YOKOHAMA

Annual Report 2007

The Yokohama Rubber Co., Ltd.
Year ended March 31, 2007

YOKOHAMA at a Glance

Tire Group

¥372.7 billion — 74.9% of net sales

Multiple Business Group

¥124.7 billion — 25.1% 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 2007 net sales: ¥497.4 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

The company 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 global business expansion.

Contents

Note Concerning Forward-Looking Statements

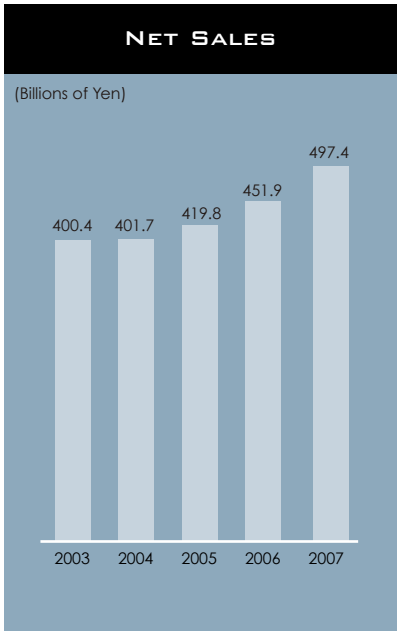
This annual report contains forward-looking estimates and forecasts based on current plans, which are subject to unforeseeable risks and uncertainties. As a result, actual business results may differ from the estimates and forecasts herein.

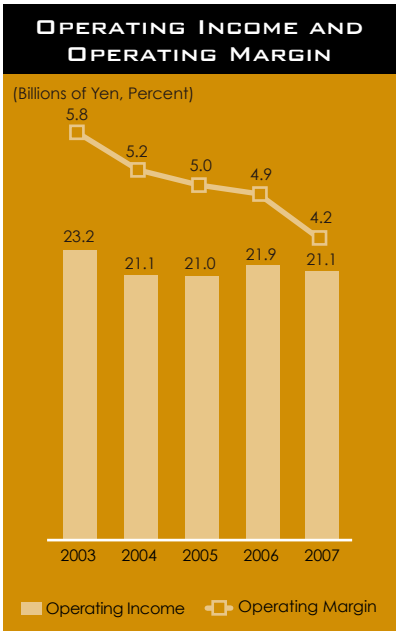
Financial Highlights

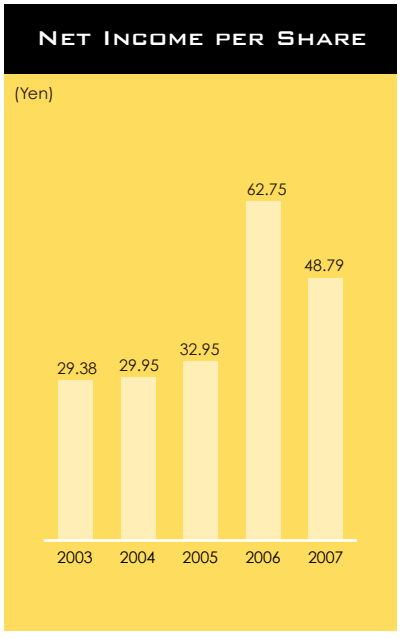
Fiscal Years Ended March 31

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	Percent change	**2007**
Net sales	**¥497,396**	¥451,911	+10.1 %	**$4,213,427**
Operating income	**21,070**	21,947	(4.0)	**178,481**
Income before income taxes and minority interests	**26,038**	22,673	+14.8	**220,571**
Net income	**16,363**	21,447	(23.7)	**138,614**
			Change	
Total assets	**¥536,322**	¥502,014	¥ 34,308	**$4,543,179**
Total net assets	**186,528**	174,609	11,919	**1,580,078**
	Yen			U.S. Dollars
	2007	2006		**2007**
Per share:				
Net income: Basic	**¥48.79**	¥62.75	¥(13.96)	**$0.41**
Cash dividends	**12.00**	10.00	2.00	**0.10**

Note: Throughout this report, the U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, at the rate of ¥118.05 = US$1.00, the approximate exchange rate prevailing on March 31, 2007.







Gains in Tires and Multiple Business Products Power Double-Digit Sales Growth

Yasuo Tominaga (left) and Tadanobu Nagumo

Highest-ever sales total

Rising prices for raw materials depressed operating income 4.0% in the fiscal year ended March 31, 2007, to ¥21.1 billion. That decline occurred despite record sales, which benefited from unit sales gains and the weakening of the yen. Net sales increased 10.1%, to ¥497.4 billion. Powering the growth in sales were solid gains in both the Tire Group and the Multiple Business Group. Net income declined 23.7%, to ¥16.4 billion. That decline reflected an ¥11.0 billion tax benefit realized in the previous year in connection with earlier write-downs of our equity in a U.S. subsidiary.

We declared an interim dividend of ¥4 and a year-end dividend of ¥8. The year-end dividend includes a ¥2 commemorative dividend to mark our 90th anniversary, in October 2007. It raises the annual dividend ¥2, to ¥12.

Outlook for 35% increase in operating income in the fiscal year to March 2008

Our projections for the fiscal year to March 2008 call for increases of 35.3% in operating income, to ¥28.5 billion, and 7.0% in net sales, to ¥532.0 billion. Underlying those projections are prospects for increased sales of tires, supported by expanded production capacity at our Thai and Philippine plants.

We expect net income to rise 6.9%, to ¥17.5 billion. That expectation reflects increased interest expense and a projected decline in foreign exchange gains. We plan to maintain

the annual dividend at ¥12, comprising an interim dividend of ¥5 and a year-end dividend of ¥7.

Grand Design 100

Grand Design 100, our medium-range management plan, took effect in the fiscal year ended March 31, 2007. The phase I targets in that plan include raising operating income to ¥35 billion and net sales to ¥560 billion by the fiscal year to March 2009. We have identified overriding priorities for the Tire Group and for the Multiple Business Group in respect to fulfilling those targets:

<Tire Group>

- Secure market acceptance for tire price increases to partially offset the adverse earnings effect of rising raw material costs.
- Promote value-added products, especially in connection with performance and features for minimizing environmental impact.
- Expand production capacity.

<Multiple Business Group>

- Secure market acceptance for price increases.
- Expand global production capacity for selected products.
- Step up activity in product development.
- Strengthen competitiveness in golf equipment.

Price hikes for tires

We have raised prices for tires annually since 2004 in markets worldwide. The latest increases, in February and April 2007, pertained to replacement tires in the Japanese market.

Value-added tire products

Our ZEN tires for trucks and buses, launched in April 2007, improve fuel economy while providing greatly increased durability. In July 2007, we will launch the DNA dB super E-spec line of tires for passenger cars. We have increased the non-petrochemical proportion of the materials in those tires to 80%, and we have achieved new gains in fuel economy and quiet ride. Our marketing will promote those and other new products aggressively while continuing to promote products under our global flagship brand, ADVAN.

Expanded tire production capacity

We have raised our target for expanding production capacity by March 2009 to 56.85 million tires. That is an increase of 300,000 tires over the target that we announced in May 2006. Expansion work is under way at our Thai plant, which produces tires for passenger cars and light trucks and for trucks and buses, and in Japan at our Shinshiro-Minami Plant, which produces high-performance tires for passenger cars and sport-utility vehicles. We are also working to increase output at other Yokohama tire plants.

Expanded production capacity for conveyor belts and automotive sealants, too

Along with securing higher prices for our products, expanding production capacity is crucial to increasing sales and earnings in the Multiple Business Group. Demand is rising for conveyor belts and for automotive sealants, and we are therefore expanding production capacity for those products in China.

Innovative new products

A gratifying example of product development in the Multiple Business Group is our New Porous Elastic Road Surface, which contains tire scrap. That material rendered service on a pilot basis in November 2006 in a highway near Tokyo. The material reduces road noise about 90% in comparison with conventional asphalt paving.

Other new products of special note are our thermoplastic hoses for fuel cells and our sensor-equipped, dynamically pressurized wheelchair cushions for preventing bed sores. We are also working on promising technologies in electronic materials.

New golf drivers

Our T^3 RED line of drivers, launched in August 2006, provides increased range. We complemented that line in February 2007 with the T^3 502 Silver, designed for weekend golfers. Both lines of T^3 drivers have generated brisk sales and have fortified our market presence in golf equipment.

Introduction of takeover-defense measures

Takeover-defense measures adopted by our board of directors on May 10, 2007, and approved by the shareholders at the General Meeting of Shareholders on June 28, 2007, will help forestall takeover attempts detrimental to our corporate value and the interests of shareholders. The procedures require anyone who seeks to acquire more than 20% of our outstanding shares to explain their purpose and to present a viable and convincing business plan. They oblige any prospective purchaser of that much equity to provide management with the opportunity to review any such investment in advance and to determine whether we should adopt countermeasures.

Strengthened framework for fulfilling corporate social responsibility

In January 2007, we established an office to coordinate measures for strengthening internal controls and for ensuring accurate financial reporting. We are working throughout our organization to maximize our contribution to environmental quality and to ensure compliance with rigorous standards of corporate ethics.

We continue to address issues and opportunities in the spirit of delivering the best products at competitive prices and on time and with an eye to achieving the goals of Grand Design 100. All of us at Yokohama remain dedicated to fulfilling your highest expectations of our company.

June 2007

Yasuo Tominaga
Chairman and Representative Director

Tadanobu Nagumo
President and Representative Director

New Progress in Reducing Environmental Impact

The dB super E-spec addition to the DNA family reduces reliance on petrochemical materials, improves fuel economy, and reduces noise

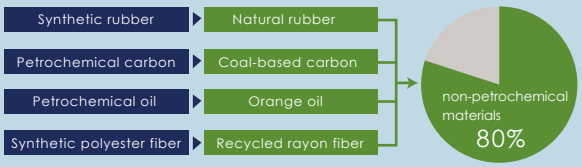
We have reduced the petrochemical portion of overall tire weight to only 20% in the DNA dB super E-spec. That compares with a weighting of about 60% for rubber, carbon black, and other petrochemical materials in typical synthetic-rubber tires. The DNA dB super E-spec, which will go on sale in July 2007, is our showcase tire for minimizing environmental impact in passenger-car tires. It offers superior fuel economy and a quiet ride.

The biggest challenge in reducing reliance on petrochemical materials was in replacing synthetic rubber with natural rubber. We have always used a lot of natural rubber, of course, in our tire products, but synthetic rubber is the first choice for maximizing grip in tire tread. Natural rubber is more resistant to wear than synthetic rubber, and it has less rolling resistance. Heat dissipation is poor in natural rubber, however, which affects grip adversely.

We offset the drawbacks of natural rubber by compounding it with orange oil, a natural solvent that blends well with natural rubber. The orange oil imparts suppleness to our new compound, Super Nano Power Rubber, and enables it to grasp the texture of the road. The oil improves grip in braking, meanwhile, by promoting heat dissipation. Our DNA dB super E-spec tires thus offer the traditional advantage of natural rubber in minimizing rolling resistance while providing grip comparable to that of synthetic rubber.

Another innovation in the DNA dB super E-spec tires is the gas-barrier film we have adopted for the inner liner. Tire manufacturers typically fix a sheet of rubber to the inner surface of passenger-car tires to help prevent air seepage. Our new material combines the elasticity of rubber with the lightness and superior gas-barrier characteristics of plastic. Only one-fifth as thick as conventional tire liners, our new liner material contributes to weight reductions in tires. And by reducing air seepage, it prevents the worsening of fuel economy that can result from pressure loss.

Reducing the petrochemical portion to 20%



The all-new ZEN line of tires for trucks and buses improves fuel economy and provides long-life service

Advances in tires can reduce environmental impact in several ways. Yokohama has led advances in tire technologies for improving fuel economy, which reduces noxious emissions and curtails the output of the greenhouse gas carbon dioxide. Our all-new ZEN line of truck and bus tires incorporates further progress in improving fuel economy.

Improvements in the mixing process have increased durability greatly in the ZEN tires. That has extended their usable life, which diminishes the generation of tire scrap. The superior durability of the ZEN tires promotes reusability, meanwhile, through retreading.

C'ROLL is our name for the improved mixing process behind the ZEN breakthrough. We use high shearing in the C'ROLL process and conduct the mixing at an unprecedentedly low temperature. Traditional mixing processes mix and knead the rubber simultaneously. Their extended mixing results in high temperatures, which tend to cause deterioration in the quality of the rubber. In the C'ROLL process, we perform the kneading on rollers after mixing the rubber in the mixer. That sequence results in lower temperatures. It thus minimizes the splitting of the rubber's long polymer chains and promotes a more-even distribution of the particles of carbon black used as a reinforcing agent. The result is a rubber compound that is tougher and suppler than ever.

Another advance in the ZEN line of truck and bus tires is a configuration profile that minimizes distortion. The external diameter of truck and bus radial tires typically expands about 0.5% during the first 40,000 kilometers to 50,000 kilometers traveled and then stabilizes. In our ZEN tires, the improved profile distributes the distortion evenly throughout the expanded tires and thereby helps maximize durability. Our development work included creating simulation technology for securing a previously impossible grasp of the pattern of distortion.

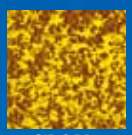
The first three ZEN tire models went on the market in April 2007: the 701ZE, 702ZE, and

ZEN

102ZE. We emphasize excellent wear resistance and long-life, all-season performance in the ZEN 701ZE. That tire is an apt choice for the stop-and-go driving of urban logistics. The ZEN 702ZE, also an all-season tire, features minimized rolling resistance to maximize fuel economy in long-haul driving on freeways. It is highly resistant to wavy wear. That reduces the required frequency of tire changes and tire rotation and thus simplifies tire maintenance. We developed the ZEN 102ZE as a ribbed tire for users who demand especially high fuel economy in long-haul logistics. The 102ZE is a market leader in fuel economy, and it also features improved resistance to wavy wear.

Atomic force micrography reveals the improvement in rubber composition that results from the C'ROLL process.

Conventional processing



C'ROLL processing

The distribution of carbon particles (black in the micrographs) is more even in rubber produced with C'ROLL process than in conventionally processed rubber.

Tire Group

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

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

Japan

Strong original-equipment demand fueled by growth in vehicle exports

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

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

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

North America

Sales growth despite weakening demand

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

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

Asian nations besides Japan

Sales gains in China

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

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

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

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

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

Focusing on China and India

Our sales momentum in China remains strong in calendar 2007. Expanded marketing channels are generating increased sales of truck and bus tires, and our business in passenger-car tires is expanding in the replacement market and in the original-equipment market. A third phase of construction is adding a production line at our Hangzhou plant to support our growing sales volume.

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

Europe

Continuing growth led by Russia and Germany

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

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

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

Strengthened marketing in Russia

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

Supplying tires for the Russian Touring Car Championship has strengthened our identification in Russia with high-performance tires. Our sales are surging in high-value-added products, most notably in ADVAN tires for high-performance passenger cars and in PARADA Spec-X tires for sport-utility vehicles, which feature a distinctive design.

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

Other regions

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

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

Further increase in expansion program for tire production capacity

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

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

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

Yokohama's off-the-road tire business
Benefiting from surging demand in the mining sector

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

Expanding production capacity

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

Global demand growing 7% annually

The world market for large off-the-road tires totaled about 400,000 tons in calendar 2006. Demand in that product category has grown about 7% a year since calendar 2004—faster than the market expansion in passenger-car tires and in truck and bus tires. We expect demand to continue to expand for more than 10 years. The global construction sector appears to have entered a new long-term growth phase in 2003. And the general economic expansion in the large-population emerging economies of China, India, Russia, and Brazil promises to generate demand for a full range of off-the-road tires.

Making bold moves at the Onomichi Plant

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

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

Tire Production Capacity (thousands of tires)

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

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

Focusing on distinctive strengths in bias tires

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

Maintaining double-digit profitability

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

Preparing for a move into ultralarge radials

The 33-inch inner-diameter tires to be produced at the Onomichi Plant will be our largest off-the-road tires ever. And we are developing off-the-road radial tires that will have an inner diameter of 49 inches and larger, which is equivalent to an outer diameter of 2.7 meters and more. We plan to put those ultralarge radials into production during the second phase of Grand Design 100, which will span the three years to March 2012.

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

MB Group

Sales in the Multiple Business (diversified products) Group increased 7.3% in the fiscal year ended March 31, 2007, to ¥124.7 billion, and operating income increased 72.5%, to ¥6.8 billion. Growing demand in connection with natural resources development occasioned strong sales growth in high-pressure hoses and marine fenders, and sales of aircraft products also increased notably. Improvements in the structure of earnings in aircraft components and in other products accounted for much of the increase in operating income.

Management projects that sales in the Multiple Business Group will increase 3.5%, to ¥129.0 billion, in the fiscal year to March 31, 2008, and that operating income will increase 17.7%, to ¥8.0 billion. Management likewise projects continued sales growth in products positioned to benefit from the vigor in natural resources development, and it projects a sales and earnings recovery in golf products.

High-pressure hoses

Growth in hydraulic hoses and in automotive hoses

Sales of high-pressure hoses increased 12.4% over the previous year, to ¥42.5 billion. Hydraulic hoses are our largest product line in this category, and our sales of hydraulic hoses increased solidly. Demand for our hoses among manufacturers of construction equipment in Japan rose as those makers increased their exports to serve surging global demand. We also posted growth in our sales of automotive hoses. In Japan, our shipments of hoses for car air conditioners and for power-steering systems increased in step with the growth in the unit production of vehicles.

Profitability in high-pressure hoses rose as we offset the upward trend in raw material costs with price increases and with process

Yokohama high-pressure hoses convey hydraulic power for this power shovel.

The Ibaraki Plant is Yokohama's chief production platform for hoses in Japan.

improvements. Notably, we used just-in-time principles to raise productivity and lower costs by strengthening the linkage between our Ibaraki Plant, which produces the hose bodies; our Nagano Plant, which produces the hose couplings; and our Hiratsuka-Higashi Plant, which assembles the hoses. We also lowered costs by focusing our procurement on a reduced number of suppliers, by unifying product specifications, and by bringing in-house the production of some items formerly purchased from suppliers.

Mounting momentum in local production

Sales of hose products increased at all of Yokohama's subsidiaries outside Japan. YH America posted gains in its shipments of automotive hoses to Japanese automakers in North America, and the U.S. subsidiary SAS Rubber registered growth in its sales of automotive hoses to the U.S. Big Three automakers. Yokohama Rubber (Thailand) posted growth in the shipments of automotive hoses and of hoses for construction equipment to customers throughout Southeast Asia. In Taiwan, sales rose at SC Kingflex, led by increased exports to Southeast Asian nations and to India. Our Chinese subsidiary Yokohama Hoses & Coupling (Hangzhou) posted strong growth in deliveries to the manufacturers of construction equipment in China.

Industrial products

Benefiting from vigor in natural resources development

Our business in industrial products expanded 7.5%, to ¥26.7 billion. Leading that expansion were increased shipments of marine fenders and conveyor belts, largely in connection with resource-development projects. Profitability in industrial products improved as we offset the rising prices for raw materials with unit sales growth and cost reductions and as the weakening yen bolstered profit margins in business outside Japan.

We registered strong growth in Japanese exports of conveyor belts to North America and to Australia for carrying iron ore. Demand in those markets rose in reflection of increasing iron ore exports. Our business was especially robust in steel-cord belts for conveying iron ore over long distances.

In marine fenders, sales increased in products for protecting vessels during ship-to-ship transfers of crude oil and liquefied natural gas. The trend toward larger vessels spawned demand for larger sizes of marine fenders. We handled an increased volume of orders for large fenders sized 4.5 meters by 9 meters and 3.3 meters by 6.5 meters. Sales were especially strong in Europe.

This Yokohama marine fender is 3.3 meters in diameter and fully 6.5 meters long.

Sales were basically flat in anti-seismic rubber-and-steel fittings for protecting structures from earthquakes and in rubber joints for road surfaces on bridges. Market conditions were generally poor on account of a downward trend in selling prices and an upward trend in prices for steel materials. Profitability improved greatly as we raised prices and focused on high-margin business.

Sealants and adhesives

Weakness in construction sealants

Sales of sealants and adhesives declined 1.6%, to ¥24.3 billion. Construction sealants are our largest product line in this category by sales, and business in the construction sector suffered from sluggish demand and escalating price competition. Sales were strong, however, in urethane waterproofing materials for buildings. Business also expanded in automotive windshield sealants, reflecting the unit growth in Japanese vehicle production.

Product refinements are strengthening our market position in construction sealants in the fiscal year to March 2008. In May 2007, we launched the improved two-component polyurethane sealant UH-01NB. That product provides a longer wait before the curing begins, which gives construction workers greater freedom in applying the sealant. The curing proceeds rapidly, however, and the overall time requirements are the same as with other construction sealants.

Another new product is our U-8000 urethane waterproofing material, which we launched in April 2007. We have eliminated pungent odors with U-8000 to improve the working environment, and we have maintained the same easy applicability and long-lasting water proofing as previous products offered. Other promising products are in our development pipeline.

Sealants supplied by Yokohama protect the recently rebuilt Marunouchi Building, a Tokyo landmark that stands the city's flagship train station.

Rapid growth in China

Yokohama HAMATITE (Hangzhou) began shipping automotive sealants to the Chinese vehicle plants of Japanese automakers in 2005, and sales and production there are exceeding our targets. In contrast, sales of automotive sealants were flat at YH America. Automotive sealant sales were also flat at Yokohama Rubber (Thailand), where a decline in exports to Indonesia offset growth in domestic shipments.

Vehicle production in China continues to expand rapidly, and we project further strong growth in business at Yokohama HAMATITE (Hangzhou) in the fiscal year to March 2008. We are working to buttress sales and earnings at YH America by expanding our sales channels for serving customers besides automakers and by reducing costs, especially in raw materials. At Yokohama Rubber (Thailand), we are introducing a new production system to strengthen competitiveness, and we project renewed sales growth amid an expected increase in vehicle production in Southeast Asia.

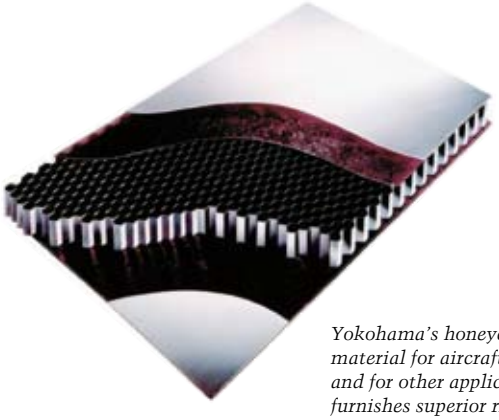
Aircraft products

Sales growth in lavatory units for the Boeing 737

Business in aircraft products increased 13.0%, to ¥20.1 billion. Sales of the Boeing 737 increased during the year, and we recorded strong growth in our shipments of lavatory units for that airliner. We also posted growth in our shipments of repair and replacement components for the Boeing 757. Business in this product category includes honeycomb material developed for aircraft products and also used in the floors of high-speed trains. We shipped an increased volume of that material for carriages for a high-speed train line being built in China.

Lavatory units for the Boeing 737, though, remain our core product in the aircraft sector. Boeing has sold more than 6,000 B737s, and we are the sole supplier of lavatory units for that airliner. Boeing had a backlog of orders for 1,500 lavatory units at the end of March 2007. It presently produces only 28 B737s a month but is moving to increase that production output. We deliver about 90 lavatory units a month for the Boeing 737, and we will expand our output as necessary to accommodate increased production at Boeing.

Yokohama is Boeing's exclusive supplier of lavatory modules for the B737 jetliners.



Yokohama's honeycomb material for aircraft products and for other applications furnishes superior rigidity and minimal weight.

Golf products

A new-product success in drivers

Sales of golf equipment and other products edged up 0.6%, to ¥11.1 billion. That performance improvement occurred despite sluggishness in Japan's market for golf equipment, and it reflected the popularity of such products as our newly introduced T^3 RED driver. Launched in August 2006, the T^3 RED provides increased driving distance. We followed it with the February 2007 launch of the T^3 502 Silver, for weekend golfers.

The T^3 502 Silver drivers have low centers of gravity and large, 460-cubic-centimeter heads. Designed for weekend golfers, they are easy to handle and combine steady performance with extended range.

What resource development means for the Multiple Business Group

Projects for serving the global growth in demand for natural resources are spawning increased demand for high-pressure hoses, conveyor belts, marine fenders, and other products supplied by the Multiple Business Group. The divisions responsible for those products are accelerating measures for serving the structural expansion in demand.

A new Chinese production platform for conveyor belts

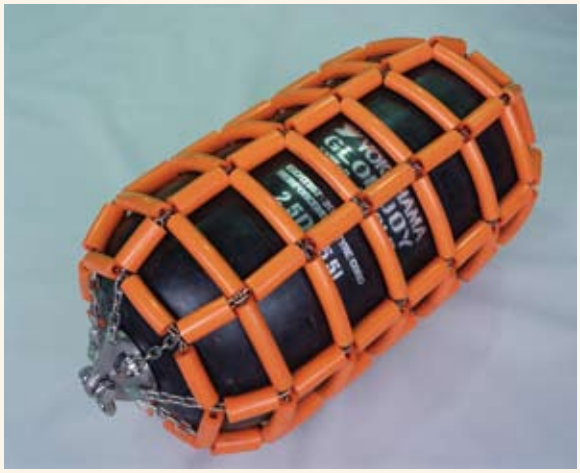
We established Shandong Yokohama Rubber Industrial Products in China's Shandong Province in January 2006. That subsidiary began producing conveyor belts in April 2006 to help serve the growing global demand in connection with natural resources development. It ships conveyor belts to export markets, as well as serving domestic demand in China. Shandong Yokohama Rubber Industrial Products has been especially successful in developing business with Chinese steel mills and thermal power plants, and the company posted a profit in its first year of operation. We have raised the technological standards at our new Chinese subsidiary steadily and are preparing to increase production there greatly.

Possible increase in production capacity for high-pressure hoses

Japanese demand from manufacturers of construction equipment for high-pressure hoses appears likely to continue rising as those customers serve expanding global demand. We are considering the construction of a new plant for producing high-pressure hoses to keep up with our customers' mounting needs. Our high-pressure hose plants in the United States, Thailand, Taiwan, and China are invaluable in supporting the increasingly global production activity by our Japanese customers, and we will continue to fortify our global production network.

New products for spurring further sales growth in marine fenders and buoys

Demand for marine fenders has rebounded since calendar 2005, driven by expanded activity in the marine transport of crude oil and liquefied natural gas. Our sales have benefited from the trend toward larger transport vessels, which has spawned demand for larger marine fenders. We supply high-value-added rubber buoys, meanwhile, for offshore loading facilities, and we promote them aggressively under the Globuoy name.



Yokohama's rubber Globuoys are far lighter than steel buoys and, of course, are rust-free.

A Yokohama conveyor belt renders service at a stone-crushing plant.

Financial Section

Results of Operations

Net sales increased 10.1% in fiscal 2007, ended March 31, 2007, to ¥497.4 billion, a record-high level for the second consecutive year. Supporting that sales growth were strong gains in tires in overseas markets and gains in hoses, aircraft products, and marine fenders. Sales benefited from price increases and from the weakening of the yen.

Cost of sales increased 13.1%, to ¥351.0 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 ¥20.5 billion of the increase in cost of sales. Selling, general and administrative expenses increased 4.7%, to ¥125.3 billion. The main reason for that increase was growth in unit exports of tires and increased shipping rates for export shipments. The Company abides by a strong commitment to research and development. R&D expenditures—included in cost of sales and in selling, general and administrative expenses—increased 0.6%, to ¥14.6 billion.

Operating income declined 4.0%, to ¥21.1 billion, as the increases in cost of sales and in selling, general and administrative expenses more than offset the growth in net sales. Operating return on sales declined 0.7 points, to 4.2%.

Net other income and expenses increased ¥4.2 billion, to ¥5.0 billion. That increase included increases in foreign exchange gains and in dividends received and ¥6.4 billion in gains on the sale of investment securities.

Income before income taxes and minority interests increased 14.8%, to ¥26.0 billion. The net gain in other income and expenses more than offset the decline in operating income.

Income taxes increased ¥8.4 billion, to ¥9.2 billion. That increase reflected the increase in income before income taxes and minority interests and a tax benefit recorded in the previous year in connection with earlier write-downs of the equity value of a U.S. subsidiary. The effective tax rate was 35.5%, compared with 3.8% in the previous year. That was lower than the statutory income tax rate of 40.3% because the Company's improved profitability enabled it to take advantage of tax benefits associated with losses incurred in earlier years at its U.S. subsidiary Yokohama Tire Corporation and because the Company benefited from tax incentives in China and Thailand applicable to its subsidiaries in those nations.

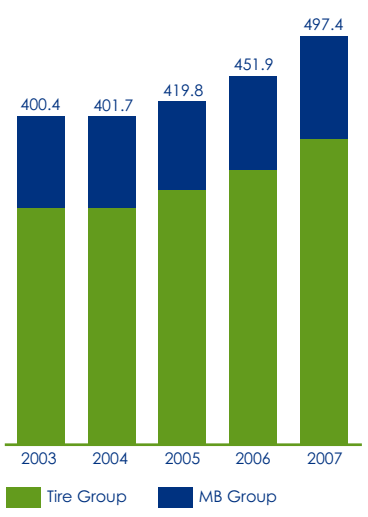
Net income declined 23.7%, to ¥16.4 billion, reflecting the increase in income taxes, and net return on sales declined 1.4 points, to 3.3%.

Performance by Segment

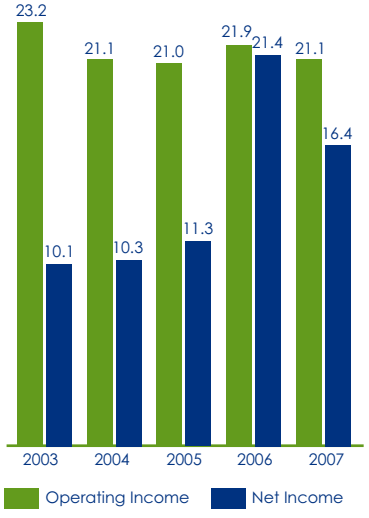
Business segments

In the Tire Group, sales increased 11.0%, to ¥372.7 billion. Leading the sales growth were

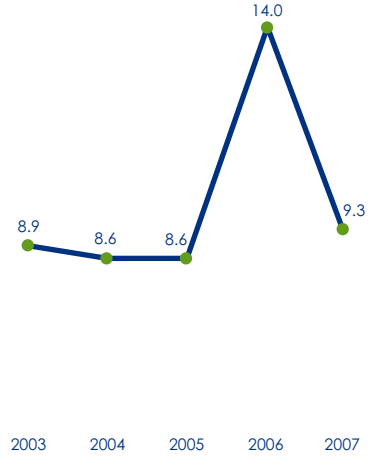
Sales by Group
(Billions of Yen)



Operating Income and Net Income
(Billions of Yen)



Return on Shareholders' Equity
(Percent)



gains in North America, Europe, and Asian nations besides Japan. Sales in Japan were a contrast of growth in original-equipment tires and weakness in replacement tires. Japanese business in replacement tires suffered from decreased sales of winter tires on account of abnormally light snowfall. Operating income declined 19.0%, to ¥14.7 billion, because of the rise in prices for natural rubber and other raw materials.

Sales in the Multiple Business Group increased 7.3%, to ¥124.7 billion. Gains in hoses, aircraft products, and marine fenders more than compensated for weakness in sealants. Operating income increased 72.5%, to ¥6.8 billion, supported by improvements in the structure of earnings in hoses and aircraft products.

Geographical segments

Sales in Japan increased 6.0%, to ¥369.7 billion, including gains in the Tire Group and in the Multiple Business Group. Operating income declined 11.0%, to ¥17.5 billion, diminished by the rising prices for raw materials.

In North America, sales increased 19.4%, to ¥98.1 billion, and operating income increased 48.5%, to ¥3.8 billion. North American demand for tires declined, but the Company's U.S. production-and-sales subsidiary Yokohama Tire Corporation posted gains in sales and earnings.

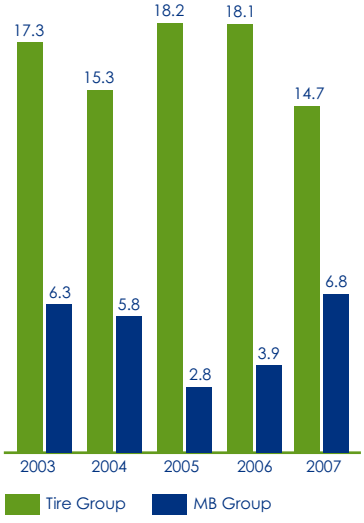
Sales in Asian nations besides Japan increased 57.8%, to ¥13.9 billion, and operating income totaled ¥123 million, compared with an operating deficit of ¥135 million in the previous year. Sales in China increased strongly, but the increase in raw material costs and expenses associated with capacity-expansion projects at tire plants in the Philippines and Thailand minimized the rise in operating income.

In other regions, sales increased 27.5%, to ¥15.6 billion, led by growth in tire sales in Europe and in Australia. Operating income increased 4.8%, to ¥394 million.

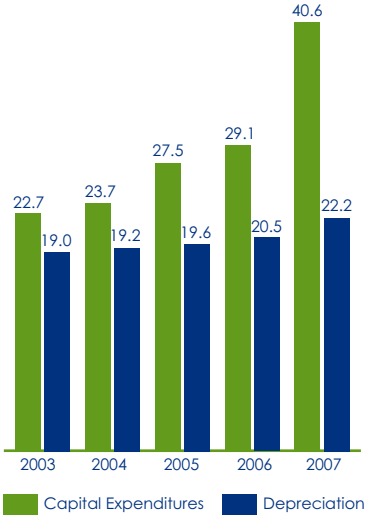
Capital Spending

Capital spending increased 39.8%, to ¥40.6 billion. The Company funded its capital spending by supplementing internally generated funds with borrowings. In the Tire Group, capital spending increased 44.5%, to ¥37.0 billion. That investment included ¥13.1 billion at the parent company, mainly for purchasing equipment and systems to expand production capacity, to raise productivity, and to ensure high product quality. It also included ¥10.9 billion for inaugurating the production of passenger-car and light truck tires at Yokohama Tire Manufacturing (Thailand) and ¥5.5 billion for expanding production capacity for passenger-car tires at Yokohama Tire Philippines. In the Multiple Business Group, capital spending increased 5.1%, to ¥3.5 billion. That increase reflected investment in equipment and systems for expanding the production of sealants and hoses.

Operating Income by Group
(Billions of Yen)



Capital Expenditures and Depreciation
(Billions of Yen)



Sources of Funds and Liquidity

Financial position

Total assets at year-end increased ¥34.3 billion, to ¥536.3 billion at fiscal year-end. The primary component of that increase was the expansion of ¥22.4 billion in total property, plant and equipment, net, which reflected stepped-up investment in tire plants in Japan, Thailand, and the Philippines. Current assets increased ¥15.8 billion, including an ¥8.2 billion increase in inventories, which reflected growth in tire production capacity and in unit sales volume. It also included a ¥6.9 billion increase in notes and accounts receivable, which reflected the growth in sales volume.

Total liabilities increased ¥22.4 billion, to ¥349.8 billion at fiscal year-end. That increase resulted mainly from a ¥14.7 billion increase in trade notes and accounts payable, which reflected higher raw material prices and expanded production volume. Interest-bearing debt increased ¥4.5 billion, to ¥167.5 billion, reflecting an increase in debt to finance stepped-up capital spending. The debt-to-equity ratio (interest-bearing debt divided by net assets less minority interests) declined 0.1 points, to 0.9. That improvement reflects a ¥12.6 billion increase in shareholders' equity, which resulted mainly from the growth in retained earnings. Note that the Company has adopted an accounting change as of fiscal 2007 under which minority interests are included in net assets.

Cash flow

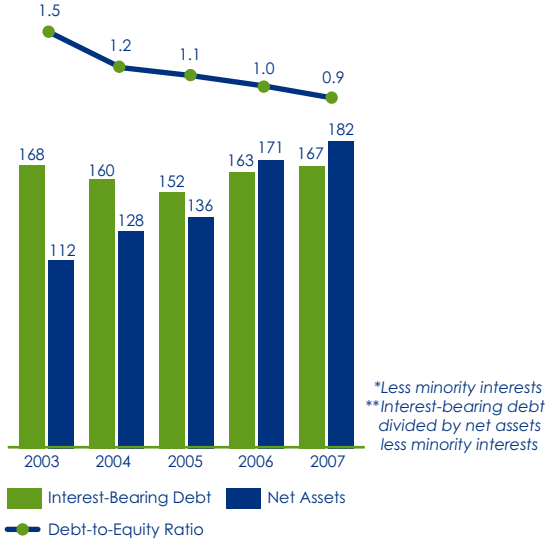
Net cash provided by operating activities increased ¥4.9 billion, to ¥36.7 billion. That increase reflects the rise in income before income taxes and minority interests and a one-time payment in the previous fiscal year in connection with the Company's shift to a defined-contribution pension plan. Net cash used in investing activities increased ¥5.9 billion, to ¥35.1 billion. That increase resulted mainly from stepped-up investment in production platforms in Asia.

Free cash flow—net cash provided by operating activities less net cash used in investment activities—declined ¥1.1 billion, to ¥1.6 billion. The Company applied its free cash flow, supplemented with borrowings, to fund dividend payments and other expenditures. Cash and cash equivalents at year-end increased ¥522 million, to ¥14.8 billion.

Projections for Fiscal 2008

Management projects an increase of 7.0% in net sales in fiscal 2008, to ¥532.0 billion, and an increase of 35.3% in operating income, to ¥28.5 billion. Management's projections call for a 6.9% increase in net income, to ¥17.5 billion. The modest increase in net income reflects an expected increase in net interest expense and an expected decline in foreign exchange gains.

Interest-Bearing Debt, Net Assets*, and Debt-to-Equity Ratio**
(Billions of Yen, Times)



**Less minority interests*
***Interest-bearing debt divided by net assets less minority interests*

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 diminish demand in the Company's main markets—including Japan, North America, Europe, and Asian nations besides Japan—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 continues to expand its operations globally. That expansion will 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

The Company conducts financial management with an eye to securing reliable and flexible access to funding. Instability in any of the world's principal financial markets could affect that access adversely. In addition, the 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, 2007, the Company's interest-bearing debt was equivalent to 31.2% of its total assets. An increase in interest rates could adversely affect the Company's financial performance and financial position.

Securities

The Company owns 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 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 or if the Company revised its retirement plan substantially, 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.

Eleven-Year Summary

The Yokohama Rubber Co., Ltd., and Consolidated Subsidiaries
Fiscal Years Ended March 31

	2007	2006	2005	2004
Net sales	**¥497,396**	¥451,911	¥419,789	¥401,718
Operating income	**21,070**	21,947	20,955	21,073
Income before income taxes and minority interests	**26,038**	22,673	16,337	16,931
Net income	**16,363**	21,447	11,322	10,331
Depreciation	**22,166**	20,491	19,616	19,199
Capital expenditures	**40,638**	29,067	27,533	23,735
R&D expenditures	**14,649**	14,557	14,265	13,818
Interest-bearing debt	**167,474**	163,022	151,758	159,700
Total net assets	**186,528**	174,609	139,534	130,622
Total assets	**536,322**	502,014	432,717	429,350
Per share (yen):				
Net income: Basic	**¥ 48.79**	¥ 62.75	¥ 32.95	¥ 29.95
Net assets	**542.10**	508.64	398.24	373.23
Cash dividends	**12.00**	10.00	8.00	8.00
Key financial ratios:				
Operating margin (%)	**4.2**	4.9	5.0	5.2
Return on shareholders' equity (%)	**9.3**	14.0	8.6	8.6
Capital turnover (times)	**1.0**	1.0	1.0	1.0
Interest-bearing debt to shareholders' equity (times)	**0.9**	1.0	1.1	1.2
Interest coverage (times)	**7.0**	10.1	11.2	9.2
Number of employees	**15,423**	14,617	13,464	13,264

Millions of Yen

2003	2002	2001	2000	1999	1998	1997
¥400,448	¥399,824	¥387,855	¥392,193	¥401,183	¥415,397	¥402,652
23,184	22,701	19,845	19,043	15,809	11,668	12,681
18,778	16,076	7,052	(13,692)	7,731	5,685	13,808
10,144	7,363	96	(9,009)	3,233	873	3,753
19,040	19,247	20,083	21,922	21,141	21,566	21,167
22,708	16,940	18,118	19,470	28,216	27,229	20,316
12,520	12,298	11,827	11,626	13,300	13,800	13,900
167,832	179,098	191,289	198,930	215,245	209,132	188,428
114,719	116.136	114,205	96,837	107,669	106,559	109,256
412,626	437,771	448,130	425,927	432,457	440,420	420,939
¥ 29.38	¥ 21.32	¥ 0.28	¥ (26.30)	¥ 9.44	¥ 2.55	¥ 11.14
327.61	334.24	328.81	276.54	309.36	307.88	316.13
8.00	6.00	—	6.00	6.00	8.00	8.00
5.8	5.7	5.1	4.9	3.9	2.8	3.0
8.9	6.5	0.1	(9.0)	3.1	0.8	3.5
0.9	0.9	0.9	0.9	0.9	1.0	1.0
1.5	1.6	1.7	2.1	2.0	2.0	1.7
7.9	4.9	3.5	3.7	2.7	2.3	2.4
12,979	13,130	13,362	13,764	12,107	12,325	12,267

Consolidated Balance Sheets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Assets	**2007**	2006	**2007**
Current Assets:			
Cash and cash equivalents	**¥ 14,812**	¥ 14,290	**$ 125,474**
Time deposits	**72**	15	**613**
Trade receivables:			
Notes and accounts (Notes 4 and 6)	**108,137**	101,240	**916,026**
Inventories (Note 3)	**78,944**	70,771	**668,735**
Deferred income taxes (Note 13)	**7,200**	9,713	**60,989**
Other current assets	**9,748**	7,273	**82,573**
Allowance for doubtful receivables	**(1,679)**	(1,900)	**(14,219)**
Total current assets	**217,234**	201,402	**1,840,191**
Property, Plant and Equipment, at Cost (Notes 4 and 5):			
Land	**34,654**	33,643	**293,553**
Buildings and structures	**128,850**	121,345	**1,091,492**
Machinery and equipment	**397,455**	368,376	**3,366,836**
Construction in progress	**10,215**	7,963	**86,528**
	571,174	531,327	**4,838,409**
Less accumulated depreciation	**(377,613)**	(360,125)	**(3,198,760)**
Total property, plant and equipment, net	**193,561**	171,202	**1,639,649**
Investments and Other Assets:			
Investment securities (Note 10)	**100,844**	106,445	**854,252**
Long-term loans receivable	**709**	1,255	**6,010**
Deferred income taxes (Note 13)	**3,095**	2,743	**26,214**
Other investments and other assets	**22,049**	20,383	**186,778**
Allowance for doubtful receivables	**(1,170)**	(1,416)	**(9,915)**
Total investments and other assets	**125,527**	129,410	**1,063,339**
Total assets	**¥536,322**	¥502,014	**$4,543,179**

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
Current Liabilities:			
Bank loans	¥ 62,128	¥ 67,657	$ 526,289
Current maturities of long-term debt (Note 4)	25,061	16,719	212,289
Commercial paper	1,000	13,000	8,471
Trade notes and accounts payable	84,684	69,992	717,355
Accrued income taxes	2,466	2,016	20,895
Accrued expenses	26,662	26,012	225,851
Other current liabilities (Note 13)	14,355	13,275	121,602
Total current liabilities	216,356	208,671	1,832,752
Long-Term Liabilities:			
Long-term debt (Note 4)	79,285	65,646	671,621
Deferred income taxes (Note 13)	23,465	21,811	198,769
Reserve for pension and severance payments (Note 12)	19,938	21,355	168,894
Other long-term liabilities	10,750	9,922	91,065
Total long-term liabilities	133,438	118,734	1,130,349
Total liabilities	349,794	327,405	2,963,101
Contingent liabilities (Note 6)			
Net Assets (Note 2)			
Shareholders' Equity:			
Common stock:			
Authorized: 700,000,000 shares in 2007 and 480,000,000 shares in 2006			
Issued: 342,598,162 shares in 2007 and 2006	38,909	38,909	329,599
Capital surplus	31,953	31,953	270,673
Retained earnings (Note 8)	80,065	67,439	678,235
Treasury stock, at cost: 7,257,127 shares in 2007 and 7,142,365 shares in 2006	(4,600)	(4,526)	(38,970)
Total shareholders' equity	146,327	133,775	1,239,537
Valuation and Translation Adjustments:			
Unrealized gains on securities	39,635	43,555	335,752
Foreign currency translation adjustments	(4,175)	(6,655)	(35,368)
Total Valuation and Translation Adjustments	35,460	36,900	300,384
Minority Interests:	4,741	3,934	40,157
Total net assets	186,528	174,609	1,580,078
Total liabilities and net assets	¥536,322	¥502,014	$4,543,179

Consolidated Statements of Income

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2007	2006	2005	**2007**
Net sales	**¥497,396**	¥451,911	¥419,789	**$4,213,437**
Cost of sales (Note 7)	**350,978**	310,232	284,369	**2,973,134**
Gross profit	**146,418**	141,679	135,420	**1,240,303**
Selling, general and administrative expenses (Notes 5 and 7)	**125,348**	119,732	114,465	**1,061,822**
Operating income	**21,070**	21,947	20,955	**178,481**
Other income (expenses)				
Interest and dividends income	**1,714**	1,034	930	**14,522**
Interest expense	**(3,247)**	(2,270)	(1,948)	**(27,507)**
Other — net	**6,501**	1,962	(3,600)	**55,075**
	4,968	726	(4,618)	**42,090**
Income before income taxes and minority interests	**26,038**	22,673	16,337	**220,571**
Income taxes (Note 2):				
Current	**2,735**	2,722	4,390	**23,164**
Deferred	**6,505**	(1,871)	215	**55,105**
	9,240	851	4,605	**78,269**
Minority interests in net income of consolidated subsidiaries	**(435)**	(375)	(410)	**(3,688)**
Net income	**¥ 16,363**	¥ 21,447	¥ 11,322	**$ 138,614**

Per Share Amounts:	Yen			U.S. Dollars (Note 1)
Net income: Basic	**¥48.79**	¥62.75	¥32.95	**$0.41**
Net income: Diluted	**—**	—	—	**—**
Cash dividends	**¥12.00**	¥10.00	¥8.00	**$0.10**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

The Yokohama Rubber Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2007, 2006, 2005 and 2004

		Millions of Yen							
	Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Valuation and Translation Adjustments	Minority Interests	Total Net Assets
Balance at March 31, 2004	342,598,162	¥38,909	¥31,893	¥43,866	¥ (89)	¥114,579	¥13,254	¥2,789	¥130,622
Increase in capital surplus due to merger	—	—	60	—	—	60	—	—	60
Decrease in retained earnings due to change in scope of consolidation	—	—	—	(1)	—	(1)	—	—	(1)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(256)	—	(256)	—	—	(256)
Net income	—	—	—	11,322	—	11,322	—	—	11,322
Cash dividends paid	—	—	—	(2,738)	—	(2,738)	—	—	(2,738)
Bonuses to directors and corporate auditors	—	—	—	(77)	—	(77)	—	—	(77)
Decrease in retained earnings due to merger	—	—	—	(60)	—	(60)	—	—	(60)
Decrease in retained earnings due to change in accounting standards of a consolidated subsidiary	—	—	—	(122)	—	(122)	—	—	(122)
Repurchase of treasury stock, net	—	—	—	—	(49)	(49)	—	—	(49)
Valuation and translation adjustments									
Unrealized gains on securities	—	—	—	—	—	—	783	—	783
Foreign currency translation adjustments	—	—	—	—	—	—	(382)	—	(382)
Increase (decrease) in minority interests	—	—	—	—	—	—	—	432	432
Balance at March 31, 2005	342,598,162	38,909	31,953	51,934	(138)	122,658	13,655	3,221	139,534
Decrease in retained earnings due to change in scope of consolidation	—	—	—	(9)	—	(9)	—	—	(9)
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(1,013)	—	(1,013)	—	—	(1,013)
Net income	—	—	—	21,447	—	21,447	—	—	21,447
Cash dividends paid	—	—	—	(4,106)	—	(4,106)	—	—	(4,106)
Bonuses to directors and corporate auditors	—	—	—	(45)	—	(45)	—	—	(45)
Decrease in retained earnings due to change in accounting standards of a consolidated subsidiary	—	—	—	(769)	—	(769)	—	—	(769)
Repurchase of treasury stock, net	—	—	—	—	(4,388)	(4,388)	—	—	(4,388)
Valuation and translation adjustments									
Unrealized gains on securities	—	—	—	—	—	—	19,957	—	19,957
Foreign currency translation adjustments	—	—	—	—	—	—	3,288	—	3,288
Increase (decrease) in minority interests	—	—	—	—	—	—	—	713	713
Balance at March 31, 2006	342,598,162	38,909	31,953	67,439	(4,526)	133,775	36,900	3,934	174,609
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	—	(337)	—	(337)	—	—	(337)
Net income	—	—	—	16,363	—	16,363	—	—	16,363
Cash dividends paid	—	—	—	(3,354)	—	(3,354)	—	—	(3,354)
Bonuses to directors and corporate auditors	—	—	—	(48)	—	(48)	—	—	(48)
Increase in retained earnings due to merger	—	—	—	2	—	2	—	—	2
Repurchase of treasury stock, net	—	—	—	—	(74)	(74)	—	—	(74)
Valuation and translation adjustments									
Net unrealized gains and loss on securities	—	—	—	—	—	—	(3,920)	—	(3,920)
Foreign currency translation adjustments	—	—	—	—	—	—	2,480	—	2,480
Increase (decrease) in minority interests	—	—	—	—	—	—	—	807	807
Balance at March 31, 2007	342,598,162	¥38,909	¥31,953	¥80,065	¥(4,600)	¥146,327	¥35,460	¥4,741	¥186,528

	Thousands of U.S.Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total shareholders' equity	Valuation and translation adjustments	Minority Interests	Total Net Assets
Balance at March 31, 2006	$329,599	$270,673	$571,279	$(38,345)	$1,133,206	$312,581	$33,324	$1,479,111
Adjustment for excess of additional pension liability over unrecognized prior service cost	—	—	(2,856)	—	(2,856)	—	—	(2,856)
Net income	—	—	138,614	—	138,614	—	—	138,614
Cash dividends paid	—	—	(28,415)	—	(28,415)	—	—	(28,415)
Bonuses to directors and corporate auditors	—	—	(408)	—	(408)	—	—	(408)
Increase in retained earnings due to merger	—	—	21	—	21	—	—	21
Repurchase of treasury stock, net	—	—	—	(625)	(625)	—	—	(625)
Valuation and translation adjustments								
Net unrealized gains and loss on securities	—	—	—	—	—	(33,202)	—	(33,202)
Foreign currency translation adjustments	—	—	—	—	—	21,005	—	21,005
Increase (decrease) in minority interests	—	—	—	—	—	—	6,833	6,833
Balance at March 31, 2007	$329,599	$270,673	$678,235	$(38,970)	$1,239,537	$300,384	$40,157	$1,580,078

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, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2007	2006	2005	**2007**
Operating Activities:				
Income before income taxes and minority interests	**¥26,038**	¥22,673	¥16,337	**$220,571**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation (Note 5)	**22,166**	20,491	19,616	**187,767**
Reserve for pension and severance payments	**(1,327)**	731	(832)	**(11,237)**
Gain on change of pension and severance plan (Note 12)	**—**	(4,251)	—	**—**
Funding for defined contribution pension plan	**—**	(7,747)	—	**—**
Gain on sale of investment securities	**(6,435)**	—	—	**(54,507)**
Other, net	**1,244**	(295)	656	**10,536**
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	**(6,061)**	5,327	(1,596)	**(51,342)**
Inventories	**(7,425)**	(5,454)	1,165	**(62,901)**
Notes and accounts payable	**13,450**	2,877	3,089	**113,934**
Other, net	**(1,182)**	1,838	2,290	**(10,012)**
Interest and dividends received	**1,680**	1,045	1,002	**14,232**
Interest paid	**(3,067)**	(2,227)	(1,951)	**(25,979)**
Income taxes paid	**(2,343)**	(3,147)	(6,167)	**(19,851)**
Net cash provided by operating activities	**36,738**	31,861	33,609	**311,211**
Investing Activities:				
Purchases of property, plant and equipment	**(37,464)**	(28,107)	(26,493)	**(317,356)**
Purchases of marketable securities and investment securities	**(6,292)**	(1,618)	(411)	**(53,298)**
Proceeds from sales of marketable securities, investment securities and property	**8,437**	771	3,278	**71,463**
Other, net	**197**	(230)	(611)	**1,670**
Net cash used in investing activities	**(35,122)**	(29,184)	(24,237)	**(297,521)**
Financing Activities:				
Decrease in short-term bank loans	**(6,049)**	(5,481)	(18,281)	**(51,238)**
(Decrease) increase in commercial paper	**(12,000)**	13,000	(9,000)	**(101,652)**
Proceeds from long-term debt	**38,806**	10,749	26,026	**328,725**
Decrease in long-term debt	**(18,329)**	(10,881)	(5,977)	**(155,264)**
Payment of cash dividends	**(3,357)**	(4,102)	(2,733)	**(28,436)**
Other, net	**(79)**	(6,399)	(2,042)	**(673)**
Net cash used in financing activities	**(1,008)**	(3,114)	(12,007)	**(8,538)**
Effect of exchange rate changes on cash and cash equivalents	**(53)**	789	(8)	**(449)**
(Decrease) increase in cash and cash equivalents	**555**	352	(2,643)	**4,703**
Cash and cash equivalents at beginning of year	**14,290**	13,836	16,473	**121,050**
Effect of changes in consolidation scope on cash and cash equivalents	**(33)**	102	6	**(279)**
Cash and cash equivalents at end of year	**¥14,812**	¥14,290	¥13,836	**$125,474**

See accompanying Notes to Consolidated Financial Statements.

1. Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of The Yokohama Rubber Co., Ltd. (the "Company") and domestic consolidated subsidiaries were prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. The Company's subsidiaries in the United States of America (the "USA") prepared their financial statements in accordance with accounting principles generally accepted in the USA.

In preparing these statements, certain reclassifications and rearrangements have been made to the consolidated financial statements prepared domestically in order to present these statements in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles generally accepted in Japan.

The U.S. dollar amounts included herein are solely for the convenience of the reader and have been translated from the Japanese yen amounts at the rate of ¥118.05 = US$1.00, the approximate exchange rate prevailing on March 31, 2007.

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.

Differences arising from such translation are recorded in foreign currency translation adjustments and minority interests in net assets.

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 net assets, 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, 2007, 2006 and 2005.

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
On December 9, 2005, the Accounting Standards Board of Japan published a new accounting standard for presentation of net assets, which is effective for fiscal years ending on or after May 1, 2006. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of net assets.

3. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Finished products	**¥53,553**	¥46,540	**$453,649**
Work-in-process	**11,055**	11,958	**93,645**
Raw materials and supplies	**14,336**	12,273	**121,441**
	¥78,944	¥70,771	**$668,735**

4. Long-Term Debt

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
1.3425% straight bonds due 2007	**¥ —**	¥10,000	**$ —**
0.62% straight bonds due 2008	**10,000**	10,000	**84,710**
0.84% straight bonds due 2010	**10,000**	10,000	**84,710**
1.688% straight bond due 2013	**10,000**	—	**84,710**
Loans, principally from banks and insurance companies	**74,346**	52,365	**629,780**
	104,346	82,365	**883,910**
Less current maturities	**25,061**	16,719	**212,289**
	¥ 79,285	¥65,646	**$671,621**

Assets pledged to secure bank loans and long-term debt at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Notes receivable	**¥ —**	¥ 440	**$ —**
Property, plant and equipment	**71,916**	71,025	**609,202**
	¥71,916	¥71,465	**$609,202**

5. Depreciation

Depreciation charges for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	**2007**
Selling, general and administrative expenses	**¥ 2,970**	¥ 2,712	¥ 2,819	**$ 25,161**
Manufacturing costs	**¥19,196**	¥17,779	¥16,797	**$162,606**

6. Contingent Liabilities

Contingent liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Notes discounted and endorsed	**¥664**	¥775	**$5,625**
Guarantees	**¥767**	¥ —	**$6,500**

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, 2007, 2006 and 2005 were ¥14,649 million ($124,095 thousand), ¥14,557 million and ¥14,265 millon, espectively.

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 is 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.

On May 1, 2006, a new corporate law (the "Law") became effective, which reformed and replaced the Commercial Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006.

The Law allows Japanese companies to pay dividends at any time during the fiscal year in addition to the year end dividend upon resolution at the shareholders' meeting.

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
	2007	2006	**2007**
Acquisition costs	**¥3,979**	¥5,555	**$33,705**
Accumulated depreciation	**1,825**	2,471	**15,459**
Net book value	**¥2,154**	¥3,084	**$18,246**

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Within one year	**¥ 667**	¥ 803	**$ 5,654**
After one year	**1,487**	2,281	**12,593**
	¥2,154	¥3,084	**$18,247**

Lease expenses under finance leases, which are accounted for as operating leases, for the years ended March 31, 2007 and 2006 aggregated approximately ¥994 million ($8,420 thousand) and ¥982 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Within one year	**¥1,126**	¥1,006	**$ 9,537**
After one year	**5,019**	3,850	**42,515**
	¥6,145	¥4,856	**$52,052**

10. Securities

Cost, carrying amount and unrealized gains and losses pertaining to available-for-sale securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen							
	2007				2006			
	Cost	Carrying amount	Unrealized gains	Unrealized losses	Cost	Carrying amount	Unrealized gains	Unrealized losses
Securities classified as:								
Available-for-sale:								
Stock	**¥28,942**	**¥95,366**	**¥67,037**	**¥(613)**	¥27,615	¥100,616	¥73,025	¥(24)

	Thousands of U.S. Dollars			
	2007			
	Cost	Carrying amount	Unrealized gains	Unrealized losses
Securities classified as:				
Available-for-sale:				
Stock	**$245,164**	**$807,841**	**$567,872**	**$(5,195)**

Sales of securities classified as available-for-sale securities amounted to ¥8,188 million ($69,357 thousand), with an aggregate gain of ¥6,435 million ($54,507 thousand) for the year ended March 31, 2007.

The corresponding amounts for the year ended March 31, 2006 were ¥153 million and ¥85 million, respectively.

11. Derivative Instruments

Fair value information of derivative instruments at March 31, 2007 and 2006 was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized gains (losses)
Forward exchange contracts:									
EURO	**¥3,125**	**¥3,237**	**¥(112)**	¥2,576	¥2,658	¥ (83)	**$26,474**	**$27,419**	**$ (945)**
U.S. dollar	**2,386**	**2,377**	**9**	2,332	2,357	(25)	**20,208**	**20,131**	**77**
Others	**1,976**	**2,033**	**(57)**	1,416	1,408	8	**16,735**	**17,223**	**(488)**
	¥7,487	**¥7,647**	**¥(160)**	¥6,324	¥6,424	¥(100)	**$63,417**	**$64,773**	**$(1,356)**

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized losses
Interest rate swap agreements	**¥59**	**¥(1)**	**¥(1)**	¥65	¥(0)	¥(0)	**$500**	**$(6)**	**$(6)**
	¥—	**¥(1)**	**¥(1)**	¥—	¥(0)	¥(0)	**$ —**	**$(6)**	**$(6)**

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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Projected benefit obligations	**¥(32,692)**	¥(33,432)	**$(276,934)**
Fair value of plan assets	**19,304**	19,408	**163,527**
Funded status	**(13,388)**	(14,024)	**(113,407)**
Unrecognized actuarial losses	**(7,396)**	(8,276)	**(62,651)**
Unrecognized prior service cost	**846**	945	**7,164**
Net amount recognized	**¥(19,938)**	¥(21,355)	**$(168,894)**

b. The components of net pension and severance costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Service cost	**¥1,857**	¥2,290	**$15,734**
Interest cost	**679**	918	**5,754**
Expected return on plan assets	**—**	(24)	**—**
Recognized actuarial losses	**(543)**	296	**(4,602)**
Recognized prior service cost	**100**	58	**844**
Net periodic benefit cost	**¥2,093**	¥3,538	**$17,730**
Gain on change of pension and severance plan	**—**	(4,251)	**—**
Contribution of defined contribution benefit plan	**490**	137	**4,150**
	¥2,583	¥ (576)	**$21,880**

c. Assumptions used for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Deferred tax assets:			
Liabilities for pension and severance payments	**¥ 12,773**	¥13,324	**$ 108,198**
Net operating loss carryforwards	**10,270**	18,237	**87,001**
Unrealized profits	**3,810**	3,434	**32,273**
Accrued expenses	**2,409**	2,377	**20,403**
Other	**3,860**	2,685	**32,701**
Gross deferred tax assets	**33,122**	40,057	**280,576**
Less valuation allowance	**(11,106)**	(11,292)	**(94,080)**
Total deferred tax assets	**22,016**	28,765	**186,496**
Deferred tax liabilities:			
Unrealized gains on securities	**(26,766)**	(29,403)	**(226,736)**
Liabilities for pension and severance payments	**(3,447)**	(3,447)	**(29,195)**
Gain on receipt of stock set by pension plan	**(3,155)**	(3,155)	**(26,730)**
Property, plant and equipment	**(1,904)**	(2,025)	**(16,128)**
Other	**(78)**	(152)	**(661)**
Total deferred tax liabilities	**(35,350)**	(38,182)	**(299,450)**
Net deferred tax assets (liabilities)	**¥(13,334)**	¥ (9,417)	**$(112,954)**

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

	Years ended March 31	
	2007	2006
Statutory income tax rate	**40.3%**	40.3%
Valuation allowance recognized on current losses of subsidiaries	**(5.0)**	(1.5)
Permanently nondeductible expenses	**1.8**	2.1
Permanently nontaxable income	**(1.3)**	(0.9)
Consolidation adjustments	**—**	(37.9)
Other	**(0.3)**	1.7
Effective income tax rate	**35.5%**	3.8%

14. Segment Information

The business and geographical segment information and overseas sales for the Companies for the years ended March 31, 2007, 2006 and 2005 are outlined as follows:

Business Segments

	Millions of Yen				
	Tires	Multiple business	Total	Eliminations and corporate	Consolidated
	Year ended March 31, 2007				
Sales to third parties	**¥372,708**	**¥124,688**	**¥497,396**	**¥ —**	**¥497,396**
Intergroup sales and transfers	**86**	**22,307**	**22,393**	**(22,393)**	**—**
Total sales	**372,794**	**146,995**	**519,789**	**(22,393)**	**497,396**
Operating expenses	**358,124**	**140,197**	**498,321**	**(21,995)**	**476,326**
Operating income	**¥ 14,670**	**¥ 6,798**	**¥ 21,468**	**¥ (398)**	**¥ 21,070**
Total assets at end of year	**¥386,765**	**¥147,018**	**¥533,783**	**¥ 2,539**	**¥536,322**
Depreciation	**¥ 17,823**	**¥ 4,041**	**¥ 21,864**	**¥ 302**	**¥ 22,166**
Capital expenditures	**¥ 37,021**	**¥ 3,486**	**¥ 40,507**	**¥ 131**	**¥ 40,638**
	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

	Thousands of U.S. Dollars				
	Tires	Multiple business	Total	Eliminations and corporate	Consolidated
	Year ended March 31, 2007				
Sales to third parties	**$3,157,208**	**$1,056,229**	**$4,213,437**	**$ —**	**$4,213,437**
Intergroup sales and transfers	**723**	**188,964**	**189,687**	**(189,687)**	**—**
Total sales	**3,157,931**	**1,245,193**	**4,403,124**	**(189,687)**	**4,213,437**
Operating expenses	**3,033,660**	**1,187,613**	**4,221,273**	**(186,317)**	**4,034,956**
Operating income	**$ 124,271**	**$ 57,580**	**$ 181,851**	**$ (3,370)**	**$ 178,481**
Total assets at end of year	**$3,276,278**	**$1,245,393**	**$4,521,671**	**$ 21,508**	**$4,543,179**
Depreciation	**$ 150,976**	**$ 34,233**	**$ 185,209**	**$ 2,558**	**$ 187,767**
Capital expenditures	**$ 313,602**	**$ 29,533**	**$ 343,135**	**$ 1,111**	**$ 344,246**

Geographical Segments

	Millions of Yen						
	Japan	North America	Asia	Other	Total	Eliminations and corporate	Consolidated
	Year ended March 31, 2007						
Sales to third parties	**¥369,741**	**¥98,137**	**¥13,897**	**¥15,621**	**¥497,396**	**¥ —**	**¥497,396**
Interarea sales and transfers	**56,808**	**977**	**18,752**	**—**	**76,537**	**(76,537)**	**—**
Total sales	**426,549**	**99,114**	**32,649**	**15,621**	**573,933**	**(76,537)**	**497,396**
Operating expenses	**409,079**	**95,309**	**32,526**	**15,227**	**552,141**	**(75,815)**	**476,326**
Operating income	**¥ 17,470**	**¥ 3,805**	**¥ 123**	**¥ 394**	**¥ 21,792**	**¥ (722)**	**¥ 21,070**
Total assets at end of year	**¥427,123**	**¥60,190**	**¥62,542**	**¥10,292**	**¥560,147**	**¥(23,825)**	**¥536,322**
	Year ended March 31, 2006						
Sales to third parties	¥348,666	¥82,186	¥ 8,807	¥12,252	¥451,911	¥ —	¥451,911
Interarea sales and transfers	39,162	675	7,553	—	47,390	(47,390)	—
Total sales	387,828	82,861	16,360	12,252	499,301	(47,390)	451,911
Operating expenses	368,206	80,299	16,495	11,876	476,876	(46,912)	429,964
Operating income	¥ 19,622	¥ 2,562	¥ (135)	¥ 376	¥ 22,425	¥ (478)	¥ 21,947
Total assets at end of year	¥407,532	¥55,281	¥36,048	¥ 7,491	¥506,352	¥ (4,338)	¥502,014
	Year ended March 31, 2005						
Sales to third parties	¥329,282	¥72,086	¥ 7,097	¥11,324	¥419,789	¥ —	¥419,789
Interarea sales and transfers	30,644	1,529	3,953	—	36,126	(36,126)	—
Total sales	359,926	73,615	11,050	11,324	455,915	(36,126)	419,789
Operating expenses	342,590	71,510	10,249	11,045	435,394	(36,560)	398,834
Operating income	¥ 17,336	¥ 2,105	¥ 801	¥ 279	¥ 20,521	¥ 434	¥ 20,955
Total assets at end of year	¥379,330	¥50,496	¥19,777	¥ 6,548	¥456,151	¥(23,434)	¥432,717

	Thousands of U.S. Dollars						
	Japan	North America	Asia	Other	Total	Eliminations and corporate	Consolidated
	Year ended March 31, 2007						
Sales to third parties	**$3,132,069**	**$831,316**	**$117,725**	**$132,327**	**$4,213,437**	**$ —**	**$4,213,437**
Interarea sales and transfers	**481,226**	**8,276**	**158,842**	**—**	**648,344**	**(648,344)**	**—**
Total sales	**3,613,295**	**839,592**	**276,567**	**132,327**	**4,861,781**	**(648,344)**	**4,213,437**
Operating expenses	**3,465,311**	**807,361**	**275,527**	**128,989**	**4,677,188**	**(642,232)**	**4,034,956**
Operating income	**$ 147,984**	**$ 32,231**	**$ 1,040**	**$ 3,338**	**$ 184,593**	**$ (6,112)**	**$ 178,481**
Total assets at end of year	**$3,618,151**	**$509,869**	**$529,796**	**$ 87,180**	**$4,744,996**	**$(201,817)**	**$4,543,179**

Overseas Sales

	Millions of Yen		
	North America	Other	Total
	Year ended March 31, 2007		
(A) Overseas sales	**¥104,075**	**¥93,086**	**¥197,161**
(B) Consolidated net sales			**¥497,396**
(C) (A)/(B) × 100	**20.9%**	**18.7%**	**39.6%**
	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%

	Thousands of U.S. Dollars		
	North America	Other	Total
	Year ended March 31, 2007		
(A) Overseas sales	**$881,619**	**$788,531**	**$1,670,150**
(B) Consolidated net sales			**$4,213,437**
(C) (A)/(B) × 100	**20.9%**	**18.7%**	**39.6%**

ERNST & YOUNG SHINNIHON

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon

June 28, 2007

Corporate Governance

Yokohama, in accordance with its corporate creed and guiding principles, seeks to maximize corporate value through sound and transparent management. Corporate governance at Yokohama focuses on shaping the Company's management framework and its corporate organization to fulfill that goal. Adopting related measures and policies promptly and effectively is an overriding priority in management at Yokohama.

Progress in strengthening corporate governance

1. Directors and corporate officers

In 1998, Yokohama began shrinking its Board of Directors in stages to promote vigorous debate in regard to pressing management issues and to speed decision making. In 2003, the Company shortened the nomination-and-election cycle for directors to one year, from two years, to reinforce the review process for management performance. In 2004, Yokohama adopted the corporate-officer format 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.

2. Management Council

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 monitors progress in achieving management plans and reviews matters of operational strategy.

3. 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 in the Corporate Officer and Director Personnel/Remuneration Committee and then go to the Board of Directors for a decision.

4. Corporate auditors

The Company has five corporate auditors, including three from outside the Company to ensure objectivity in the auditing function. 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 that activity 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 five members of the Company's Audit Office in accordance with the office's annual program.

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. Nor does the Company engage in any business transactions with any of its corporate auditors from outside the Company.

Compliance and Risk Management Committees

Along with strengthening the function of corporate governance, Yokohama continues working to establish a solid framework for ensuring rigorous compliance with social expectations for corporate reliability. The two committees outlined below are part of that commitment.

1. Compliance Committee

Yokohama's Compliance Committee, chaired by the president of the Company, oversees corporate activity with an eye to ensuring compliance with laws and regulations and with general standards of corporate ethics and to promoting the fulfillment of every phase of corporate social responsibility. It also conducts consciousness-raising activities for employees in the name of promoting ethical behavior.

Yokohama established its Corporate Compliance Department in 2005 to strengthen the framework for ensuring ethical compliance at its operations worldwide. In the same year, the Company established the Personal Information Protection Committee under the Compliance Committee to ensure integrity in handling personal information at Yokohama and its subsidiaries.

2. Risk Management Committee

Yokohama's Risk Management Committee conducts consciousness-raising activities and evaluates categories of risk to fortify the Company's preparedness against potential exigencies. The Company's Central Disaster Preparedness Committee and its Environmental Protection Committee further reinforce Yokohama's capacity for dealing with risk.

Directors, Corporate Auditors, and Corporate Officers

As of June 28, 2007

Board of Directors

Yasuo Tominaga
Chairman and Representative Director

Tadanobu Nagumo
President and Representative Director

Keigo Ueda
Director and Senior Managing Corporate Officer
In charge of Corporate General Affairs Dept., Internal Audit Dept., General Manager of Hiratsuka Factory, General Manager of Corporate Compliance Dept., President of Hamagomu Real Estate Co., Ltd.

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
In charge of Quality Assurance, President of Sports Group, General Manager of Original Equipment Tire Sales Div.

Tetsuya Mizoguchi
Director and Managing Corporate Officer
President of Multiple Business Group, General Manager of R&D Center

Tatsunari Kojima
Director and Managing Corporate Officer
In charge of Secretariat, Corporate Planning Dept., Corporate Communications Dept., Corporate Finance & Accounting Dept., MIS Dept., Internal Control Dept., President of Yokohama Corporation of North America

Tooru Kobayashi
Director and Corporate Officer
In charge of Off-the-Road Tire & Aircraft Tire Div., Tire Logistics Div., Waste-Reduction Promotion Dept., General Manager of Tire Planning Div.

Corporate Auditors

Michio Yuge

Seiichi Suzuki

Junnosuke Furukawa

Yuzuru Fujita

Naozumi Furukawa

Corporate Officers

Akihisa Takayama
Managing Corporate Officer
General Manager of Tire Production Div.

Koichi Tanaka
Managing Corporate Officer
General Manager of Tire Domestic Sales & Marketing Div.

Takashi Fukui
Managing Corporate Officer
General Manager of Tire Overseas Sales & Marketing Div.

Norio Karashima
Managing Corporate Officer
In charge of Tire North America Business, President of Yokohama Tire Corporation, President of Yokohama Corporation of America

Toshio Izawa
Corporate Officer
In charge of MB Production, General Manager of Hoses and Coupling Div.

Yasuhiro Mizumoto
Corporate Officer
In charge of Environmental Conservation Dept., General Manager of Tire Technical Div.

Shinichi Suzuki
Corporate Officer
Vice President of Yokohama Tire Corporation

Toshihiko Suzuki
Corporate Officer
General Manager of Shinshiro Plant

Hideo Fujiwara
Corporate Officer
In charge of Corporate Personnel Dept., Corporate Purchasing Dept., Safety & Health Management Dept.

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

Hajime Yamazaki
Corporate Officer
Chairman & CEO of YH America, Inc., Chairman of SAS Rubber Company

Seiji Takai
Corporate Officer
General Manager of Aerospace Div.

Yuji Goto
Corporate Officer
In charge of TB Tire Business

Etsuji Hanatate
Corporate Officer
In charge of PC and LT Tire Business, General Manager of PC and LT Tire Product Planning Dept.

Misao Hiza
Corporate Officer
In charge of MB Technical, General Manager of Hamatite Div., General Manager of Hamatite Technical Dept.

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 Inc.
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 H.P.T Ltd.
Yokohama Italia S.P.A.
Yokohama (Suisse) SA
Yokohama Scandinavia AB
Yokohama Reifen GmbH
Yokohama Austria GmbH
Yokohama Danmark A/S
Yokohama Iberia, S.A.
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.
Yokohama Tire Korea Co., Ltd.
Yokohama India Pvt. 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 offices and branch
Jeddah Office, Dubai Office, Panama Office,
Singapore Branch, Asia Representative Office (Bangkok)

Investor Information

As of March 31, 2007

Company 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 Points 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

Yokohama's Investor Relations Website

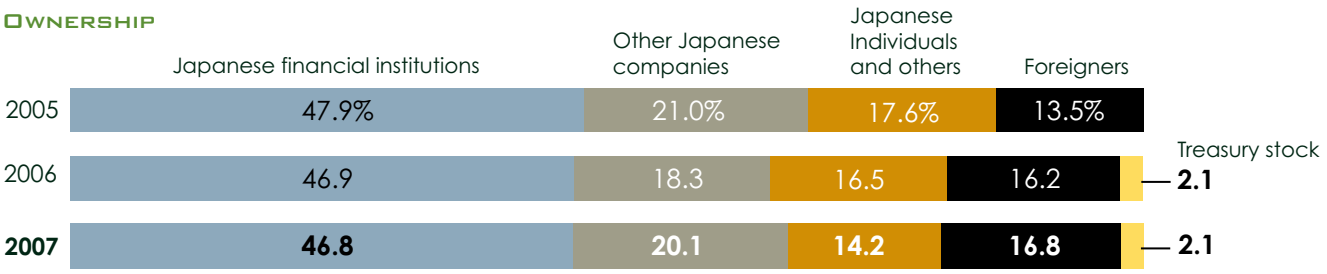
www.yrc-pressroom.jp/ir_en/

Stock Information

As of March 31, 2007

Authorized number of shares:	700,000,000
Number of shares issued and outstanding:	342,598,162 (unchanged from fiscal 2006 year-end)
Number of shareholders:	16,995 (down 3,723 from fiscal 2006 year-end)

Ownership



Principal Shareholders

Name	Percentage of Voting Rights
ASAHI MUTUAL LIFE INSURANCE COMPANY	8.0%
ZEON CORPORATION	6.1
Master Trust Bank of Japan, Ltd. (trust account)	4.6
Japan Trustee Service Bank, Ltd. (trust account)	3.9
Mizuho Corporate Bank, Ltd.	3.8

Common Stock Price Trends

	2007	2006	2005	2004	2003
Stock Price (Yen):					
High	**790**	700	480	387	350
Low	**439**	403	342	272	235
Fiscal Year-end	**724**	612	425	357	304
Common 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