama Rubber (China) Co., Ltd.

Production and sales of windshield sealants and hoses

YH America, Inc.
 Yokohama Rubber (Thailand) Co., Ltd.

Production and sales of windshield sealants

Yokohama HAMATITE (Hangzhou) Co., Ltd.

Production and sales of hoses

SAS Rubber Company
 SC Kingflex Corporation
 Yokohama Hoses & Coupling (Hangzhou) Co., Ltd.

Production and sales of conveyor belts

Shandong Yokohama Rubber Industrial Products Co., Ltd.

Sales of aircraft components

Yokohama Aerospace America, Inc.

Overseas representative offices

Jeddah Office, Dubai Office, Panama Office,
 Singapore Office, Asia Representative Office (Bangkok)

INVESTOR INFORMATION

As of March of 31, 2006

Name

The Yokohama Rubber Co., Ltd.

Head office

36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan

Established

October 13, 1917

Paid-in capital

¥38,909 million

Settlement date

March 31

General meeting of shareholders

June

Transfer agent

The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Stock exchange listings

Tokyo, Osaka, Nagoya

Contact for investors

PR/IR section, Corporate Communications Department
36-11, Shimbashi 5-chome, Minato-ku, Tokyo 105-8685, Japan
Phone: 81-(0)3-5400-4531 Facsimile: 81-(0)3-5400-4570

Investor relations website

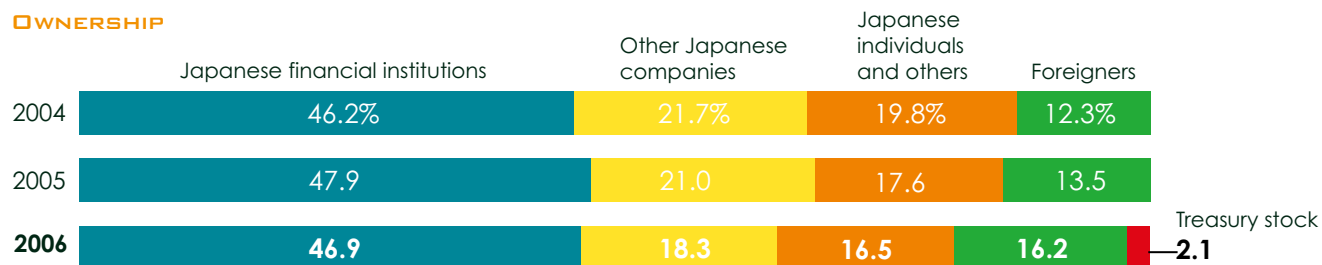
www.yrc-pressroom.jp/ir_en/

SHARE INFORMATION

As of March of 31, 2006

Authorized number of shares:	480,000,000
Number of shares issued and outstanding:	342,598,162 (unchanged from fiscal 2005 year-end)
Number of shareholders:	20,718 (196 fewer than at fiscal 2005 year-end)

OWNERSHIP



PRINCIPAL SHAREHOLDERS

Name	Percentage of voting rights
Japan Trustee Service Bank, Ltd. (trust account) - - - - -	7.0%
Master Trust Bank of Japan, Ltd. (trust account) - - - - -	7.0
ZEON CORPORATION - - - - -	5.1
ASAHI MUTUAL LIFE INSURANCE COMPANY - - - - -	4.3
Tokio Marine & Nichido Fire Insurance Co., Ltd. - - - - -	3.5

COMMON STOCK PRICE TRENDS

	2006	2005	2004	2003	2002
Stock price (yen):					
High	700	480	387	350	352
Low	403	342	272	235	228
Fiscal year-end	612	425	357	304	296
Shares issued	342,598,162	342,598,162	342,598,162	342,598,162	342,598,162

STOCK PRICE RANGE AND TRADING VOLUME ON THE TOKYO STOCK EXCHANGE

